The 2013-14 Budget:

Proposition 98 Education Analysis

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LAO

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EXECUTIVE SUMMARY

Overview

Proposition 98 funds K-12 education, the California Community Colleges (CCC), preschool, and various other state education programs. The Governor's 2013-14 budget provides $56.2 billion in total Proposition 98 funding. This is a $2.7 billion (5 percent) increase from the revised current-year level. Under the Governor's budget, Proposition 98 programmatic per-student funding is $7,929 for schools—an increase of $360 (5 percent) from the revised current-year level—and $5,969 for community colleges—an increase of $522 (10 percent). About half of the community college increase is related to the Governor's proposal to restructure adult education. The Governor funds Proposition 98 at his estimate of the 2013-14 minimum guarantee.

Plan Balances Paying Down Outstanding Obligations and Building Up Base Support. Growth in the minimum guarantee, together with freed-up prior-year monies, result in $4.7 billion in available Proposition 98 funding for 2013-14. Of this amount, the Governor dedicates $1.9 billion to paying down deferrals, $1.6 billion to a new K-12 funding formula, and the remainder to various proposals (discussed below). Over the subsequent three years, the Governor proposes to dedicate roughly half of new Proposition 98 funds for paying down deferrals, with remaining growth in Proposition 98 funds dedicated to building up base support. Although no one right mix of spending exists, we think the Governor's generally balanced approach is reasonable.

Specific Proposals

Proposition 39 Energy Efficiency Projects. The Governor proposes to include all Proposition 39 revenues in the Proposition 98 calculation and dedicate all energy-related funding over the next five years to schools and community colleges. In 2013-14, schools and colleges would receive $400.5 million and $49.5 million, respectively, with the funds distributed on a per-student basis. We have serious concerns with virtually every aspect of the proposal. Including all Proposition 39 revenues in the Proposition 98 calculation is a significant departure from our longstanding view of how revenues are to be treated for the purposes of Proposition 98. The proposal excludes eligible projects (such as public hospitals) that potentially could achieve a relatively high level of energy benefits. The proposed per-student allocation method limits potential benefits even among schools and colleges, and the proposal does not coordinate Proposition 39 funding with the state's existing energy efficiency programs. We recommend a different approach that excludes Proposition 39 energy-related funds from the Proposition 98 calculation and charges the California Energy Commission (CEC) with administering a competitive grant process in which all public agencies, including schools and colleges, could seek Proposition 39 funds based on identified facility needs.

Mandates. The Governor has several proposals relating to education mandates. The two most notable proposals are to (1) add $100 million and two mandates—one related to high school graduation requirements and one to behavioral intervention plans (BIP)—to the mandates block grant for schools and (2) modify state requirements for the BIP mandate to align them more closely with federal requirements. Our assessment of these proposals is mixed. We recommend rejecting the proposal to add the two mandates to the block grant since the costs are very uncertain at the moment due to litigation, but we recommend adopting the proposal to modify BIP requirements since this increases local flexibility while still providing certain student protections.

Special Education. The Governor proposes two notable changes to the way the state funds services for students with disabilities (SWDs). One proposal is to remove federal funds from the state's formula for allocating state special education funds. We recommend the Legislature adopt this proposal, as it would make the state's special education funding approach simpler, more rational, and more understandable. Additionally, to eliminate existing funding disparities across the state, we recommend the Legislature adopt a plan for equalizing special education rates in tandem with general education rates under the new K-12 funding formula. The Governor's second major special education proposal is to consolidate eight funding grants currently provided for some specific special education activities into four larger grants. To provide additional flexibility, we recommend the Legislature adopt a more expansive approach that merges 12 grants into 5 larger grants with broader spending requirements.

Adult Education. The Governor proposes a number of changes to the state's adult education system, including eliminating school districts' adult education categorical program and creating a new $300 million CCC categorical program for adult education. We believe the Governor's plan is significantly flawed in many ways. To the extent that school districts discontinued their adult education services, responsibility for adult education would fall to community colleges with widely varying degrees of expertise and interest in administering these programs. To the extent that school districts continued to provide services, the Governor's proposal would do nothing to address longstanding inconsistencies in policies and longstanding coordination problems between adult schools and community colleges. We recommend a more rational, coordinated, and responsive system with both adult schools and CCC as providers. Our recommendations include (1) restoring adult education as a categorical program for school districts; (2) providing up to $300 million for the reconstituted program; (3) more clearly delineating between CCC collegiate and adult education instruction; (4) applying consistent faculty, assessment, fee, and funding policies across all adult education providers; and (5) making new funding available on a regional basis tied to relative program need.

Due to Revenue Uncertainty, Wait Until May to Finalize Budget Package

General Fund revenue estimates are subject to large swings and could change significantly over the coming months, with a large corresponding effect on the Proposition 98 minimum guarantee. Because of this uncertainty, finalizing a Proposition 98 spending plan may be premature until additional revenue information is available in May. One way to respond to any large swings, however, would be to adjust deferral pay downs. In addition, the recommendations we make in this report would free up about $275 million in Proposition 98 funds that could help address any potential reduction in the 2013-14 minimum guarantee from the Governor's level.

INTRODUCTION

In this report, we analyze the Governor's Proposition 98 budget package. The report begins with an overview. The next six sections analyze all the Governor's major Proposition 98 proposals, except for his Local Control Funding Formula proposals, which we analyze separately in our companion document, *Restructuring the K-12 Funding System*. The penultimate section of this report compares the fiscal effects of the Governor's Proposition 98 plan with our Proposition 98 recommendations. The final section lists all the recommendations we make throughout the report.

OVERVIEW

Governor Proposes $2.7 Billion Increase in Proposition 98 Funding. Figure 1 shows Proposition 98 funding for preschool, K-12 education, CCC, and various other state education programs. The Governor's budget increases total Proposition 98 funding by $2.7 billion—a 5 percent increase from the revised current-year level. The General Fund share of Proposition 98 increases by 9 percent whereas the share from local property tax (LPT) revenue is projected to drop by 4 percent. This drop is due to the tapering off of the transfer of one-time cash assets from former redevelopment agencies (RDAs). Also shown in the figure, the year-to-year increase in Proposition 98 funding is notably greater for community colleges (10 percent) than for K-12 education (4 percent). About half of the community college increase is related to the Governor's proposal to restructure adult education.

