Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
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6110 California Department of Education

ISSUE 1: Federal Funds Reporting – LAO Proposal

DESCRIPTION: The LAO recommends that the Legislature require the California Department of Education (CDE) to report annually on federal funding. This action would promote transparency and improve the timeliness of information and would allow the Legislature to consider all options and priorities when making budget and program decisions. **The Subcommittee heard this issue on April 15th and requested the LAO to develop language for the Subcommittee's consideration at a later hearing. The LAO will present the following trailer bill language, which has been reviewed by CDE, the Department of Finance, and legislative budget staff. There is no opposition to this language.**

X) The California Department of Education shall submit to the Legislature and the Administration two annual reports on federal funds for K-12 education.

(1) One report shall provide a three-year tracking of federal funds. Specifically, for each federally funded program and each type of funded activity (state operations, state-level activity, local assistance, and capital outlay), the report shall include: (1) actual expenditures for the prior year, (2) a revised estimate of current-year expenditures, and (3) the budget-year appropriation. The department shall submit this report to the Governor, the Legislature, and the Legislative Analyst's Office no later than February 15 of each year.

(2) The other report shall identify available federal carryover funds. Specifically, this report shall identify carryover funds, by fiscal year and potential reversion date, for each federally funded program and each type of funded activity (state operations, state-level activity, local assistance, and capital outlay). The department shall submit this report to the Governor, the Legislature, and the Legislative Analyst's Office no later than November 1 of each year.

***Staff recommends* approval of the LAO language provided above that requires CDE to prepare two annual reports on federal funds for K-12 education.**

BACKGROUND: The federal government appropriates funds to California for a variety of programs—each with unique requirements on how the funds can be expended and when they will revert if unspent. Currently, CDE is responsible for tracking federal funds appropriations, expenditures, and carryover by year and by program. The CDE is also responsible for adhering to the federal requirements for each "pot" of funding. For each of the programs, CDE needs to track prior– and current–year carryovers as well as budget appropriations. The CDE provides information about federal funds to the Department of Finance and Legislature upon request.

LAO ANALYSIS: The LAO makes a number of findings about federal funding information available to the Legislature for purposes of developing the annual budget for K-12 education:

Current Approach Results in Delays, Inconsistencies, and Extra Administrative Burden. Because only CDE officially tracks the many pots of federal funds, others involved in the K–12

budget process must rely on CDE for updates on available monies. Without a regular reporting cycle for this information, all other interested parties must make ad hoc requests for information. This situation puts a burden on CDE as it often answers the same question multiple times each year. The lack of a regular reporting cycle also results in delays and inconsistency in information for various decision makers (who may ask for information at different times and then have trouble reconciling different answers).

Lack of Transparency Results in Less Effective Decision Making. Without formal dissemination of consistent information, all decision makers do not have a complete picture of information as they begin budget deliberations. For example, only CDE knows the carryover balances for each program. Occasionally, this lack of transparency about available carryover has resulted in federal funds going unspent and reverting to the federal government.

LAO RECOMMENDATIONS: The LAO recommends that the California Department of Education provide the Administration and the Legislature with two annual reports on federal funding—a three–year budget summary and a summary of carryover balances. To maximize efficient use of federal funds, we recommend both reports be produced prior to annual budget deliberations. Specifically, these two new reports include:

Report on Actual Expenditures and Budgeted Appropriations Would Help Inform Budget Process Up Front. The LAO recommends that the Legislature require CDE to provide a three-year picture of federal funds, by program, no later than January 15 of each year. For each type of activity (state operations, state level activity, local assistance, or capital outlay), this budget summary should include: (1) actual expenditures for the prior year, (2) a revised estimate of current–year expenditures, and (3) the budget-year appropriation. Although too late to be helpful to the Administration in preparing its budget proposal, the January 15 deadline would help ensure more accurate information is disseminated—as the federal budget should be enacted and information distributed to the states by that time. In addition, the January 15 deadline would ensure the Legislature has timely information before beginning its budget deliberations. This deadline also allows for timely current-year corrections.

Report on Available Carryover Would Enable Timely Response and Minimize Reversions. The LAO recommends an annual report of carryover amounts and potential reversion dates for each pot of federal funds (by program and fiscal year) be provided by November 1 of each year. We believe this report could be provided earlier than the three–year budget summary report because it does not rely on recent passage of the federal budget. The somewhat earlier deadline for this report would benefit the Administration in its budget development as well as the Legislature in its budget deliberations. The deadline would also facilitate timely actions to deal with monies in danger of reverting.

COMMENTS/RECOMMENDATION:

Staff supports the LAO's proposal to require annual reporting by CDE on federal funds available for appropriation. As described by the LAO, these reports would reduce overall workload for CDE, provide more consistent information to all parties, better inform decision makers by

helping them consider all budget and program options, and allow for timely corrective action to avoid reverting federal dollars.

Staff recommends that the Subcommittee request the LAO to work with staff from CDE, DOF, and the Legislature on the development of specific statutory language for their proposal. Staff further recommends that the Subcommittee consider this language at their April 29th hearing.

6110 California Department of Education

ISSUE 2: Federal Funds -- Special Education (6110-001-0001/0890 & 6110-161-0890)

DESCRIPTION: The Governor's January budget provides a total of **$887 million** in federal Special Education funding serving students with disabilities in 2008-09. This amount includes a $278 million reduction for anticipated Maintenance-of-Effort losses that could result from the Governor's proposed $231 million General Fund reduction for special education in 2008-09. The Department of Finance (DOF) April Finance Letter proposes to restore the $278 million in federal funding in 2008-09, pending approval of a federal maintenance-of-effort waiver. Other April Letters propose adjustments that align federal appropriations with available grants. The California Department of Education (CDE) has identified **$11.4 million** in additional undesignated funds ($3.9 ongoing and $7.5 million one-time carryover) that will be available for special education programs in 2008-09. Options for utilizing these additional funds in 2008-09 will be presented to the Subcommittee.

BACKGROUND: Federal Special Education funds are authorized under the Individuals with Disabilities Education Act (IDEA). Part B funds provide special education grants to states to support the education and related educational activities for school age students with disabilities as defined by the IDEA. In addition to Part B grants, the IDEA also authorizes special education preschool grants and state personnel development grants.

Federal funds appropriated to states for Special Education are organized in three basic categories -- local assistance grants, state –level activities, and state administration. Federal rules establish the level of funding allowed and the uses of these funds within each of these categories. The federal rules for the Special Education programs outlined in the chart below:

Special Education	**Federal Rules – Expenditure Authority**	**Federal Rules Allowable Activites**
Local Assistance	Must distribute any funds the state does not reserve for state level activities to LEAs.	Activities related to the provision of a free and appropriate public education to meet the unique needs of children and youth with disabilities ages 3-22.
State Level Activities	Approximately 10 percent.	Support and direct services, including technical assistance, personnel preparation, and professional development and training.
State Administration	Approximately 5 percent.	Provide monitoring, enforcement and complaint investigation. Establish and implement mediation/due process functions. Maintain high cost pool for high needs students.

Under IDEA, states must abide by specific Maintenance of Effort (MOE) requirements that do not allow states to reduce current year state funding below spending levels for the previous year. States face the loss of federal funds if these requirements are not met.

GOVERNOR'S PROPOSALS:

Governor's January Budget. The Governor's January budget provides a total of **$887 million** in federal Special Education funding in 2008-09 to serve students with disabilities. This amount includes a **$278 million** reduction in federal special education funding that the Governor anticipates will result from MOE losses in 222008-09. The Administration predicts these MOE losses will occur as a result of the $231 million (7.3 percent) General Fund reduction for special education in 2008-09, as proposed by the Governor's Budget Balancing Reductions.

Federal Funds	**Governor's Budget 2008-09 (Proposed)**
Local Assistance Grants	$1,063,00,000
State Level Activities	86,000,000
State Administration	16,000,000
TOTAL, Federal Funds	**$1,165,000,000**
BBR MOE Reduction	-278,000,000
Total, Governor's Budget	**$887,000,000**

April Finance Letter: The Department of Finance April Letter proposes the three following adjustments to the Governor's January budget:

1. **Item 6110-161-0890, Local Assistance, Special Education. Federal Special Education Funds (Issue 486).** It is requested that this item be increased by $14,960,000 Federal Trust Fund to align the appropriation with available federal funds for special education. This adjustment includes an increase of $15,796,000 for K-12 grants and a decrease of $836,000 for Preschool grants.

2. **Item 6110-161-0890, Local Assistance, Special Education. State Improvement Grant (Issue 490**). It is requested that this item be decreased by $2,079,000 Federal Trust Fund to reflect the federal government's elimination of base funding for improvement grants. These discretionary funds were previously used in California for professional development. Although the federal government eliminated the improvement grants, it instead provided $2,196,000 in new funds that LEAs will use for science-based professional development, which was included in the Governor's Budget.

3. **Item 6110-161-0890, Local Assistance, Special Education. Base Federal Funds for Special Education (Issue 491).** It is requested that this item be increased by $278.0 million Federal Trust Fund to restore federal funds for Special Education grants on the assumption that the federal government approves a waiver on maintenance-of-effort requirements. Federal law requires California to spend the same amount as the prior year for Special Education, but also authorizes waivers due to exceptional or uncontrollable circumstances. The Governor's Budget included a reduction of $278.0 million, which did not presume approval of a waiver. It is further requested that provisional language be added as follows to conform to this action:

   X. Of the funds appropriated in this item, $278,000,000 shall be expended only after approval of a pending federal waiver.