Figure 1
Proposition 98 Funding[a]

(Dollars in Millions)

	2011-12 Actual	2012-13 Revised	2013-14 Proposed	Change From 2012-13	
				Amount	Percent
Preschool	$368	$481	$481	—	—
K-12 Education					
General Fund	$29,368	$33,406	$36,084	$2,679	8%
Local property tax revenue	11,963	13,777	13,160	-618	-4
Subtotals	($41,331)	($47,183)	($49,244)	($2,061)	(4%)
California Community Colleges					
General Fund	$3,279	$3,543	$4,226	$683	19%
Local property tax revenue	1,974	2,256	2,171	-85	-4
Subtotals	($5,253)	($5,799)	($6,397)	($597)	(10%)
Other Agencies	$83	$78	$79	$1	1%
Totals	**$47,035**	**$53,541**	**$56,200**	**$2,659**	**5%**
General Fund	$33,097	$37,507	$40,870	$3,362	9%
Local property tax revenue	13,937	16,034	15,331	-703	-4

[a] General Fund amounts include Education Protection Account funds.

Programmatic Per-Student Funding Increases for Schools and Colleges. Under the Governor's budget, Proposition 98 programmatic per-student funding for schools is $7,929—an increase of $360 (5 percent) from the revised current-year level. For community colleges, Proposition 98 programmatic per-student funding is $5,969—an increase of $522 (10 percent) from the revised current-year level.

Adjustments to Minimum Guarantee

Estimate of 2012-13 Minimum Guarantee Changes Slightly. For 2012-13, the administration's estimate of the Proposition 98 minimum guarantee is $53.5 billion—down $54 million from the budget act estimate. (Various technical adjustments and changes in revenue *decrease* the minimum guarantee by $480 million. These were largely offset, however, by a guarantee *increase* of $426 million due to the revenue raised from Proposition 39. These revenues were not assumed in the *2012-13 Budget Act*.) Proposition 98-related spending is estimated to be $163 million above the revised estimate of the minimum guarantee, primarily due to increases in revenue limit costs stemming from higher-than-projected charter school attendance. To bring spending down to the minimum guarantee, the Governor proposes to reclassify $163 million in 2012-13 appropriations as funds for meeting a statutory obligation associated with the Quality Education Investment Act (QEIA). Such action has no programmatic effect on schools or community colleges.

2013-14 Minimum Guarantee Increases Due to Revenue Growth. For 2013-14, the Governor proposes to fund at the administration's estimate of the minimum guarantee—$56.2 billion. The $2.7 billion year-to-year increase in the guarantee is driven by the state's General Fund revenue growth. Student average daily attendance (ADA)—another factor that drives growth in the minimum guarantee—is projected to grow by 0.1 percent. (As described in the box on page 8, the minimum guarantee can be very sensitive to year-to-year changes in state revenues.)

Major Spending Changes

Figure 2 summarizes the major changes in Proposition 98 spending proposed by the Governor. We discuss these proposals below, focusing first on proposals affecting schools and then turning to CCC proposals.

Major K-12 Proposals. The Governor's K-12 education budget includes $1.8 billion to retire some existing school payment deferrals. The Governor's budget also provides $1.6 billion as part of a major initiative to restructure the way the state allocates funding to school districts, charter schools, and county offices of education (COEs). For school districts and charter schools, his plan would replace most existing general purpose and categorical funding with a single, new funding formula. The formula includes base grants adjusted for various grade spans as well as supplemental funding based on counts of English learners and low-income students. Virtually all of the proposed $1.6 billion funding increase would be used to align each school district's and charter school's allocation more closely to target funding levels established under the new formula. For COEs, the Governor's plan also would replace existing general purpose and categorical funding with a new formula. The COE formula would incorporate funding for (1) services COEs provide to school districts and (2) alternative education programs. The budget provides $28 million to begin increasing COE allocations to the COE target funding rate.

In addition to these proposals, the Governor's budget allocates $400.5 million to school districts for energy-efficiency projects. This appropriation—along with a corresponding community college appropriation—is intended to fulfill the state's Proposition 39 spending requirements. The budget also provides a $100 million increase to the school mandate block grant to reflect the addition of two large mandates: Graduation Requirements and BIPs. The Governor's plan also includes a 1.65 percent cost-of-living adjustment (COLA) for four categorical programs that are not consolidated into the new funding formula—special education, child nutrition, California American Indian Education Centers, and the American Indian Early Childhood Education Program. In addition to the ongoing Proposition 98 funding shown in Figure 2, the budget includes $9.7 million in one-time funding for the Emergency Repair Program (ERP), which provides funding to school districts for facility repairs.

Figure 2

Proposition 98 Spending Changes

(In Millions)

2012-13 Revised Spending	**$53,541**
Technical Changes	
Make technical adjustments	$148
Fund K-12 categorical growth	49
Fund K-12 revenue limit growth	3
Adjust for prior-year deferral payments	-2,225
Subtotal	(-$2,025)
K-12 Policy Changes	
Pay down deferrals	$1,765
Transition to new funding formula	1,630
Allocate money for energy-related projects	401
Add two programs to mandate block grant[a]	100
Provide COLA for certain programs[b]	63
Swap one-time funds	-17
Subtotal	**($3,941)**
CCC Policy Changes	
Create new adult education categorical program	$300
Increase funding for apportionments	197
Pay down deferrals	179
Allocate money for energy-related projects	50
Fund new technology initiative	17
Subtotal	($742)
Total Changes	**$2,659**
2013-14 Proposed Spending	**$56,200**

[a] Graduation Requirements and Behavioral Intervention Plans.
[b] Applies to special education, child nutrition, California American Indian Education Centers, and American Indian Early Childhood Education Program.
COLA = cost-of-living adjustment.

Major CCC Proposals. The largest of the Governor's CCC augmentations is $300 million for a restructured adult education program. The Governor's budget also includes $197 million in discretionary funding to be allocated based on the priorities of the Chancellor's Office. In addition, the Governor's plan provides $179 million to retire existing payment deferrals, $49.5 million for energy-efficiency projects, and $16.9 million for a new CCC technology initiative.

PAYMENT PLAN FOR RETIRING OUTSTANDING OBLIGATIONS

The largest augmentation in the Governor's budget is $1.9 billion to reduce the amount of outstanding K-14 payment deferrals. This proposal is part of the Governor's multiyear plan for paying off the state's outstanding one-time education obligations. Below, we provide background on these obligations, describe the Governor's proposal to pay off most of these obligations over the next four years, and discuss our assessment of the payment plan.

Background

State's One-Time Education Obligations Have Grown Significantly Over Several Years. The state currently has large outstanding one-time obligations relating to schools and community colleges. Figure 3 describes each existing type of obligation and identifies the corresponding

Changes in General Fund Revenue Will Affect Proposition 98 Minimum Guarantee

Recent information regarding 2012-13 tax revenues—in which January 2013 personal income tax (PIT) collections were $5 billion higher than projected—demonstrate the significant uncertainty regarding state revenue estimates. Although the state's PIT revenues have been subject to large swings, these effects recently have been magnified by a number of factors, including the passage of Proposition 30 (which increased taxes on high-income earners, whose incomes are most volatile), the initial public offering of Facebook, anticipation of federal tax increases, and changes in state revenue accrual policies. Theses swings in tax revenues can significantly change the state's Proposition 98 requirements. Below, we discuss some of the possible implications of higher revenues on the Proposition 98 minimum guarantee.