Additional Funds Identified. CDE has identified additional ongoing and carryover funds beyond the amounts designated in the Governor's budget proposals. In total, CDE has identified **$11.4 million** ($3.9 million ongoing and $7.5 million one-time carryover) in additional special education funds available for state-level activities and state administration in 2008-09. Of this amount, $9.5 million is available from state-level activities and $1.9 million is available from state operations. CDE has not developed options for using these funds, and generally supports shifting these funds to local assistance on a one-time basis.

Governor's Budget Vetoes for 2007-08. The Governor vetoed the following budget items the Legislature included in the 2007-08 budget. All of these proposals were funded with one-time federal Special Education funds available for state-level activities.

- **Technical Assistance and Monitoring of Students with Disabilities in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget eliminated a $1,050,000 legislative augmentation to expand special education focused monitoring and technical assistance services in alternative, county court, and Division of Juvenile Justice schools.
- **Best Practices for Students with Specific Learning Disabilities.** The budget deleted a $400,000 legislative augmentation to create an advisory committee and perform a best practices study that would assist local education agencies in implementing evidence-based practices intended to assist students with specific learning disabilities to improve academically.
- **Independent Evaluation of the Dispute Resolution Services**. The budget eliminated a $150,000 legislative augmentation to provide an independent evaluation of the special education dispute resolution services provided by the Office of Administrative Hearings.

DOF Section 28.00 Letter: In November 2007, the Department of Finance requested authority to expend $1.1 million in one-time special education funds that the Governor vetoed in the 2007-08 budget. Specifically, DOF requested that the $1.1 million in funds the Legislature approved for monitoring and technical assistance for students with disabilities in court schools, alternative schools, and Department of Juvenile Justice (DJJ) schools be redirected to local assistance. The Joint Legislative Budget Committee sent a letter to DOF recommending that the department not proceed with this request because the Section 28.00 process is intended for unanticipated funds not vetoed funds.

LAO ANALYSIS/RECOMMENDATIONS:

- **Governor's Budget Balancing Reductions and Federal MOE Losses.** The LAO recommends that the Legislature reject the Administration's proposed across-the-board reduction to special education. The LAO believes this action would trigger a federal MOE problem for California. While recognizing that a federal budget hardship waiver is possible, the LAO believes that it is very unlikely the federal government would grant California a waiver. The Governor now estimates the amount of the federal MOE threat to be roughly $200 million ($278 million was a point in time estimate); the LAO estimates the amount at $189 million. While the Governor's April Letter proposes to restore the $278 million

pending approval of a federal MOE waiver, the LAO does not believe that USDE would approve the waiver.

- **Additional Undesignated Funds.** The LAO recommends utilizing $9.2 million of the $11.4 million in undesignated funds from state-level activities and state administration to offset General Fund reductions for the State Special Schools proposed by the Governor as a part of this Budget Balancing Reductions. The Governor's budget proposes a $9.2 million General Fund ($5.1 million Proposition 98) reduction for the State Special Schools. Additional federal funds would keep the school's budget whole while freeing up general fund dollars that could be used for other purposes. The LAO believes that using funds for this purpose is allowed under federal law and there would not be supplanting issues since the state is proposing a cut to the schools.

COMMENTS/RECOMMENDATIONS:

April Letters – Local Assistance. *Staff recommends* that the Subcommittee approve two of the Governor's April Letter requests that are technical in nature. These issues are listed as April Letter items 1 and 2 in this agenda. Both of these issues align federal local assistance appropriations with updated federal grant amounts.

Staff recommends that the Subcommittee delay action on the remaining April Letter request that would restore $278 million in federal funds pending approval of a federal waiver. Action on this issue will need to conform to action on the Governor's proposed General Fund reduction for special education.

Additional Undesignated Funds. *Staff recommends* that the Subcommittee delay action on proposals for appropriating the additional $11.4 million in special education undesignated funds identified by CDE until after May Revise. In considering these proposals, staff offers the following comments.

- **Offset Governor's Reductions for State Special Schools.** *Staff supports* the LAO recommendation to use **$9.2 million** of the $11.4 million in additional undesignated funds for state-level activities and state administration to backfill the Governor's proposed reduction to the State Special Schools. As stated at an earlier Subcommittee hearing, *staff does not support* the Governor's proposed reductions to instructional programs at the State Special Schools. Using federal funds to backfill General Fund losses appears to be allowable under federal rules per CDE and would produce important General Fund savings for the state.
- **Monitoring and Technical Assistance for Incarcerated Youth**. *Staff also supports* directing **$1.0 million** in available carryover funds to provide monitoring and technical assistance activities for youth with disabilities in correctional and alternative education settings. CDE currently provides focused monitoring and technical assistance to school districts, but does not specifically cover county programs – including court schools and other alternative programs. This proposal builds state and local capacity for better serving incarcerated youth in counties. This proposal is complementary to the realignment of services for incarcerated youth between counties and the state Division of Juvenile Justice that was enacted as a part of budget and policy reforms in 2007-08.

6110 California Department of Education

ISSUE 3: Federal Funds – Title III English Language Acquisition Program (6110-001-0001/0890 & 6110-125-0890)

DESCRIPTION: The Governor's January budget provides a total of **$182 million** for the Title III English Language Acquisition Program in 2008-09. This amount includes funds for local assistance grants, state-level activities and state administration. The Department of Finance (DOF) April Finance Letter proposes adjustments that align federal appropriations with available grants and appropriate one-time carryover funds for the English Language Acquisition Program. The California Department of Education (CDE) has identified **$3.4 million** additional one-time carryover funds that will be available in 2008-09. Options for utilizing these carryover funds will be presented to the Subcommittee.

BACKROUND: The English Language Acquisition program is authorized under the federal No Child Left Behind Act (NCLB to improve the education of limited English proficient (LEP) children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program provides enhanced instructional opportunities for immigrant children and youths. Funds are distributed to states based on a formula that takes into account the number of immigrant and LEP students in each state. Federal funds appropriated to states for the Title III – English Language Acquisition program are organized in three basic categories -- local assistance grants, state –level activities, and state administration. Federal rules establish the level of funding allowed and the uses of these funds within each of these categories, which are outlined in the chart below:

Title III- English Language Acquisition	**Federal Rules – Expenditure Authority**	**Federal Rules Allowable Activities**
Local Assistance	Approximately 95 percent.	Activities that increase English proficiency and academic achievement of LEP students, including: professional development, instructional materials, tutorials or intensified instruction, curriculum/program development, and family/parent/community outreach.
State Level Activities	Not more than 5 percent may be used for state level activities and state operations.	Professional development, evaluations, technical assistance, performance-based incentive awards. .
State Administration	Not more than 5 percent may be used for state level activities and state operations. Not more than 60 percent of the 5 percent may be used for state administration.	Planning and administrative costs.

As a part of the Title III program, states must develop annual measurable achievement objectives for LEP students that measure their success in achieving English language proficiency and

meeting challenging state academic content and achievement standards. Schools use the funds to implement language instruction educational programs designed to help LEP students achieve these standards.

GOVERNOR'S PROPOSALS:

Governor's January Budget: The Governor's January budget provides a total of **$182 million** for the Title III English Language Acquisition Program in 2008-09. This amount includes $173 million for local assistance grants, $5.2 million for state-level activities and $3.4 million for state administration.

Federal Funds	**Governor's Budget 2008-09 (Proposed)**
Local Assistance Grants	$173,039,783
State Level Activities	5,284,686
State Administration	3,370,448
TOTAL, Federal Funds	**$181,694,917**

April Finance Letter:

1. **Item 6110-125-0890, Local Assistance, English Language Acquisition Program (Issues 411)**. Requests funds be increased by $12,435,000 federal Title III Language Acquisition funds, which includes an increase of $7,629,000 to align the appropriation with available federal funds, and an increase of $4,806,000 to reflect the availability of one-time carryover funds. Local education agencies (LEA) will use these funds for services to help students attain English proficiency and meet grade level standards.

It is also requested that provisional language be added to require the department to allocate all carryover funds in this item on a per pupil basis by October 1, 2008. The purpose is to allocate funding in a timely manner so that LEAs can use the funds effectively and promptly to improve student performance for these vulnerable populations.

It is further requested that provisional language be added as follows to conform to this action:

> X. Of the funds appropriated in Schedule (3), $4,806,000 is provided in one-time carryover funds to support the existing program.
>
> X. The State Department of Education shall allocate all carryover funds in this item on a per-pupil basis by October 1, 2008 to all eligible service providers. Local educational agencies shall use these funds to supplement, but not supplant, one-time instruction or support services authorized by law.

Additional Carryover Funds. The Department of Education has identified **$3.4 million** in additional one-time carryover funds available for Title III state activities in 2008-09.

Under Title III, allowable state-level activities include professional development activities, planning and evaluation, technical assistance, and providing recognition (including financial rewards) to grantees that have exceeded their annual measurable objectives. Allowable state administration activities include grant planning, administration, reporting, and evaluation of the effectiveness of grant programs. In addition, the federal law requires the state to provide technical assistance to school districts that fail to meet English learner benchmarks, and requires state intervention in failing districts.

GOVERNOR'S 2007-08 BUDGET VETOES: The Governor vetoed the following budget items the Legislature included in the 2007-08 budget. All of these proposals were funded with one-time federal Title III carryover funds available for state-level activities.