Virtually All New Revenue in 2012-13 Would Go to Proposition 98 Programs. To the extent that final 2012-13 revenue collections are higher than projected, the 2012-13 minimum guarantee would increase roughly dollar for dollar. (Virtually all revenue goes to Proposition 98 programs due to recent state decisions regarding how to make maintenance factor payments.) As a result, higher revenues in 2012-13 could have substantial benefit for schools and community colleges but provide little, if any, benefit for other state programs.

2013-14 Minimum Guarantee Could Be Lower Year Over Year, but Two-Year Proposition 98 Funding Likely Would Be Higher Than Under Governor's Budget. If the increase in 2012-13 revenues were temporary—that is, if they did not result in a corresponding increase in 2013-14 revenues—the 2013-14 minimum guarantee could be lower than the Governor's estimate. This is because the year-to-year growth in General Fund revenues under this scenario is reduced. This in turn would lower the minimum guarantee in 2013-14. Funding over the two-year period, however, likely would be higher than under the Governor's budget.

Spending Option if This Scenario Materializes. If recent revenue collection trends persist and the Proposition 98 minimum guarantee sees a corresponding increase in 2012-13, the Legislature could use these new, additional funds to accelerate pay down of school and community college deferrals. This approach would pay down deferrals more quickly without affecting ongoing programmatic support. If 2013-14 revenues are lower than the Governor's January estimate, the Legislature correspondingly could reduce the amount of funds dedicated in 2013-14 to paying down deferrals. In essence, the state could adjust its deferral payments across the two years to moderate the effects of revenue volatility on programmatic funding.

amount the state owes. The largest outstanding obligation involves school and community college payments that the state is making late. The state also has a large backlog of unpaid school and community college mandate claims. The other two obligations—for the ERP and QEIA—are connected with lawsuits.

State Relied Heavily on Deferrals During Difficult Fiscal Times. Over the past several years, the state has significantly increased the amount of school and community college payments it makes late. The first Proposition 98 deferrals were adopted in the middle of 2001-02, when $1.1 billion in K-12 payments were deferred from late June 2002 to early July 2002. This delay, while only a few weeks, allowed the state to achieve one-time savings by reducing Proposition 98 General Fund spending in 2001-02. Schools continued to operate a larger program using cash reserves. In 2008-09, facing an even larger budgetary shortfall, the state delayed $3.2 billion in Proposition 98 payments to achieve one-time General Fund savings. The state adopted additional deferrals in each of the next three years. By 2011-12, a total of $10.4 billion in annual Proposition 98 payments were paid late (roughly 21 percent of total Proposition 98 support).

State Has One-Time Proposition 98 Settle-Up Obligations. In addition to the obligations discussed above, the state has $1.7 billion in outstanding one-time Proposition 98 obligations known as "settle-up" obligations. A settle-up obligation is created when the minimum guarantee increases midyear and the state does not make an additional payment within that fiscal year to meet the higher guarantee. Because the associated ongoing base increase in the minimum guarantee is reflected automatically in the subsequent year's Proposition 98 appropriation, the state is left with only a one-time obligation to backfill the unanticipated prior-year shortfall. The state's existing settle-up obligations were created as a result of underfunding in 2006-07 ($212 million), 2009-10 ($1.2 billion), 2010-11 ($2.5 million), and 2011-12 ($251 million). Settle-up funds can be used for any educational purpose, including paying off other state one-time obligations, such as deferrals and mandates.

Figure 3

State Has Several Outstanding One-Time School and Community College Obligations

(In Millions)

Obligation	Description	Amount Outstanding[a]
Payment deferrals	State has deferred certain school and community college payments from one fiscal year to the subsequent fiscal year, thereby achieving one-time state savings.	$8,205
Mandates	State must reimburse school and community college districts for performing certain state-mandated activities. State deferred payments seven consecutive years (2003-04 through 2009-10).	4,014
Emergency Repair Program	As part of the *Williams* settlement, state agreed to provide certain schools with $800 million for emergency facility repairs.	452
Quality Education Investment Act	Associated with a Proposition 98 suspension in 2004-05, the state agreed to provide an additional $2.7 billion to schools and community colleges over a multiyear period.	247

[a] As of year-end 2012-13.

State Has Options for Paying Down Outstanding Obligations. The state typically retires one-time obligations by making a series of payments over several years. In most cases, the state can choose whether to make these payments using ongoing or one-time funds. When using ongoing funds, the state sets aside a portion of undesignated Proposition 98 resources, which reduces the amount of funds available for other ongoing Proposition 98 purposes. (In the subsequent year, these resources are "freed up" to pay off additional obligations or to make programmatic augmentations.) Alternatively, the state can use one-time appropriations made on top of the annual minimum guarantee—such as settle-up funds—to pay off these obligations. This approach has no effect on the ongoing programmatic funding available for schools and community colleges.

Governor's Proposal

As Figure 4 shows, the Governor's proposal includes a multiyear plan for paying off the state's outstanding one-time education obligations. We discuss the proposal in more detail below.

Uses Roughly Half of New Proposition 98 Funds to Pay Down Deferrals. In 2012-13, the state began reducing the amount of late payments by providing $2.2 billion to pay down Proposition 98 deferrals—$2.1 billion for schools and $159 million for community colleges. (This funding was contingent on the passage of Proposition 30.) In 2013-14, the Governor's budget dedicates $1.9 billion to retire additional deferrals—$1.8 billion for schools and $179 million for community colleges. As Figure 5 shows, these payments would reduce the amount of outstanding deferrals to $6.3 billion. Each year for the subsequent three years, the Governor proposes to dedicate roughly half of available Proposition 98 funds toward additional deferral pay downs, with all deferrals eliminated by the end of 2016-17.

Retires a Few Other Obligations Over Period. The Governor's plan provides $247 million on top of the minimum guarantee in 2014-15 for QEIA and an additional $452 million on top of the minimum guarantee in 2016-17 for ERP. These payments would fully retire the state's statutory obligation for both programs. In 2016-17, the Governor also proposes to make a $1.7 billion payment to retire the state's existing settle-up obligations. These funds would be allocated to school districts and community colleges to reduce the mandate backlog. (A backlog of roughly $2.3 billion would remain.)

Figure 4

Governor's Multiyear Plan for Paying Education One-Time Obligations

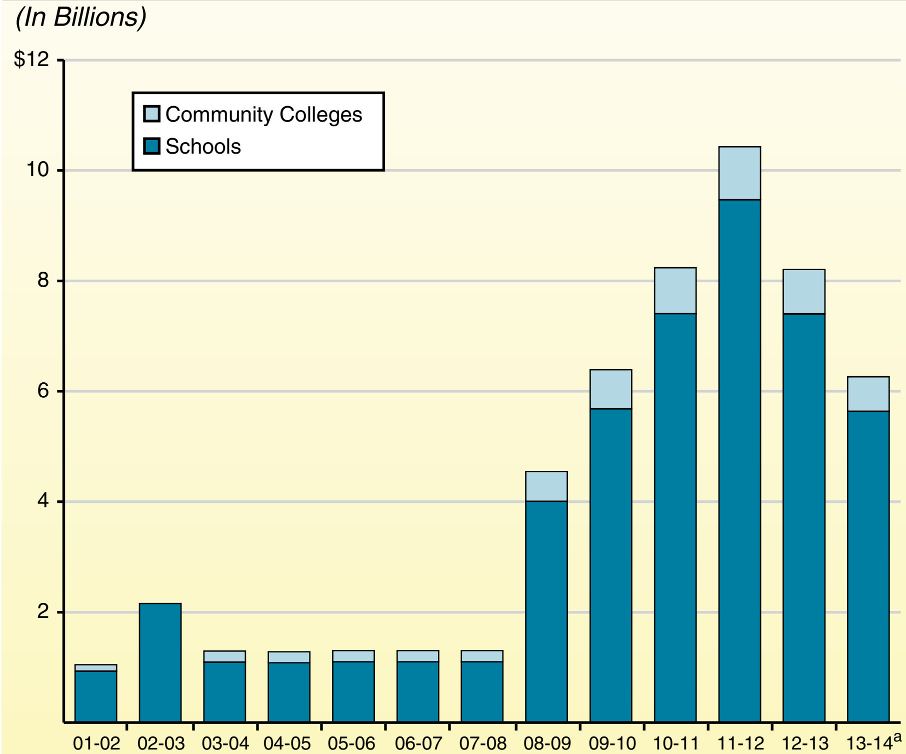
(In Millions)

Obligation	Paid Within Annual Proposition 98 Appropriation?	2013-14	2014-15	2015-16	2016-17	Total Payments Over Period[a]
Payment deferrals	Yes	$1,950	$2,986	$3,137	$132	$8,205
Mandates	No	—	—	—	1,666	1,666
Emergency Repair Program	No	—	—	—	452	452
Quality Education Investment Act	No	—	247	—	—	247
Fiscal-Year Totals		**$1,950**	**$3,233**	**$3,137**	**$2,250**	**$10,570**

[a] By the end of the period, all obligations would be retired, except for mandates, which would have $2.3 billion in still outstanding obligations.

Figure 5

Late Payments to Schools and Colleges Begin to Decline



a Reflects Governor's proposal.

Governor's Balanced Approach Reasonable

Governor's Plan Reasonable. Over the next several years, as state General Fund revenue growth results in additional Proposition 98 resources, the Legislature will want to weigh the trade-offs between building up ongoing base support and retiring outstanding one-time obligations. Although no one right mix of spending exists, we think the Governor's generally balanced approach is reasonable. Using such an approach would allow the state to retire most school and community college obligations by 2016-17—prior to the expiration of Proposition 30's personal income tax increases—while also dedicating a substantial portion of Proposition 98 funding for ongoing programs.

Dedicate Unanticipated Proposition 98 Increases to One-Time Obligations. As we discuss earlier in the report, General Fund revenue estimates could be subject to significant swings over the next several years, largely due to volatility in the earnings of high-income taxpayers. These changes in General Fund revenues can result in significant midyear changes to the Proposition 98 minimum guarantee. Over the next several years, if the state receives unanticipated revenues that increase the minimum guarantee midyear, we recommend the Legislature dedicate these additional resources to accelerating the pay down of its one-time education obligations. This would allow the state to more quickly retire its obligations without affecting the amount of ongoing programmatic funding it provides to school districts and community colleges.

PROPOSITION 98 ADJUSTMENTS FOR PROPERTY TAX SHIFTS

The Governor makes several adjustments to the minimum guarantee to reflect the shift of RDA revenues to school districts and community colleges. Below, we: (1) provide an overview of how

LPT shifts can affect the Proposition 98 minimum guarantee, (2) discuss how the dissolution of RDAs is affecting schools and colleges, (3) describe the Governor's approach to making related Proposition 98 adjustments, and (4) provide short- and long-term recommendations for making these RDA-related adjustments.

Background

Addressing the Effect of LPT Shifts on the Minimum Guarantee. Over the past two decades, the state has made numerous shifts in the allocation of property taxes among cities, counties, special districts, school districts, and community college districts. In some years, these shifts can unintentionally increase or decrease the Proposition 98 minimum guarantee. To ensure that these shifts have no effect on the total amount of funding schools and colleges receive, the state "rebenches" the Proposition 98 minimum guarantee. (The state also has rebenched the minimum guarantee when certain programs have been shifted into or out of Proposition 98. No program rebenchings, however, are proposed for the budget year.)

State Rebenches by Adjusting "Test 1" Factor. The Proposition 98 minimum guarantee is determined by one of three formulas, commonly called tests. Each of these tests is calculated using a somewhat different set of inputs. Test 1 requires the state to provide roughly 40 percent of General Fund revenues to Proposition 98 programs. When Test 1 is operative, schools and colleges effectively receive LPT revenues on top of their General Fund allocation. Thus, when Test 1 is operative, changes to LPT revenues affect total Proposition 98 funding. To ensure that policy-driven property tax shifts do not affect total Proposition 98 funding in these years, the state adjusts the specific percentage of General Fund revenues used in making the Test 1 calculation (this is commonly referred to as "rebenching the Test 1 factor"). Because the rebenching only affects the Test 1 factor, the state's minimum guarantee is not always directly affected by the adjustment. In some cases, for example, Test 2 or Test 3 would be operative even if the Test 1 factor were not adjusted. (The Test 2 and Test 3 calculations are not affected by changes in property taxes, so no rebenching adjustments are needed for these tests.) In other cases, however, Test 1 would be operative with or without the adjustment. In these cases, rebenching has a direct effect on the minimum guarantee.