- **Technical Assistance and Monitoring of English Learners in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget provided $1,600,000 and 4.0 positions to CDE to monitor and provide technical assistance to alternative, county court, and Division of Juvenile Justice schools serving English learners. These one-time funds would be provided over a three-year period and intended to build local capacity for better serving youth being shifted from DJJ to county programs.
- **English Learner Best Practices Pilot Program (Pilot).** The budget provided $1.0 million for an evaluation of the English Learner Best Practice Pilot Program established pursuant to the requirements of Chapter 561, Statutes of 2006 (AB 2117). The 2006-07 budget provided $20 million in one-time funds for the program. The Governor reduced funding for the evaluation by $500,000.
- **Effective Communication with Non-English Speaking Parents.** The budget provided $50,000 for an evaluation to ensure that LEAs are employing methods to ensure effective and timely oral communication with non-English-speaking parents.

CDE Issues: The Department of Education has raised the following two issues for the Subcommittees information and consideration:

- **New Program Improvement Intervention Program.** The Department of Education has utilized $1.8 million in Title III state level activities funds from 2007-08 to begin a state level intervention and assistance program for local education agencies (LEAs) facing corrective actions for English learners. The Legislature did not approve these funds as a part of the 2007-08 budget, rather this program was developed and implemented administratively by CDE. This new program is funded with state level activities funds and allocates base grants and per pupil funding to eleven county offices of education to support LEAs that have failed to meet growth objectives – defined as annual measurable achievement objectives (AMAOs) for English learners. This new program both coordinates and overlaps with Title I intervention activities currently underway for schools and districts in program improvement.

- **Delay Best Practice Pilot Program Evaluation.** Due to the insufficiency of funding available for the Best Practices evaluation, CDE has informed budget staff that they are delaying release of the Request for Proposal. CDE is exploring the extension of the evaluation timetable in reduce the costs and extend the benefits of the evaluation.

LAO ANALYSIS/RECOMMENDATIONS:

- Coordinate Title I Program Improvement and Title III program intervention activities.
- Support use of Title III carryover funds to increase funding for the Best Practices Pilot Program evaluation.
- Support DOF April Letter request to adjust Title III funding with the deletion of proposed budget language to require CDE to allocate all carryover funds on a per-pupil basis by October 1, 2008.

COMMENTS:

April Letter: *Staff recommends* that the Subcommittee approve the April Letter request, but supports the LAO recommendation to delete related budget language since it is not felt to be necessary by CDE.

Carryover Funds for Correctional and Alternative Education Schools. *Staff supports* using **$1.6 million** of the $3.4 million in Title III carryover funds for the monitoring and technical assistance of correctional and alternative programs. This proposal was passed by the Legislature in 2007-08, but vetoed by the Governor.

Best Practice Pilot Program Evaluation. The 2007-08 budget provides $500,000 for this evaluation over a five year period. The Governor vetoed another $500,000 for the evaluation based on understandings that private foundations would cover this amount. CDE has indicated that it is not possible to complete a high quality evaluation without this additional funding. Given the availably of one-time Title III funds in 2008-09, *staff supports* providing an additional **$500,000** for the study, as approved by the Legislature in 2007-08.

New Title III Intervention Program. In addition, *staff recommends* that when the Subcommittee takes action to appropriate carryover funds for Title III, that action be taken on the new intervention program developed by CDE in 2007-08 to coordinate it with Title I program improvement activities. If approved by the Subcommittee, *staff further recommends* that provisional language be added to the budget bill to identify this program and funding in the annual budget. This **$1.8 million** program is currently operating without any budget or statutory authority.

6110 California Department of Education

ISSUE 4: Federal Funds – Title I -- Migrant Education Program (6110-001-0001/0890 & 6110-125-0890)

DESCRIPTION: The Governor's January budget provides a total of **$129 million** in federal funds for the Migrant Education Program in 2008-09. This amount includes funds for local assistance grants and state administration. The Department of Finance (DOF) April Finance Letter proposes adjustments that align federal appropriations with available grants and appropriate one-time carryover funds for the Migrant Education Program. Specifically, the April Letter proposes to decrease ongoing grants by $1.7 million and increase one –time carryover funds by $9.0 million. Options for allocating these carryover funds will be presented to the Subcommittee.

BACKROUND: The Migrant Education Program is authorized under Title I of the federal No Child Left Behind Act (NCLB). The program provides grants to states to ensure that highly mobile children whose family members are employed performing seasonal agricultural work have the same opportunity to meet state content and performance standards as other students.

Funds support high quality education programs for migratory children and help ensure that migratory children who move among the states are not penalized in any manner by disparities among states in curriculum, graduation requirements, or state academic content and student academic achievement standards.

Funds also ensure that migratory children not only are provided with appropriate education services (including supportive services) that address their special needs, but also that such children receive full and appropriate opportunities to meet the same challenging state academic content and student academic achievement standards that all children are expected to meet.

Federal funds are allocated by formula based on the state's per pupil expenditure for education and counts of eligible migratory children, age 3 through 21, residing within the state.
States use program funds to identify eligible children and provide supplemental education and support services. These services include: academic instruction; remedial and compensatory instruction; bilingual and multicultural instruction; vocational instruction; career education services; special guidance; counseling

April Finance Letter – Local Assistance Funding. The Governor proposes an increase of $9.0 million in local assistance carryover funds for Migrant Education in 2008-09. The majority of these funds originated from unanticipated federal grant funds provided to California in 2007-08.

1. **Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 409)**

It is requested that this item be increased by $7,254,000 federal Title I Migrant Education funds, which includes a decrease of $1,746,000 to align the appropriation with available federal funds

and an increase of $9.0 million to reflect the availability of one-time carryover funds. LEAs will use these funds for educational and support services to meet the needs of highly-mobile children.

It is also requested that provisional language be added to require the department to allocate all carryover funds in this item on a per pupil basis by October 1, 2008. The purpose is to allocate funding in a timely manner so that LEAs can use the funds effectively and promptly to improve student performance for these vulnerable populations.

It is further requested that provisional language be added as follows to conform to this action:

> X. Of the funds appropriated in Schedule (1), $9,000,000 is provided in one-time carryover funds to support the existing program.
>
> X. The State Department of Education shall allocate all carryover funds in this item on a per-pupil basis by October 1, 2008 to all eligible service providers. Local educational agencies shall use these funds to supplement, but not supplant, one-time instruction or support services authorized by law.

CDE Issues: CDE is requesting that **$1.2 million** of the $9 million in carryover funds be provided to continue an evaluation of the Migrant Education Program required by the federal law. The 2007-08 budget provided $800,000 for this evaluation, including $400,000 for planning and $400,000 for the first year of the three-year evaluation.

LAO ANALYSIS/RECOMMENDATIONS: The LAO supports additional funding of **$600,000** from one-time Migrant Education carryover funds in 2008-09 to complete funding for the three-year Migrant Education evaluation required by federal law. This proposal would provide an additional $300,000 each for year two and year three of the evaluation. Together with the $400,000 available in 2007-08, this would provide a total of $1.0 million for the Migrant Education evaluation. The LAO also recommends eliminating budget language included in the April Finance Letter that would require CDE to allocate remaining local assistance carryover funds by October 1, 2008.

COMMENTS/RECOMMENDATIONS: *Staff does not support* approval of the April Finance Letter at this time. Instead, s*taff supports* the LAO recommendation to appropriate an additional $600,000 in available in carryover funds to cover the costs of an impendent evaluation of the Migrant Education Program. This would provide $8.4 million for local assistance grants, instead of the $9.0 million proposed by the Administration.

In addition, *staff supports the LAO recommendation to delete* budget language included in the April Finance Letter that would require CDE to allocate funds by October 1, 2008.

In summary, *staff recommends* that the Subcommittee delay action on the Governor's April Letter request (Issue 409) until after May Revise in order to allow all parties additional time to evaluate the CDE request for additional funding for the Migrant Education evaluation, as required by federal law.

6110 California Department of Education

ISSUE 5: Reading First Program (Item 6110-126-0890)

DESCRIPTION: The Governor's January budget proposes a total of **$135.6 million** in federal funding to continue the Reading First program in 2008-09. The Department of Finance April Budget Letter requests that Reading First funding be reduced by **$78.1 million**, bringing total funding for the program down to $57.4 million in 2008-09. This reduction reflects a major decrease (64 percent) in federal appropriations to states for the Reading First program in 2008-09. The Governor's plan does not specify how this reduction should be allocated among Reading First grantees; however, the Administration assumes that Reading First is a six year program and that funds would be allocated to ensure that Reading First cohorts receive five or six years of funding. The LAO will present a specific plan for continuing funding for grantees through their sixth year, even if additional federal funds are not allocated in future years.

BACKGROUND: The federal Reading First Program, first authorized under the No Child Left Behind Act of 2001, provides six year grants to states to improve reading instruction and outcomes for students. California's Reading First Plan was approved by the State Board of Education and codified in state law in 2002 to provide reading instruction to K-3 students and K-12 special education students.

Eligible Districts: School districts are eligible to apply for funding if 75 percent of their low performing schools provide assurances about participating in the program. Eligible low performing schools are defined as schools with 40 percent or more students performing below basic on the California Standards Test.

Grant Levels: Under the state Reading First Plan, the state is authorized to provide base grants of $6,500 for eligible K-3 classroom teachers in participating districts; however, with additional justification, grants of up to $8,000 per K-3 teacher are allowed. Grants are allocated for K-3 bilingual classrooms, identified as "waivered classrooms" pursuant to Education Code Section 310. Grants are not allocated for K-12 special education classroom teachers.

Use of Funds: Under California's plan, Reading First funds can be used by school districts for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches, and reading assessments. Funding is not provided for direct instruction to students. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

Significant Progress Requirements. The federal law requires that Reading First grantees demonstrate "significant progress" in improving reading scores in order to receive funding beyond three years. The 2005-06 budget contained provisional language requiring the State Board of Education to seek legislative approval for any extension of the grant period beyond three years. Legislation was not passed for this purpose. The State Board of Education finally adopted a definition of significant progress in 2006-07, after fourth year grants had been released for the first round of Reading First schools.

Program Participation: To date, the State Department of Education has allocated Reading First funds to four cohorts (rounds) of grantees. (See Appendix A for a list of school districts in each cohort.) Funding began for the first cohort of funding in 2002-03; in 2007-08, Cohort 1 will be finishing up its sixth and final year of funding. Funding for the last cohort - Cohort 4 - began in 2006-07 and will not complete its sixth year until 2011-12.

As indicated below, the Reading First program currently provides grants to nearly 18,030 classrooms/teachers in 873 schools statewide, representing more than half (55 percent) of the eligible schools statewide.

Existing Grantees:	**Districts**	**Schools**	**Classrooms/ Teachers**	**Year of Funding**	**2007-08 Funding *(In Millions)***
Cohort 1 (Waivered Classrooms)	13	354	7,828 (412)	6	$56.1
Cohort 2 (Waivered Classrooms)	60	367	7,270 (695)	5	$48.2
Cohort 3 (Waivered Classrooms)	37	131	2,548 (627)	4	$18.3
Cohort 4 (Waivered Classrooms)	12	21	384 (xx)	2	$2.5
Subtotal, Existing Grantees (Subtotal, Waivered Classrooms)	**122**	**873**	**18,030** **(xxx)**		**$125.0**
Total Eligible Grantees		**1,597**	**32,182**		

Unfunded Programs:

While more than half of the state's eligible schools are funded, 724 eligible schools and 14,152 classrooms/teachers are not participating in the Reading First program as indicated by the table below.

Unfunded Classrooms:	**Districts**	**Schools**	**Classrooms/ Teachers**
Additional Eligible Classrooms in Currently Funded Districts		249	4,863
Additional Eligible Classrooms in Currently Unfunded Districts		475	9,289
Subtotals, Unfunded Classrooms		**724**	**14,152**

Special Education Pilot Project: The 2007-08 budget appropriated **$34.9 million** in one-time

Reading First carryover funds for a three year pilot program to encourage professional development in reading for special education teachers.

The federal Reading First program is focused on reading improvement for K-12 special education students, as well as K-3 students. The Special Education Pilot Program grew out of concerns about the lack of participation of special education teachers in Reading First, given the poor performance of special education students in reading and English Language Arts, as measured by state assessments. The last report from the Department of Education indicated that 2,720 K-12 special education teachers have participated in some Reading First professional development since the program began. At the same time, the department also reported: "*There is high probability that no Special Education teachers are participating in the Reading First program as only teachers in core curriculum can participate. Currently, the data collected from LEAs does not include whether the teacher teaches Special Education.*"

CDE notified legislative staff last March that implementation of the Special Education Pilot Program was on hold. In response to these delays, the Subcommittee Chairs of the budget committees of both houses of the Legislature sent a letter to the Superintendent of Public Instruction. This letter – dated March 24, 2008 – urged immediate implementation of the program. According to CDE, applications for 2007-08 funds have now been released and the department plans to select and approve first year grants before the end of the fiscal year.

In selecting proposals, budget act provisions require CDE to give first priority to K-12 special education teachers in eligible Reading First districts not currently participating in the Reading First program, and second priority to K-12 special education teachers within already participating Reading First districts that have yet to receive professional development in reading.

Advisory Group for Implementing Reading First in Waivered Classrooms: The 2005-06 budget established an advisory committee composed of waivered classroom teachers; academic experts in second-language acquisition; and academic experts in Reading Language Arts and Spanish Language Arts. The advisory committee was directed to assist CDE in addressing assessments and professional development for reading teachers and coaches.

California Reading First Evaluations: A Year 3 Evaluation of California's Reading First program was completed in November 2005 by an external evaluator selected by CDE. While the evaluation concluded that the program was having a positive impact on student achievement, when it compared Reading First schools to demographically similar non-Reading First schools the results were more inconclusive. It should be noted that it is not possible to measure individual student progress because student based, longitudinal data is not yet available for schools.

A Year 5 Evaluation of Reading First, which was published in January 2008, found higher growth rates for students in Reading First schools compared to non-Reading First schools. Positive results were confirmed for English learners in Reading First schools compared to English learners in non-Reading First schools. The report does not include data or make findings for special education students. (See Comments section below for more detail on the Year 5 Evaluation.)

Federal GAO Report. A February 2007 report by the federal Government Accountability Office (GAO) found that, while states reported some improvements in reading instruction as a result of the Reading First funding, some federal government officials violated provisions of the No Child Left Behind Act when they implemented Reading First, by "pressur[ing] state and local applicants to choose specific reading programs and assessments" (pressuring states and locals to purchase specific instructional material programs). Such actions are expressly prohibited by NCLB, due to the importance of "preserv[ing] state and local control over key aspects of the public school system" and the importance of ensuring that federal officials do not influence local purchasing decisions that could benefit particular private publishing companies. The federal government responded to the audit with a plan to put procedures in place to protect against such violations in the future. However, these findings are important in that they may affect any changes to the program if and when the program is reauthorized by Congress.

Federal Independent Evaluation. A congressionally mandated study of Reading First, prepared by the Institute of Education Sciences, was released by the U.S. Department of Education in May 2008. The study found that there was no statistically significant impact on reading comprehension assessments for first, second, or third grade students in Reading First schools compared to students in non-Reading First schools. The study involved grade 1-3 students in 1,400 classrooms from 248 schools in 13 states nationwide. The study focused on data collected from 2004 to 2006.

GOVERNOR'S BUGET PROPOSALS:

Governor's January Budget: The Governor's January budget proposes a total of **$135.6 million** in federal funding to continue the Reading First program in 2008-09.

April Finance Letter: The Department of Finance April Budget Letter requests that Reading First funding be reduced by **$78.1 million**, bringing total funding for the program down to **$57.4 million** in 2008-09. This reduction reflects a major decrease (64 percent) in federal appropriations to states for the Reading First program in 2008-09, offset in part by one-time carryover funds estimated in 2008-09. More specifically, the April Letter proposes the following adjustments to the Governor's January budget:

1. Item 6110-126-0890, Local Assistance, Reading First Program. Requests this item be decreased by $78,141,000 federal Title I Reading First funds, which includes a decrease of $87.6 million to align the appropriation with available federal funds and an increase of $9,459,000 to reflect the availability of one-time carryover funds. The Reading First Program provides grants for schools to improve reading in Kindergarten or any of Grades 1 to 3, inclusive, with scientifically-based reading programs. **(Issues 082 and 083)**

The Governor's April Letter does not specify how this local assistance reduction should be allocated among Reading First grantees; however, the Administration assumes that Reading First is a six year program and that funds would be allocated to ensure that Reading First cohorts receive six years of funding. As such, the Administration assumes that available Reading First

funds would be allocated for Cohorts 2, 3 and 4 in 2008-09 and not for Cohort 1 since it finishes year six of funding in 2007-08.

The Governor's carryover totals do not reflect unexpended 2007-08 funds for Cohorts 2 and 4 that are available in 2008-09. According to CDE, these two cohorts spend these funds the year after receiving them, reflecting a delay in the original start date for these grants that continues to affect the timing of annual expenditures.

CDE Reading First Recommendation: CDE assumes that federal Reading First funding will continue at 2008-09 levels in 2009-10. With this amount of funding, CDE proposes to continue funding for Cohort 1 for a seventh year at roughly half of its current level and to fully fund Cohorts 2, 3 and 4 in 2008-09. In 2009-10, CDE proposes no funding for Cohort 1, funding for Cohort 2 at roughly half of its current level, and full funding for Cohorts 3 and 4. Virtually no funding would be remaining after 2009-10 to provide half funding for Cohort 3 or full funding for Cohort 4.

Under the CDE recommendation, if federal Reading First funding does not continue to states in 2009-10, it would not be possible to provide a fifth or sixth year of funding to Cohorts 3 and 4. In addition, Cohort 2 would not be provided with a seventh year of funding (at nearly half its current level), as provided for Cohort 1 under CDE's proposal.

LAO ANALYSIS/ RECOMMENDATION: The LAO assumes there will be no additional federal Reading First funding for states beyond 2008-09, given the 64 percent reduction in the federal Reading First grant to states and ongoing Congressional concerns about the effectiveness and appropriateness of the program. Therefore, the LAO recommends that base grant and carryover funding available in 2008-09 be utilized in a way that will allow existing Reading First grant cohorts to complete six years of funding.

The LAO estimates a total of **$92.7 million** in Reading First funds will be available for local assistance grants for the Reading First program in 2008-09. (This includes $39 million in base grants funds and $53.7 million in carryover funds, including unspent 2007-08 funds for Cohort 2 and 4.) The LAO recommends using the $92.7 million over the next three years, as follows, to allow each cohort to participate in the program for five or six years:

- **$69.0 million** would be provided for Cohorts 2, 3 and 4 in 2008-09. (No funding would be provided for Cohort 1, which is in its sixth year of funding in 2007-08.)
- **$20.7 million** would be provided in 2009-10 for Cohorts 3 and 4. (No funding would be required for Cohort 2 since it will have completed six years of funding in 2008-09.)
- **$2.5 million** would be provided in 2010-11 for Cohort 4 in its fifth year of funding. (No funding would be required for Cohort 3 since it will have completed six years of funding in 2009-10.)

As a part of this proposal, the LAO also recommends that **$3.0 million** of the $6.7 million proposed for Reading First state and regional assistance centers in 2008-09 be redirected to local assistance grants. This reduction is proposed to reflect lower workload of these state/regional centers when Cohort 1 phases out of the program in 2008-09. Additional savings from the state

and regional assistance centers would be redirected to cover the sixth and final year of funding for Cohort 4 in 2011-12.