State Has Rebenched in Various Situations. The state has rebenched the Test 1 factor due to various property tax shifts over the past 20 years. In some instances, the state has rebenched to achieve General Fund savings. For example, in 1993-94, the state required cities, counties, and special districts to permanently shift $2.6 billion in property tax revenues to schools and community colleges. To ensure the shift in revenue provided state savings and did not increase total Proposition 98 funding, the state reduced the Test 1 factor. In other instances, the state has rebenched to avoid possible reductions to Proposition 98 funding. In 2004-05, for example, the state temporarily shifted roughly $1 billion in property tax revenues from schools and colleges to cities and counties as part of a complicated transfer associated with paying off the state's Economic Recovery Bonds. To ensure the shift did not reduce total school and college funding, the state increased the Test 1 factor. Because the shift is temporary (it will likely expire in 2017), the state will rebench again when the transfer ends.

Dissolution of RDAs Shifts LPT Revenues to Schools and Colleges. In recent years, schools and colleges have been affected by LPT shifts related to RDAs. The state authorized local agencies to create RDAs in 1945 to address urban blight in certain "project areas." When an RDA project area was created, most of the growth in property tax revenue from the project area was distributed to the city or county's RDA as "tax increment revenues" instead of being distributed as general purpose revenues to other local agencies serving the area. In 2011-12, RDAs statewide received roughly $5 billion in tax increment revenues. As a result of legislation adopted in 2011, all RDAs statewide were dissolved on February 1, 2012. In most cases, the city or county that created the RDA is managing its dissolution as a successor agency. The successor agencies are required to use tax revenues previously provided to RDAs to continue to pay the former RDA's outstanding financial obligations. After these obligations are paid, the remaining revenues—known as residual RDA revenues—are distributed based on existing property tax allocation laws to cities, counties, special districts, schools, and colleges. Successor agencies also are required to allocate former RDA cash assets to local agencies serving the area. When all RDA debts have been repaid, tax increment revenues no longer will be separated from other property tax revenues and instead be distributed to local agencies using existing property tax allocations. Once all shifts have been completed, schools and community colleges are expected to receive a total of roughly $2.5 billion in additional property tax revenues.

State Rebenches for Redevelopment-Related Revenues in 2011-12 and 2012-13. The minimum guarantee in 2011-12 and 2012-13 was rebenched to account for the shift of property tax revenues to schools and colleges from the dissolution of RDAs. Given both 2011-12 and 2012-13 are Test 1 years, this adjustment is allowing the state to achieve dollar-for-dollar General Fund savings for the transfers of ongoing residual RDA property tax receipts and one-time RDA cash assets. The *2012-13 Budget Act* assumed school districts and community colleges would receive $1.7 billion from residual RDA revenues and $1.5 billion from cash assets in 2011-12 and 2012-13, for total General Fund savings of $3.2 billion.

Redevelopment Revenues Face Significant Uncertainty. For a number of reasons, the amount of revenue shifted to schools and colleges from RDAs in the near term is subject to a substantial amount of uncertainty. Several key steps in the dissolution process have yet to occur, resulting in little reliable information on a large category of former RDA assets. Some RDA successor agencies also have not met anticipated timelines for performing certain procedures or have disputed Department of Finance findings regarding the availability of assets for distribution to schools, colleges, and other local governments. A number of pending lawsuits regarding RDA dissolution also could affect savings. In the long run, as RDA obligations are repaid and more funds are transferred to local agencies, the amount of revenues for schools and community colleges will increase. Due to these uncertainties, however, any estimates of RDA-related revenue for the next several years likely will change significantly as updated information becomes available.

Governor's Proposal

Reduces RDA Savings Estimates by One-Third. The Governor's budget reduces RDA revenue estimates by roughly one-third from the amounts assumed in the *2012-13 Budget Act.* As Figure 6 (see next page) shows, estimates of RDA-related revenues for 2012-13 decreased by $1.1 billion. For 2013-14, estimates of redevelopment-related revenues decreased by $494 million.

Updates One Rebenching but Locks in Another. As part of his budget package, the Governor updates the 2011-12 and 2012-13 rebenching adjustments to reflect the revised estimates of one-time RDA cash assets and ongoing residual RDA revenues. For 2013-14, the Governor also updates his RDA cash asset rebenching to reflect new revenue estimates but does not update the rebenching for ongoing residual RDA revenues, effectively locking in the rebenching adjustment at the 2012-13 level, regardless of actual RDA revenues transferred moving forward.

Concerns With Permanent Rebenching

RDA Estimates Too Uncertain to Make Rebenching Permanent. Given the uncertainty regarding redevelopment receipts over the next several years, the Governor's proposal to lock in the associated rebenching adjustment is premature. Over the next several years, schools and colleges are expected to receive substantially more property tax revenues as RDA debts are repaid. If the state locks in its rebenching adjustment at 2012-13 levels, the Test 1 calculation would not be properly adjusted to ensure that RDA revenues have no fiscal effect on schools and colleges. This approach also would result in higher state costs in future years.

Recommend Different Approach

Recommend Annually Updating Rebenching Adjustment in Near Term. Given the uncertainty of redevelopment revenues, we recommend the Legislature update its rebenching, as needed, to account for the increase in revenues transferred to schools. This approach would ensure Proposition 98 funding reflects more accurately the sizeable shift of LPT receipts to schools that is expected to occur over the next several years. It also would generate an associated reduction in state General Fund costs.

Adopt Different Long-Term Solution. To rebench accurately for RDA dissolution, the state must calculate the resulting increase in property tax revenues for schools and colleges. In the initial years after RDA dissolution, the state easily can calculate this effect based on the amount of residual RDA revenues annually transferred to schools and community colleges by the county auditor, as county auditors are required to keep separate accounting of tax revenues formerly transferred to RDAs. In future years, however, when RDA debts are fully repaid, schools and community colleges will not receive these funds as residual RDA revenues. Instead, they will receive these revenues along with all other property tax receipts, making it virtually impossible for the state to calculate the net benefits of RDA dissolution. To avoid these issues, we recommend the Legislature adopt a different long-term rebenching approach. One

Figure 6

Lower Estimates of Redevelopment-Related Transfers to Schools and Colleges

(In Millions)

	2012-13 Budget Act	*2013-14 Governor's Budget*	Difference
2011-12			
Ongoing residual	$113	$147	$34
Cash assets	—	—	—
Totals	**$113**	**$147**	**$34**
2012-13			
Ongoing residual	$1,676	$784	-$893
Cash assets	1,479	1,302	-177
Totals	**$3,155**	**$2,086**	**-$1,070**
2013-14			
Ongoing residual	$1,011	$559	-$452
Cash assets	600	558	-42
Totals	**$1,611**	**$1,117**	**-$494**
Totals Through 2013-14			
Ongoing residual	$2,800	$1,490	-$1,310
Cash assets	2,079	1,860	-219
Totals	**$4,879**	**$3,350**	**-$1,529**

possible approach would lock in the rebenching adjustment when RDA revenues have stabilized (likely within the next decade). Alternatively, the state could create a multiyear rebenching schedule to adjust the Test 1 factor. The schedule would gradually adjust the Test 1 factor to reflect assumptions about the increase in property tax revenues transferred to schools and colleges as RDA obligations are repaid.