In recent years, the LAO has raised the lack of notable, widespread success of the Reading First program evidenced by state and national program evaluations. As a result, the LAO has recommended that the program become more flexible and that districts be allowed to use at least a portion of their funding for direct student service. Specifically, the LAO has consistently recommended modifications in the structure of the Reading First program to allow for actual reading instruction to students instead of teacher training and coaching.

COMMENTS/RECOMMENDATIONS:

2008-09 Funding Plan. *Staff recommends* approval of the LAO's recommendation, which assumes no additional federal funding to states for Reading First beyond 2008-09 and allocates **$92.7 million** in ongoing and carryover funds available in 2008-09 over the next three years to allow each cohort to participate in the program for six years: (The LAO proposal also assumes $2.5 million in state and regional assistance center savings would be available to cover the sixth year of funding for Cohort 4.)

While a more conservative approach than recommended by CDE, the LAO recommendation assures six years of grant funding for all Reading First cohorts. The CDE recommendation assumes that federal funds appropriated for Reading First in 2008-09 will continue at the same level in 2009-10. Despite a 64 percent reduction in federal funds, CDE recommends extending a seventh year of funding – at roughly half current levels -- for Cohort 1. If federal funds don't materialize in 2009-10, it will <u>not</u> be possible to provide five or six years of funding for Cohorts 3 and 4. (In addition, Cohort 2 will not receive any seventh year funding, as provided for Cohort 1 under CDE's plan.)

The LAO proposal is also consistent with the Governor's budget approach, which does not provide grant funding beyond six years, and intends to provide five or six years of funding for existing Reading First cohorts.

Fifth Year Evaluation: The California Reading First Year 5 Evaluation Report found that schools that participated in Reading First for five years showed five-year gains in reading achievement that were slightly greater than the gains compared to a statistical control group. However, this difference was only statistically significant for grades 2 and 4, but not for grade 3.

Specifically, for grade 2, the percentage of students scoring at proficient or higher on the Reading/Language Arts portion of the California Standards Test went from 15.4% to 34.2% over five years in schools that participated in Reading First over that time period, as compared to the statistical control group, where the percentage of students scoring at proficient or higher went from 15.4% to 30.4% over the same time period.

For grade 4, the percentage of students scoring at proficient or higher on the Reading/Language Arts portion of the California Standards Test went from 15.2% to 31.3% in the same Reading

First schools, as compared with the statistical control group, where the percentage of students scoring at proficient or higher went from 15.2% to 27.5%.

For reading achievement in grade 3, there was no statistically significant difference in 5-year gains in reading achievement between the Reading First schools and the statistical control group. These statistics are summarized in the tables below:

Percentage of students scoring at proficient or above on the Reading/ Language Arts portion of the California Standards Test, Grade 2

	Reading First Schools (participating in the program for five consecutive years)	Statistical control group
2002	15.4%	15.4%
2007	34.2%	30.4%

Percentage of students scoring at proficient or above on the Reading/Language Arts portion of the California Standards Test, Grade 4

	Reading First Schools (participating in the program for five consecutive years)	Statistical control group
2002	15.2%	15.2%
2007	31.3%	27.5%

QUESTIONS:

1. ***Fifth Year Evaluation.*** *The fifth year evaluation of Reading First published in January 2008, found that Reading First schools showed five-year gains in reading achievement that were slightly greater than the gains compared to a statistical control group. How significant are these gains?*

2. ***Sixth Year Evaluation.*** *The 2007-08 budget provided $140,000 to enhance funding for the six year evaluation of the Reading First program. These funds were provided to fund a survey of eligible Reading First school districts – including participating and non-participating – to solicit feedback on a number of issues. While it does not appear likely, if the federal government reauthorizes the Reading First program next year and provides another cycle of funding to states, what insights does this recently released report provide with regard to attracting new districts to the program?*

3. ***Status of the Special Education Pilot Program.*** *Can the Department of Education provide an update on implementation of the Special Education Pilot Program in the current year?*

6110 California Department of Education

ISSUE 6: Federal Funds – Title II – Implementation of NCLB Highly Qualified Teacher Requirements

DESCRIPTION: The California Department of Education (CDE) will provide an update on implementation of California's revised plan for compliance with the "highly qualified teacher" provisions of the federal No Child Left Behind Act submitted to the U.S. Department of Education in September 2006. Under this revised plan, California provided assurances for placing a highly qualified teacher in every classroom providing core academic subject by the end of 2006-07.

BACKGROUND:

NCLB Highly Qualified Teacher Requirements. The federal No Child Left Behind Act (NCLB) was approved in 2001 by Congress and signed by the President. Among its provisions is a requirement that all teachers of core academic subjects be "highly qualified" by the end of the 2005-06 school year. California defines teachers to be highly qualified for purposes of NCLB if they satisfy the following conditions:

- Possess a bachelor's degree,
- Possess a teaching credential or are working on a credential through an approved intern program, and
- Demonstrate subject matter competence in each subject they are assigned to teach.

Each state was required to develop a plan– with annual, measurable objectives -- for meeting its highly qualified teacher definitions.

Highly Qualified Teacher Deadlines & Recent Extension: NCLB requires that all new teachers hired in Title I schools by the end of the 2002-03 school year must meet the "highly qualified" definition. In addition, NCLB requires that all teachers of core academic subjects meet the highly qualified definition by the end of the 2005-06 school year.

Not a single state had met the NCLB deadline for complying with its highly qualified requirements for core academic teachers by the end of 2005-06. For this reason, the U.S. Department of Education (USDE) extended the deadline for states by one additional year – to the end of 2006-07. As a condition of this extension, states were required to submit revised state plans for placing a highly qualified teacher in every classroom offering instruction in a core academic subject by the end of 2006-07.

As a part of these revised plans, states were required to address NCLB requirements for "teacher equity" that require states to assure that poor and minority students are not disproportionately taught by unqualified and inexperienced teachers in their first years of teaching.

California's Revised State Plan for Highly Qualified Teachers: California first submitted its revised plan to USDE in July 2006. A peer review panel concluded that California's revised plan was deficient in a number of areas, including its plan to address the inequitable distribution of qualified and experienced teachers. CDE submitted a revised plan to USDE in September 2006. This plan was then further refined to include six new requirements that address each of the deficiencies. These revisions culminated in a November 2006 state plan that was finally approved by USDE in December 2006. These six requirements are summarized below.

Detailed Identification of Noncompliant Classrooms. The revised Highly Qualified Teacher (HQT) plan must provide a detailed analysis of the core academic subject classes in the State that are currently not being taught by highly qualified teachers. The analysis must, in particular, address schools that are not making adequate yearly progress and whether or not these schools have more acute needs than do other schools in attracting highly qualified teachers. The analysis must also identify the districts and schools around the State where significant numbers of teachers do not meet HQT standards, and examine whether or not there are particular hard-to-staff courses frequently taught by non-highly qualified teachers.

LEA Plans and Monitoring. The revised plan must provide information on HQT status in each local education agency (LEA) and the steps the state will take to ensure that each LEA has plans in place to assist teachers who are not highly qualified to attain HQT status as quickly as possible.

LEA Technical Assistance. The revised plan must include information on the technical assistance, programs, and services that the state will offer to assist LEAs in successfully completing their HQT plans particularly where large groups of teachers are not highly qualified and the resources the LEAs will use to meet their HQT goals.

LEA Corrective Action. The revised plan must describe how the state will work with LEAs that fail to reach the 100 percent HQT goal by the end of the 2006-2007 school year.

Subject Matter Verification. The revised plan must explain how and when the state will complete the High Objective Uniform State Standard of Evaluation (HOUSSE) process for verifying the subject matter competency of teachers that are "not new" to the profession who were hired prior to the end of the 2005-06 school year, and how the state will discontinue the use of HOUSSE procedures for teachers hired after the end of the 2005-06 school year.

State's Equity Plan. The revised plan must include a copy of the State's written "equity plan" for ensuring that poor or minority children are not taught by inexperienced, unqualified, or out-of-field teachers at higher rates than are other children.

Status of HQT Compliance in California:

California does not currently have accurate data on the number and types of teachers of core academic subjects that are not considered highly qualified for purposes of NCLB under our state's definition. California tracks the number of classes taught by highly qualified teachers and not by the individual teacher. For this reason, our state does not really know how many teachers are considered noncompliant with NCLB.

The development of more accurate, detailed data on highly qualified teachers is one the requirements of our state's revised highly qualified teacher plan. California currently collects the qualifications of teachers through the California Basic Educational Data System (CBEDS) process on the Professional Assignment Information Form (PAIF). This data is self-reported information submitted by the local districts. With the development and implementation of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) system, more accurate information will be collected on the individual teachers including the status of highly qualified certification and process to become certified.

Core Academic Classes: According to the October 2006 CBEDS-PAIF 90 percent of all NCLB core academic classes, as defined by federal law, in California were taught by a highly qualified teacher. Comprehensive schools are reporting an even higher compliance rate; with approximately 94 percent of all NCLB core academic classes are taught by compliant teachers. This is a significant increase from 2002-03 when only 48 percent of NCLB core academic classes were identified as being taught by NCLB compliant teachers.

2006-07 Data			
School Type	Total Number of Core Academic Classes	Number of Core Academic Classes Taught by HQTs	Percentage of Core Academic Classes Taught by HQTs
All Schools			
Elementary Schools	**151,994**	**145,932**	**96**
High-Poverty Schools	102,345	97,456	95
Low-Poverty Schools	49,649	48,476	98
Middle Schools	**182,019**	**160,850**	**88**
High Poverty Schools	118,330	100,879	85
Low Poverty Schools	63,689	59,971	94
Secondary Schools	**270,306**	**247,860**	**92**
High-Poverty Schools	128,578	114,146	89
Low Poverty Schools	141,728	133,714	94
Alternative Education	**30,114**	**23,525**	**78**
High Poverty Schools	17,402	13,224	76
Low Poverty Schools	12,712	10,301	81

Core Classes in High- and Low-Poverty Schools. The percentage of core classes taught by HQTs is different for high- and low-poverty schools, particularly for middle and secondary schools. A total of 94 percent of core teachers in low-poverty middle and secondary schools are taught by highly qualified teachers. These figures fall to 85 percent for high-poverty middle schools and 89 percent for high-poverty secondary schools.

Core Classes in Other Types of Schools. There is a large gap in teacher quality in the high needs area of alternative education. Comprehensive high schools report an overall compliance rate of 92 percent, which is only slightly lower than elementary levels and significantly higher than middle/junior high levels. However, secondary alternative education programs report a significantly lower compliance rate than their counterparts. According to the 2006 CBEDS-PAIF, Alternative Education sites have an overall compliance rate of 78 percent.

Other Teacher Shortage Data from CDE. The Department of Education produces an annual report designating critical shortages of teachers for the Student Aid Commission. This report is required by statute governing the Assumption Program of Loans for Education (APLE), administered by the Commission. The report identifies teaching fields with the most critical shortages of teachers for purposes of allocation of APLE grants to teachers in shortage fields.

The report utilizes data from school districts on the number of teachers with emergency permits or waivers and the number of new teacher hires reflecting existing vacancies and estimated new hires for the coming year. This data is compiled and submitted by local school districts through the CBEDS data system.

The CDE teacher shortage report for 2008, as displayed below, reflects 2006-07 data. From this data, CDE designates teacher shortages in fields with the highest percentage shortages equating to five percent of the total full-time equivalent (FTE) teachers. Shortage areas designated by CDE are highlighted on the table below, and include: Special Education, including State Special Schools; Physical and Life Science; Music; Business; Agriculture; Reading; Foreign Language; Mathematics/Computer Education.

Teacher FTE Demand and Shortage Areas by Subject, 2008
FY 2007-2008 (based on 2006-07 data)

Subject Areas	FTE Teachers	FTE on Emergency Permits Or Waivers	Estimated New Hires	FTE Shortage	Percent of Subject FTE Teachers	Percent of Total FTE Teachers
Self-contained Classrooms	134,358.89	2,244.04	6125.60	8,369.64	6.2%	2.9%
Special Education	27,150.39	1,752.43	3448.80	5,201.23	19.2%	1.8%
Mathematics/Computer Ed.	21,477.66	718.47	2132.70	2,851.17	13.3%	1.0%
English (Drama & Humanities)	25,150.97	648.40	2088.50	2,736.90	10.9%	0.9%
Life & Physical Science	15,242.67	314.63	1929.20	2,243.83	14.7%	0.8%
Social Science	16,576.41	303.82	1033.70	1,337.52	8.1%	0.5%
PE/Health/Dance	12,213.83	323.50	654.80	978.30	8.0%	0.3%
Other Specializations	16,909.50	3,846.58	675.50	4,522.08	26.7%	1.6%
Foreign Language	5,677.16	147.40	692.30	839.70	14.8%	0.3%
Music	2,874.21	93.78	326.20	419.98	14.6%	0.1%
Reading	4,203.44	260.00	323.50	583.50	13.9%	0.2%
Art	3,971.84	97.89	293.00	390.89	9.8%	0.1%
Business	1,041.67	32.56	117.69	150.25	14.4%	0.1%
Industrial Arts	2,279.52	59.30	216.00	275.30	12.1%	0.1%
Home Economics	1,088.21	16.20	72.00	88.20	8.1%	0.0%
Agriculture	473.62	11.12	56.80	67.92	14.3%	0.0%
Special Schools	203.87	13.10	23.00	36.10	17.7%	0.0%
TOTAL	290,893.86	10,883.22	20209.29	31,092.51	10.7%	

COMMENTS/QUESTIONS:

Recent USDE Monitoring Visit. The U.S. Department of Education recently visited California to monitor federal Title II programs and to review California's progress in implementing the highly qualified teacher provisions of the NCLB. It would be useful to know from CDE what federal findings and recommendations resulted from that visit.

CALTIDES: As a part of its revised state plan to the USDE, the Department of Education is working to develop better data for tracking state compliance with the highly qualified teacher provisions of NCLB. Can CDE describe how CALTIDES will assist California in tracking highly qualified teachers?

6110 California Department of Education

ISSUE 7: Federal Funds – Title II – Improving Teacher Quality Grants -- (6110-001-0001/0890 & 6110-001-195)

DESCRIPTION: The Governor's January budget provides a total of **$328 million** for the Title II Improving Teacher Quality Program in 2008-09. This amount includes funds for local assistance grants, state-level activities, and state administration. The Department of Finance (DOF) April Finance Letter proposes a **$4.1 million** increase in local assistance carryover funds and a small decrease ($23,000) in ongoing funds to align federal appropriations with available grants for the Teacher Quality Grants program. The California Department of Education (CDE) has identified an additional **$5.1 million** one-time carryover funds that will be available in 2008-09. A number of options for utilizing these additional carryover funds in will be presented to the Subcommittee.

BACKROUND: The Improving Teacher Quality Grants Program is authorized under Title II of the federal No Child Left Behind Act. Program funds are provided to states to support the preparation, training, and recruitment of highly qualified teachers and principals. Federal funds appropriated to states for the Teacher Quality Grants program are organized in three basic categories -- local assistance grants, state-level activities, and state administration. Federal rules establish the level of funding allowed and the uses of these funds within each of these categories, which are by in the chart below:

Title II – Improving Teacher Quality Grants	**Federal Rules – Expenditure Authority**	**Federal Rules Allowable Activities**
Local Assistance	95 percent.	Broad array of activities, including creating professional development for teachers and administrators, implementing strategies for recruiting and retaining highly qualified teachers, and activities that improve the quality of the teaching workforce.
State Level Activities	5 percent. 2.5 percent is provided to CDE and 2.3 percent in for higher education. Funds cannot be transferred to local assistance.	Activities to support improvements in the recruitment, hiring, training, and retention of the teaching workforce.
State Administration	Up to 1 percent. Unspent funds can be used for State Level Activities.	General administrative costs.

Unlike other federal education programs, Title II rules prohibit states from shifting carryover funds from state administration and state level activities to local assistances. This requirement creates some pressure for allocating Title II carryover funds for these activities to avoid reversion.

GOVERNOR'S PROPOSALS: The Governor's January budget provides a total of **$328 million** in federal Title II funds for 2008-09 to continue existing programs. These funds are provided in three categories – local assistance, state-level activities and state administration – as follows:

Federal Funds	**Governor's Budget 2008-09 (Proposed)**
Local Assistance Grants	$317,348,578
State Level Activities	9,177,000
State Administration	2,319,278
TOTAL, Federal Funds	**$328,348,578**

State level activities currently support the following program: $1.6 million for the Administrator Training Program; $4.4 million is provided for the California Subject Matter Projects – a teacher preparation program administered by the University of California; $945,000 for the Compliance Monitoring, Interventions and Sanctions (CMIS) and $1.8 million is for the California Longitudinal Teacher Integrated Data Education System (CALTIDES). (Of this total, the Governor provides $894,000 for 1.0 limited-term analyst position, contracts for project management, project oversight, and other expenses for CDE and $248,000 for 2.5 positions and other expenses to the Commission on Teacher Credentialing for development of CALTIDES.)

State operations fund support a variety of administrative activities within CDE, particularly within the Professional Development Division.

April Finance Letter – Local Assistance Funding. The Department of Finance April Budget Letter proposes to increase the Title II local assistance appropriation by **$4.1 million** in 2008-09. This amount reflects a $4.1 million increase in one-time local assistance carryover funds and a small decrease ($23,000) in ongoing federal grant amount. The April Letter requests that $3.5 million of these one-time funds be provided for local assistance grants and $500,000 be provided to augment the California Subject Matter Projects, as follows:

1. **Item 6110-195-0890, Local Assistance, Title II Improving Teacher Quality Local Grants (Issues 086, 088, and 089).** Requests this item be ~~decreased~~ increased by $4,059,000 federal Title II Improving Teacher Quality funds, which includes a decrease of $23,000 to align the appropriation with available federal funds and an increase of $4,082,000 to reflect the availability of one-time carryover funds. This program provides apportionments to LEAs for activities focused on preparing, training, and recruiting highly-qualified teachers.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in Schedule (1), $3,582,000 is provided in one-time carryover for Improving Teacher Quality Local Grants.

X. Of the funds appropriated in Schedule (3), $500,000 is provided in one-time carryover for California Subject Matter Projects.

Additional Carryover Funding – State Activities. CDE has identified an additional $5.0 million in Title II carryover funds from state level activities and state administration that will be available in 2008-09. Of this amount, **$3.6 million** is available from state administration carryover and **$1.4 million** from state level activities carryover.

CDE Option for Carryover Funds - Personnel Management Assistance Teams (PMATs). CDE requests that the Legislature provide **$3.0 million** in federal Title II carryover funds in 2008-09 to restore funding for Personnel Management Teams (PMATs). The department request funding for PMATs as means of providing technical assistance to school districts in meeting the highly qualified teacher provisions of NCLB. As authorized by SB 1209/Scott (Chapter 517; Statutes of 2006), PMATS have been established in six county offices of education statewide -- Los Angeles, Orange, San Bernardino, Santa Clara, Shasta, and Ventura. The 2006-07 budget act provided $3 million in one-time Proposition 98 funds to begin funding for PMATs, however, additional funding was not appropriated for the program in 2007-08. CDE requested $3.0 million in funding for PMAT in 2008-09 budget, but the request was not approved by the Administration.