PROPOSITION 39 ENERGY PROJECTS

Passed by the voters in November 2012, Proposition 39 increases state corporate tax (CT) revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings. The Governor's 2013-14 budget counts all Proposition 39 revenues toward the Proposition 98 minimum guarantee and allocates all associated energy-related funding to school and community college districts. Below, we (1) provide an overview of Proposition 39 and its requirements, (2) describe the Governor's proposed treatment of Proposition 39 revenues and the proposed allocation of such revenues, (3) raise many serious concerns with the Governor's approach, and (4) offer an alternative approach.

Background

Proposition 39 Raises Additional State Revenues and Designates Half for Energy Projects. Proposition 39 requires most multistate businesses to determine their California taxable income using a single sales factor method. (Previously, state law allowed such businesses to pick one of two different methods to determine the amount of taxable income associated with California and taxable by the state.) This change has the effect of increasing state CT revenue. For a five-year period (2013-14 through 2017-18), the proposition requires that half of the annual revenue raised from the measure—up to $550 million—be transferred to a new Clean Energy Job Creation Fund to support projects intended to improve energy efficiency and expand the use of alternative energy. Specifically, the measure requires that such funds maximize energy and job benefits by supporting (1) eligible projects at public schools, colleges, universities, and other public buildings and (2) public-private partnerships and workforce training related to energy efficiency and alternative energy. Proposition 39 also requires that funded programs be coordinated with CEC and the California Public Utilities Commission (CPUC) to avoid duplication and leverage existing energy efficiency and alternative energy efforts. In addition, the proposition states that the funding be appropriated only to agencies with established expertise in managing energy projects and programs.

Proposition 39 Revenues Can Increase Proposition 98 Minimum Guarantee. Because the Proposition 98 minimum guarantee can grow with increases in state General Fund revenues (including those collected from state corporate income taxes), the revenues generated by Proposition 39 can increase the state's Proposition 98 funding requirements.

Existing State Energy Efficiency and Alternative Energy Programs. Currently, California maintains over a dozen major programs (such as Bright Schools and the Energy Conservation Program) that are intended to support the development of energy efficiency and alternative energy in the state. (For a more detailed description of these programs, please see our recent report, *Energy Efficiency and Alternative Energy Programs.*) Over the past 10 to 15 years, the state has spent a combined total of roughly $15 billion on such efforts. The various energy programs are administered by multiple state departments, including CEC and CPUC, as well as the state's investor-owned utilities (IOUs). Funding from these programs have been allocated to various entities, including many schools and community college districts. In determining which specific projects to fund, the CEC and the IOUs provide energy audits to evaluate what types of upgrades would result in the most cost-effective energy savings. These programs also provide financing options for these upgrades.

Governor's Proposal

Counts All Proposition 39 Revenue in Proposition 98 Calculation. The administration projects that Proposition 39 will increase state revenue by $440 million in 2012-13 and $900 million in 2013-14. The Governor's budget plan includes all revenue raised by Proposition 39 in the Proposition 98 calculation, which has the effect of increasing the minimum guarantee by $426 million in 2012-13 and an additional $94 million (for a total increase of $520 million) in 2013-14. In both 2012-13 and 2013-14, the Governor proposes to fund Proposition 98 at his estimate of the minimum guarantee.

Designates All $450 Million for School and Community College Energy Projects. The Governor proposes to allocate all Proposition 39 energy-related funding over the next five years exclusively to school and community college districts ($450 million in 2013-14 and an estimated $550 million annually for the next four years). For 2013-14, the Governor's budget proposes to provide school districts with $400.5 million and community college districts with $49.5 million. The Governor proposes to classify this spending as Proposition 98 expenditures that count toward meeting the minimum guarantee. The administration proposes to appropriate the funding for school districts to the California Department of Education (CDE) and the funding for community colleges to the CCC Chancellor's Office. The budget also proposes to provide CDE with one permanent position ($109,000) to help implement and oversee the Proposition 39 program. The Governor proposes no additional positions for the CCC Chancellor's Office for the administration of Proposition 39.

Allocates Funds on Per-Student Basis. The administration's proposal would require that CDE and the Chancellor's Office allocate funding to districts on a per-student basis. In 2013-14, school districts and community college districts would receive $67 and $45 per student, respectively. The CDE and Chancellor's Office would issue guidelines for prioritizing the use of the funds. The administration notes that CDE and the Chancellor's Office could consult with CEC and CPUC in developing these guidelines. Upon project completion, school districts and community college districts would report their project expenditure information to CDE and the Chancellor's Office, respectively.

Serious Concerns With Governor's Proposal

We have many serious concerns with the Governor's Proposition 39 proposal. Figure 7 summarizes these concerns, which we discuss in more detail below.

Varies Significantly From Our Longstanding View of Proposition 98. As described above, the Governor counts all Proposition 39 revenue, including the revenue required to be spent on energy-related projects, toward the Proposition 98 calculation. This is a serious departure from our longstanding view, which we developed over many years with guidance from Legislative Counsel, of how revenues are to be treated for the purposes of Proposition 98. It also is directly contrary to what the voters were told in the official voter guide as to how the revenues would be treated. Based on our view, revenues are to be excluded from the Proposition 98 calculation if the Legislature cannot use them for general purposes—typically due to restrictions created by a voter-approved initiative or constitutional amendment. The voter guide reflected this longstanding interpretation by indicating that funds required to be used for energy-related projects would be excluded from the Proposition 98 calculation. Had the Governor used the approach described in the voter guide, the minimum guarantee would be roughly $260 million lower in 2013-14 than the amount specified in his budget proposal. (This approach would have no effect on the calculation of the 2012-13 minimum guarantee.)

Could Lead to Greater Manipulation of the Minimum Guarantee. The Governor's approach assumes that all tax revenues deposited directly into the General Fund must be included in the Proposition 98 calculation, whereas any tax revenues deposited directly into a special fund must be excluded from the calculation. This approach easily could result in greater manipulation of the Proposition 98 minimum guarantee. The state could, for example, require that all sales tax revenues be deposited directly into a special fund rather than the General Fund, thereby excluding the revenues from the Proposition 98 calculation. These types of accounting shifts could undermine the meaningfulness of the guarantee and render it effectively useless in setting a minimum funding requirement for schools and community colleges. By focusing on allowable uses of funds, not whether the funds were deposited into this or that account, our view would prevent such manipulation. Under our view, revenues are excluded from the Proposition 98 calculation only if they are clearly removed from the Legislature's control (typically by constitutional or voter-approved action).

Excludes Many Eligible Projects. By dedicating all of the Proposition 39 energy-related funding over the five-year period to school and community college districts, the Governor's approach excludes consideration of other eligible projects that potentially could achieve a greater level of energy benefits. For example, large public hospitals that operate 24 hours a day, 7 days a week generally have a relatively large energy load. In contrast, schools typically are open for only part of the day and generally either closed or partially closed in the summer months.

Fails to Account for Energy Consumption Differences. A building's energy consumption is largely affected by the climate in which it is located. For example, facilities located in cold

Figure 7

LAO Concerns With Governor's Proposition 39 Proposal

✓ **Questionable Treatment of Proposition 39 Revenues**
- Varies from our longstanding view of Proposition 98.
- Could lead to greater manipulation of the minimum guarantee.

✓ **Governor's Proposed Allocation Method Limits Benefits**
- Excludes many eligible projects.
- Fails to account for energy consumption differences.
- Allocates funding inefficiently.
- May not guarantee return on investment.
- Does not account for significant past investments in K-14 facilities.
- Fails to sufficiently leverage existing programs and experience.

climates will use more energy for heating, while facilities located in temperate climates generally use less energy for heating and cooling. These climate differences significantly impact what types of energy efficiency retrofits and upgrades will be most effective at reducing a particular facility's energy consumption. All other factors being equal, conducting an energy efficiency upgrade on a facility that requires relatively more energy (versus a facility that uses less energy) will result in greater energy benefits. In addition, the size, design, and age of a facility affects its energy consumption. By providing funding to every school district and community college district on a per-student basis, the Governor's proposal ignores these important factors and effectively limits the potential energy benefits that otherwise could be achieved with the Proposition 39 funding.

Allocates Funding Inefficiently. By distributing funding to districts on an annual, per-student basis, the Governor's approach also likely would result in some school districts lacking enough funding to implement major energy-efficiency improvements in the first year of the program. For example, under the proposal, a small school district having 100 students would receive $6,700 in Proposition 39 funds in 2013-14. Such a small sum is unlikely to be sufficient to undertake comprehensive improvements for a facility. Given that the state has many small school districts (about 10 percent of districts have fewer than 100 students), this problem would be notable. To mitigate this concern, the Governor indicates that districts could carry over funding throughout the program's five-year life to increase the total resources available for a project. This approach, however, would result in funds potentially remaining idle for several years instead of being used in a way that would immediately begin to achieve benefits.

May Not Guarantee Return on Investment. Proposition 39 requires that the total benefits of each project be greater than total costs over time. For energy efficiency projects, it can take several years before enough energy savings accumulate to offset the upfront investment. For example, replacing an outdated heating and cooling system with an energy-efficient model would likely require a significant upfront investment and take several years for the project's savings to outweigh this investment. Under the Governor's proposal, it is unclear what requirements would be put in place to ensure that facilities upgraded with Proposition 39 funds remain in use long enough for the benefits to outweigh the costs. This is a particular concern for the nearly half of school districts with declining enrollment. Given the corresponding reductions in need for space, these districts might close or sell facilities that had been improved with Proposition 39 funds prior to a project's benefits outweighing its costs.

Does Not Account for Significant Past Investments in K-14 Facilities. Since 2002, voters have approved about $29 billion in state bonds and about $71 billion in local bonds for school facilities. Nearly all of the state bonds (and likely most of the local bonds) relate to new construction and modernization, with about $100 million of the state bonds specifically dedicated to green schools. During the same time, voters have approved about $3 billion in state bonds and about $24 billion in local bonds for facility improvements at the state's community colleges. In addition, many schools and community colleges have received funding from the energy efficiency programs administered by CEC and the state's IOUs. As a result of the decade-long $127 billion investment in K-14 facilities, as well as these other energy-specific programs, many school and community college buildings throughout the state have been newly built or modernized. As the state's building codes incorporate a large number of energy efficiency provisions, many of these facilities are already very energy efficient. The Governor's proposal, however, does not take into account the above state and local investments in energy-efficient facilities when allocating the Proposition 39 funds.

Fails to Sufficiently Leverage Existing Programs and Experience. The Governor's proposal also does not take advantage of the state's existing knowledge and administrative infrastructure regarding energy efficiency. For example, many of the state's energy efficiency programs include some evaluation of a facility's energy usage (such as from the energy audits that are provided through CEC and the IOUs) to ensure that the most cost-effective energy projects are funded. In addition, because the proposed budget would appropriate the funding to CDE and the Chancellor's Office, the Governor's proposal might not meet Proposition 39's requirement that monies from the Clean Energy Job Creation Fund be appropriated only to agencies with established expertise in managing energy projects and programs. As a result of not coordinating Proposition 39 funding with the state's other energy efficiency activities and not appropriating the funding to agencies with established expertise, the Governor's approach makes comparing effectiveness across programs and evaluating the relative benefits of projects from a statewide basis difficult. (As we discussed in our recent report on energy programs, we believe a comprehensive strategy is needed for the state to meet its energy efficiency and alternative energy objectives.)

LAO Alternative

In view of the above concerns, we recommend an alternative treatment of Proposition 39 revenues for purposes of calculating the Proposition 98 minimum guarantee. In addition, we outline a specific set of recommendations that would help maximize the potential benefits of this new funding.

Exclude Energy-Related Funding From Proposition 98 Minimum Guarantee. Consistent with our view of how revenues are to be treated for the purposes of calculating the minimum guarantee, we recommend the Legislature exclude from the Proposition 98 calculation all Proposition 39 revenues required to be used on energy-related projects. Based on the administration's revenue estimates, this approach would reduce the minimum guarantee by roughly $260 million. In addition, we recommend the Legislature reclassify the $450 million to be spent on energy-related projects as a non-Proposition 98 expenditure (though the state still could choose to spend these monies on schools and community colleges).

Alternative Increases Proposition 98 Operational Support by $190 Million. As Figure 8 (see next page) shows, adopting our recommended approach would result in $190 million in additional operational Proposition 98 support for schools and community colleges. This amount is the net effect of two factors. On the one hand, by excluding some Proposition 39 revenue from the Proposition 98 calculation, the minimum guarantee falls by $260 million in 2013-14. On the other hand, by not using Proposition 98 funding for school energy projects, spending falls by $450 million relative to the Governor's budget plan. Thus, maintaining spending at the revised minimum guarantee would result in an additional $190 million in operational funding. Under this approach, the $450 million still needs to be used for energy-related projects, and it could be used for schools and community colleges to the extent the basic provisions of Proposition 39 are met. From the state's perspective, this approach increases total state costs by $190 million and, thus, could result in reduced spending on non-Proposition 98 General Fund programs.