Compliance, Monitoring, Interventions and Sanctions (CMIS). The 2007-08 budget provide $929,000 in Title II carryover funding for a new monitoring and technical assistance program to help school districts comply with the highly qualified teacher requirements of NCLB. The new Compliance, Monitoring, Interventions and Sanctions (CMIS) program was established to ensure that NCLB's highly qualified teacher provisions are met in California. According to the Department of Education, this new program was necessary to meet the assurances the department made to the federal government as a part the state's revised highly qualified teacher plan. The department proposes CMIS as a continuing program through 2012 that utilizes annual Title II carryover funds for support of the program.

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends the following options for appropriating Title II carryover funds available in 2008-09.

- **State Administration.** The LAO estimates that the state receives $2.8 million annually for state administration for Title II, but spends only $2.3 million on an ongoing basis, leaving about **$500,000** left over annually. The LAO recommends using these ongoing funds to pay for Teacher Misassignment Monitoring ($308,000) within the Commission of Teacher Credentialing and to use approximately $200,000 to fund two existing

positions in CDE's Professional Development Unit. This would provide approximately $500,000 in ongoing General Fund savings to the state.

- **State-Level Activities.** The LAO suggests using **$5.1 million** in Title II carryover funds available for state-level activities to offset General Fund costs for an existing program to create one-time savings. The funds could be used to replace Proposition 98 General Funds funding for the Administrator Training Program ($4.5 million) or to replace Non-98 General Fund dollars for the Subject Matter Projects within the UC budget ($5 million).

The LAO questions the Governor's April Letter proposal to direct $500,000 in Title II local assistance carryover funds to expand the U.C. Subject Matter Projects, given existing expenditure delays for that program.

COMMENTS:

Legislative Options for State Activity Carryover Funds: Staff offers two additional options for utilizing one-time Title II carryover funds for state level activities and state administration.

- **Teacher Performance Assessment:** Provide **$4.1 million** to offset the 2008-09 costs of implementing a Teacher Performance Assessment (TPA) for the California State University and University of California. Funding would provide approximately $400 to these public higher education institutions for an estimated 10,164 candidates that will successfully complete the TPA in 2008-09. Current law requires teacher preparation program to implement a TPA by July 1, 2008 and includes legislative intent language that the TPA be fully funded. The TPA requires teacher candidates to demonstrate through their performance with K-12 students, that they have mastered the knowledge, skills, and abilities required of a beginning teacher. The TPA is embedded into credential programs and completed at intervals during the program. The assessment is scored by higher education program faculty (or K-12 teachers) who are specially trained to ensure consistent scoring among candidates. Many higher education institutions have implemented the TPA on a voluntary basis, including 78 percent of CSU programs, all UC programs and 64 percent of the independent college and university programs. This proposal would provide one-year of funding to allow the public higher education systems to avoid increasing candidate fees or making other reductions to their preparation programs in this first year of full implementation.

- **Principal Coaching**. Appropriate **$2.0 million** to the existing Administrator Training Program to cover the costs of Principal Coaching for 200 first- and second- year principals in Program Improvement schools. These funds would provide $5,000 to cover the costs of an on-site leadership coach for each principal for a two-year period – at least eight hours per month over eleven months per year. Coaching would provide individualized support to principals to improve their skills in (1) utilizing schools data; (2) identifying and overcoming challenges to student achievement and school cultures; and (3) establishing clear goals for action. Coaches would be required to hold an administrative services credential, have at least five years of successful administrative

experience, and have knowledge of effective, research-based curriculum and instructional practice, as well as leadership practice. Coaches would be required to obtain approval for their program from the Superintendent of Public Instruction.

Federal Compliance and Assurances. *Staff notes* that the Department of Education has made substantial assurances to the federal government for monitoring, assisting, and enforcing the highly qualified teacher provisions of NCLB as a part of the revised plan. According to the Department, these assurances require the development of new processes and resources contained in the new CMIS Program. In considering one-time funding proposals outlined in this agenda, it will be important for the Subcommittee to understand what options the Department of Education has for utilizing available Title II funds to better meet its federal obligations.

Risk of Excess Carryover Funds. CDE has informed budget staff about the risk of reverting an estimated $2.0 million, if funds are not expended by September 30, 2008. The U.S. Department of Education (USDE) gives states 27 months to expend federal funds. If federal funds are not expended within this timeframe, they must be returned to the USDE.

In 2005-06, there was a federal finding that California was not spending enough for Title II state-level activities. Due to an accumulation of Title II carryover funds, the state was at risk for reverting some federal funds back to USDE. The 2006-07 budget contained several one-time proposals to spend these funds quickly and minimize losses of federal funds. In the end, the state was unable to expend approximately $300,000 in Title II funds by September 30, 2006, and these funds were reverted to USDE.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee hold off on action on the April Letter request and any other decisions for appropriating Title II state activity carryover funding until the Subcommittee has had time to weigh all options.

With regard to the Governor's April Letter, *staff notes* that it is unclear why the Administration supports providing $500,000 in one-time local assistance funds to the U.C. Subject Matter Projects, given existing expenditure delays for that program.

In considering options for utilizing one –time Title II funds, *staff suggests* that the Subcommittee focus on programs directly connected to improving teacher quality at the statewide level. In addition, *staff suggests* that the Subcommittee give strong consideration to options that create General Fund savings for the state -- even if they are one-time savings – as long as there are no conflicts with federal supplanting rules.

6110 California Department of Education

ISSUE 8: Statewide Data System – California Longitudinal Teacher Integrated Data Education System (CALTIDES)

DESCRIPTION: The Governor's budget provides **$1.8 million** in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2008-09. Of this total, the Governor provides **$271,000** for 2.0 positions and other contract expenses to the California Department of Education and **$248,000** for 2.5 limited-term positions and other expenses to the Commission on Teacher Credentialing (CTC) for development of CALTIDES. The Department of Education will provide an update on the development of the new teacher data system.

BACKGROUND: The 2005-06 budget appropriated **$350,000** in federal Title II funds to the Department of Education to contract for a Feasibility Study Review (FSR) for a new teacher data system. The 2005-06 budget required CDE to convene a working group including the Department of Finance, LAO, and other interested parties in selecting a vendor.

The FSR was submitted by the Department of Education and approved by the Department of Finance in spring 2006. As required by language in the 2005-06 budget, the feasibility study report was required to:

(1) inventory the teacher data elements currently collected by state agencies and county offices of education;
(2) identify existing redundancies and inefficiencies;
(3) identify the existing teacher data needs of state agencies and county offices of education for meeting state and federal compliance and reporting requirements;
(4) identify the most cost effective approach for converting the existing data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high quality program evaluations; and
(5) estimate the additional one-time and ongoing costs associated with the new system.

CALTIDES Funding: The 2006-07 budget provided a total of **$938,000** in one-time federal Title II funds for CALTIDES development which included $686,000 for CDE to support project management, Request for Proposal (RFP), and project oversight contracts and $252,000 for CTC to support 2.5 positions.

CALTIDES Expenditures	**2006-07 (Budgeted)**	**2007-08 (Budgeted)**	**2008-09 (Proposed)**	**2009-10 (Estimated)**	**2010-11 (Estimated)**
	$.938 m	$1.1 m	$1.8 m	$6.2 m	$??

The 2007-08 budget appropriated **$1.1 million** in one-time federal Title II funds to continue development of the CALTIDES in 2007-08. Of this total, the Governor provides **$894,000** for one limited-term analyst position, contracts for project management, project oversight and other expenses to CDE and **$248,000** for 2.5 positions and other expenses to CTC and for development of CALTIDES.

The 2007-08 budget set aside approximately $5.3 million in additional federal Title II carryover funds to offset an estimated $10.0 million in one-time costs for CALTIDES development in 2008-09 and 2009-10. However, due to delays in CALTIDES, only $1.8 million is needed for the program in 2008-09. An additional $6.2 million will be required in 2009-10.

GOVERNOR'S BUDGET PROPOSALS: The Governor's budget provides **$1.8 million** in one-time federal Title II funds to continue development of CALTIDES in 2008-09. Of this total, the Governor provides **$271,000** for 2.0 positions and other contract expenses to the California Department of Education and **$248,000** for 2.5 limited-term positions and other expenses to the Commission on Teacher Credentialing for CALTIDES preparation and development activities.

CALTIDES Implementation Status: CDE has provided the following project timeline for CALTIDES. In summary, the FSR for CALTIDES was approved by the Department of Finance in May 2006. The RFP has been completed and is awaiting approval from the Department of General Services. The vendor will be selected in January 2009. Development of the CALTIDES system will be completed in September 2011 and system implementation will commence in October 2011.

Project and System Development

Project Stage	Start	Completed	Approved/Released
Feasibility Study Report (FSR)	September 2005	March 2006	May 2006
Request for Proposal (RFP)	January 2007	December 2007	June 2008*
Final Bids Submission/Evaluation*	April 2009	July 2009	August 2009
Special Project Report*	August 2009	October 2009	December 2009
Section 11*	December 2009	January 2009	January 2009
Contract Commences*	February 2009		
Project Phases 1, 2, 3*	February 2009	September 2011	
Phase 4: System Implementation*	October 2011	June 2012	

SEID Dissemination*

Project Stage	Start	Completed	Approved/Released
Dissemination to County Offices	April 2008	May 2008	
County Office dissemination to local education agencies (LEAs)	May 2008	August 2008	
Use of SEID in CBEDS	October 2008		

*Projected dates

CALTIDES Delays: There have been recent delays with approval of the CALTIDES RFP due to issues raised by the Department of General Services (DGS). The draft RFP was provided to DGS in early February 2008 and is still being reviewed. CDE estimates it will receive final approval by the first of June. The delay in RFP release has pushed the CALTIDES schedule back several months, pushing expenditures originally planned for 2008-09 into 2009-10. As a

result of this delay, CALTIDES implementation is now estimated for fall of 2011, instead of 2010.

LAO ANALYSIS/RECOMMENDATIONS: The LAO supports the continuation of CSIS in CALPADS design and development. The LAO is investigating possible options for providing funding to support the involvement of CSIS in CALPADS.

COMMENTS/RECOMMENDATIONS.

CDE Issues – California School Information System (CSIS) Funding for CALPADS. While not directly related to CALTIDES, CDE has requested an additional $1.1 million for CSIS support of the California Longitudinal Pupil Achievement Data System (CALPADS) in 2008-09. The approved Special Projects Report for the CALPADS included $1.1 million for the CSIS in 2008-09. While CDE requested these additional funds, the request was not approved in the Governor's 2008-09 budget. According to CDE, CSIS is California's expert in the interface between local student information systems and state systems. In the department's view, involving CSIS in CALPADS development reduces the project risks by providing CDE and the CALPADS contractor with expertise necessary to maximize benefits to the State while minimizing negative impacts to LEAs. There is one-time funding in 2007-08 to support involvement of CSIS in CALPADS development and meet other operational funding. CDE requests that this support be continued in 2008-09.

Staff notes that the CDE request for CSIS funding is for support of CALPAD, not CALTIDES, however the two projects are related.

6110 California Department of Education

ISSUE 9: April Finance Letters – Federal Funds – Local Assistance Items (Consent Items)

DESCRIPTION: The Department of Finance (DOF) proposes the following changes to the Governor's January budget for two federally funded local assistance programs budgeted within the California Department of Education. These revisions are proposed by the April 1st budget amendment letter (April Letter) from the Department of Finance. These issues are considered technical adjustments to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current programs and policies.

1. Item 6110-166-0890, Local Assistance, Vocational Education Program. Requests this item be ~~decreased~~ increased by ~~$415,000~~ $6,000,000 Federal Trust Fund to align the appropriation with available federal funds. The Carl D. Perkins Vocational and Technical Education Program provides LEAs with funding for the improvement of secondary and postsecondary vocational and technical education programs. Funding is provided to state institutions, secondary education programs, and postsecondary programs. **(Issue 166)**

2. Item 6110-180-0890, Local Assistance, Education Technology Program. Requests this item be decreased by $527,000 federal Title II Education Technology funds, which includes a decrease of $2,314,000 to align the appropriation with available federal funds and an increase of $1,787,000 to reflect the availability of one-time carryover funds. This program assists LEAs in utilizing technology to enhance teaching and to promote learning. The reduction will be applied proportionally to the formula grants, competitive grants, the California Technology Assistance Project, and support. Carryover will be used for its original purposes ($601,000 for technical assistance, $814,000 for ~~competitive~~ formula grants, and $372,000 for ~~formula~~ competitive grants). **(Issue 408)**

It is further requested that provisional language be amended as follows to conform to this action:

"1. Of the funds appropriated in this item, ~~$15,569,000~~ ~~$14,880,000~~ $15,322,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program. This allocation includes ~~$372,000~~ $814,000 in one-time carryover funds.

2. Of the funds appropriated in this item, ~~$15,569,000~~ ~~$15,322,000~~ $14,880,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program including the eligibility criteria established in federal law to target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs. This allocation includes ~~$814,000~~ $372,000 in one-time carryover funds.

3. Of the funds appropriated in this item, ~~$654,000~~ $1,062,000 is available for the California Technology Assistance Project (CTAP) to provide federally required technical assistance and to help districts apply for and take full advantage of the federal Enhancing Education Through Technology grants. This allocation includes $601,000 in one-time carryover funds.

COMMENTS/RECOMMENDATION: *Staff recommends* approval of the DOF April Letter proposals listed in items 1 and 2 above, including staff revisions highlighted for both items. These revisions provide corrections to the April Letter requested by both CDE and DOF. Both of the above items are considered technical adjustments, which align available federal funds with existing programs. No issues have been raised for any of these items.

1760 Department of General Services

ISSUE 10: School Facilities Program – Fiscal Services Staffing

DESCRIPTION: The Governor proposes **$740,000** and **7.0 new Fiscal Services positions** for the Office of Public School Construction (OPSC) within the Department of General Services. This proposal would be funded through state school facility bond funds. This request includes 6.0 permanent positions and 1.0 limited term positions to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system required under an Executive Order issued by the Governor in 2007. The Administration believes additional positions are needed to address the large backlog of aging SFP audits. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

BACKGROUND:

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	$7,350,000	$903,813	$475,997
Prop 55 (2004)	$10,015,500	$9,342,087	$6,653,444
Prop 47 (2002)	$11,400,000	$11,284,811	$9,675,482
Prop 1A (1998)	$6,700,000	$6,648,081	$6,647,663
TOTAL	$35,465,500	$28,178,792	$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds is in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	**11/1998 to 10/2002**	**11/2002 to 12/2006**	**03/2004 to 05/2008***	**12/2006 to 08/2011***
# of Projects Not Yet Apportioned* ($ Amount)	**0**	**8 ($0.1 billion)**	**67 ($0.7 billion)**	**2,215 ($6.4 billion)**
# of Projects Apportioned, But Not Closed ($ Amount)	**331 ($2.5 billion)**	**2,117 ($8.4 billion)**	**2,407 ($9.1 billion)**	**615 ($0.9 billion)**
# of Projects Closed ($ Amount)	**2,126 ($4.2 billion)**	**1,496 ($2.9 billion)**	**111 ($0.2 billion)**	**0**
Closeout Period*	**4/2000 to 3/2011**	**5/2003 to 5/2015**	**10/2005 to 10/2016**	**5/2008 to 1/2020**

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will occur in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth $7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years.

In anticipation of this increased workload, OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's Executive Order S-02-07, the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. Executive Order S-02-07 sets forth the Administration’s plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends approval of the Governor's Budget proposal.

COMMENTS/RECOMMENDATIONS:

S*taff recommends* that Subcommittee 1 recommend to Subcommittee 4 that is approve the Governor's Budget proposal to provide 7.0 additional Fiscal Services positions to OPSC. These positions include 6.0 permanent positions and 1.0 limited-term position.

QUESTIONS:

1. *How does OPSC plan to implement the Executive Order to automate and integrate their existing audit information system?*

Appendix A
Reading First School Districts

County	LEA	
Round 1		
Santa Clara	Alum Rock Elementary	
Kern	Bakersfield City Elementary	
Riverside	Coachella Valley Unified	
Los Angeles	Los Angeles Unified	
Los Angeles	Montebello Unified	
Sacramento	North Sacramento Elementary	
Alameda	Oakland Unified	
Contra Costa	West Contra Costa Unified	
Round 2		
Orange	Anaheim Elementary	
Kern	Arvin Union Elementary	
Merced	Atwater Elementary	
Sacramento	Del Paso Heights Elementary	
Tulare	Dinuba Unified	
Imperial	El Centro Elementary	
San Bernardino	Fontana Unified	
Fresno	Fresno Unified	
Santa Barbara	Guadalupe Union Elementary	
Los Angeles	Keppel Union Elementary	
Monterey	King City Union Elementary	
Kern	Lamont Elementary	
Los Angeles	Long Beach Unified	
San Joaquin	Manteca Unified	
Kern	McFarland Unified	
Merced	Merced City Elementary	
Los Angeles	Mountain View Elementary	
San Bernardino	Ontario-Montclair Elementary	
Riverside	Palm Springs Unified	
Riverside	Perris Elementary	
San Bernardino	Rialto Unified	
Sonoma	Roseland Elementary	
Monterey	Salinas City Elementary	
San Bernardino	San Bernardino City Unified	
San Francisco	San Francisco Unified	
Riverside	San Jacinto Unified	
San Diego	San Ysidro Elementary	
Orange	Santa Ana Unified	
Santa Barbara	Santa Maria-Bonita Elementary	
Ventura	Santa Paula Elementary	

Los Angeles	South Whittier Elementary	
Los Angeles	Whittier City Elementary	
Round 3		
Monterey	Alisal Union Elementary	
Riverside	Alvord Unified	
Riverside	Banning Unified	
Los Angeles	Compton Unified	
Tehama	Corning Union Elementary	
Riverside	Desert Sands Unified	
San Diego	Escondido Union Elementary	
Monterey	Greenfield Union Elementary	
Los Angeles	Lancaster Elementary	
Los Angeles	Lynwood Unified	
Santa Cruz	Pajaro Valley Unified	
Los Angeles	Palmdale Elementary	
San Mateo	Ravenswood City Elementary	
Ventura	Rio Elementary	
San Diego	South Bay Union Elementary	
Kern	Taft City Elementary	
Kern	Wasco Union Elementary	
Yolo	Washington Unified	
Los Angeles	Wilsona Elementary	
Round 4		
Kings	Corcoran Joint Unified	
Sonoma	Healdsburg Unified	
Riverside	Hemet Unified	
Solano	Vallejo City Unified	
Fresno	West Fresno Elementary	

Source: California Department of Education, May 2008.