Process for Allocating Funding Should Maximize Benefits. In order to ensure that the state meets the requirements of Proposition 39 and maximizes energy and job benefits, we recommend the Legislature adopt a different approach than that proposed by the Governor. Specifically, we recommend that it:

- ***Designate CEC as Lead Agency for Proposition 39 Energy Funds.*** We recommend the Legislature designate the CEC (whose primary responsibility is energy planning) as the lead agency for administering—in consultation with the CPUC and other experienced entities—the energy funds authorized in Proposition 39. This would help ensure that the relative benefits of each project can be considered from a statewide perspective.

- ***Use Competitive Grant Process Open to All Public Agencies.*** We also recommend the Legislature direct CEC to develop and implement a competitive grant process in which *all* public agencies could apply for Proposition 39 funding on a project-by-project basis. In order to ensure that the state maximizes energy benefits, this competitive process should consider and weigh all factors that affect energy consumption. The CEC could create a tiered system that categorizes facilities based on a high-, medium-, and low-energy intensity or need. Based on that categorization, funding should be provided to facilities with the greatest relative need in coordination with other existing energy programs.

- ***Require Applicants to Provide Certain Energy-Related Information.*** To qualify for grant funding and assist CEC in evaluating potential projects, we recommend that applicants first have an energy audit to identify the cost-effective energy efficiency upgrades that could be made, similar to the types of audits currently provided through CEC and the IOUs. As part of the application, facilities also should provide information regarding the climate zone, size, design, and age of a building.

We recognize that the Legislature may be interested in allocating all or a portion of the Proposition 39 energy funding to support energy projects at schools and community colleges. To the extent the Legislature chooses to prioritize such

Figure 8

Fiscal Effects of LAO Approach

(In Millions)

	Governor	LAO	Difference
Proposition 98 Funding:			
Operational funding for schools and community colleges	$55,750	$55,940	$190
Energy project funding, only schools and community colleges	450	—	-450
Subtotals, Proposition 98	($56,200)	($55,940)	(-$260)
Non-Proposition 98 Funding:			
Energy project funding, all allowable projects including schools and community colleges	—	$450	$450
Total Spending	**$56,200**	**$56,390**	**$190**

projects, we believe that our recommended process would be a more effective approach in meeting the goals of Proposition 39 than allocating funds to school and community college districts on a per-student basis as proposed by the Governor.

EDUCATION MANDATES

The Governor's budget includes several proposals involving education mandates. Most notably, the Governor proposes to add two large mandates and $100 million to the mandates block grant for schools. In addition, he proposes to modify the state requirements for a special education mandate to align them more closely with federal requirements. The Governor's budget also newly suspends six education mandates and includes funding for a new mandate related to pupil suspensions and expulsions. Below, we (1) provide some background on education mandates, (2) describe and asses the Governor's mandate proposals, and (3) make various related recommendations.

Mandate Reimbursement System Has Serious Flaws

Five Major Problems With Mandate Reimbursements. In 1979, voters passed Proposition 4, which added a requirement to the California Constitution that local governments—including school and community college districts—be reimbursed for new programs or higher levels of service the state imposes on them. Afterwards, the state created an elaborate legal and administrative process for determining whether new requirements constitute mandates and reimbursing associated mandate claims. Over the years, our office has identified numerous problems with this system. Specifically, we have found that (1) many mandates do not serve a compelling purpose, (2) mandated costs are often higher than expected, (3) reimbursement rates vary greatly by district, (4) the reimbursement process rewards inefficiency, and (5) the reimbursement process ignores program effectiveness.

Block Grant Alternative Created Last Year

Block Grant Intended to Address Some of the Problems With Reimbursement System. To address some of the problems identified above, the Legislature and Governor created a block grant as an alternative method of reimbursing school and community college districts. Instead of submitting detailed claims listing how much time and money was spent on mandated activities, districts now can choose to receive funding through the block grant. As listed in Figure 9 (see next page), the state included 43 mandates (and $167 million) in the block grant for schools and 17 mandates (and $33 million) for community colleges. Block grant funding is allocated to participating local educational agencies (LEAs) on a per-student basis that varies by type of LEA, as different mandates apply to each type. Charter schools receive $14 per student, while school and community college districts receive $28 per student. The COEs receive $28 for each student they serve directly, plus an additional $1 for each student within the county. (The $1 add-on for COEs is intended to cover mandated costs largely associated with oversight activities, such as reviewing district budgets.) Due to concerns regarding the state's constitutional obligation to reimburse districts for mandated costs, the state also retained the existing mandates claiming process for districts not opting into the block grant.

Block Grant Participation Relatively High in First Year of Program. As shown in Figure 10, most school districts and COEs and virtually all charter schools and community college districts opted to participate in the block grant. These LEAs represent 86 percent of K-12 students and 96 percent of community college students. Charter schools likely opted in at such high rates because they have been deemed ineligible for mandate reimbursements through the claims process. The lower participation rate for school districts and COEs could be due to various reasons. Some might have continued claiming for reimbursements because they calculated that they could receive more money that way (because of very high claiming costs compared to others due to differences in salaries

Figure 9

Mandates Included in Block Grants

2012-13

Schools Block Grant	
Absentee Ballots	Juvenile Court Notices II
Academic Performance Index	Law Enforcement Agency Notification[c]
Agency Fee Arrangements	Mandate Reimbursement Process I and II
AIDS Prevention/Instruction	Notification of Truancy
Annual Parent Notification[a]	Open Meetings/Brown Act Reform
CalSTRS Service Credit	Physical Performance Tests
Caregiver Affidavits	Prevailing Wage Rate
Charter Schools I, II, and III	Pupil Expulsion Appeals
Child Abuse and Neglect Reporting	Pupil Expulsions
COE Fiscal Accountability Reporting	Pupil Health Screenings
Collective Bargaining	Pupil Promotion and Retention
Comprehensive School Safety Plans	Pupil Safety Notices
Criminal Background Checks I and II	Pupil Suspensions
Differential Pay and Reemployment	School Accountability Report Cards
Expulsion of Pupil: Transcript Cost for Appeals	School District Fiscal Accountability Reporting
Financial and Compliance Audits	School District Reorganization
Habitual Truants	Student Records
High School Exit Examination	Teacher Notification: Pupil Suspensions/Expulsions[d]
Immunization Records[b]	The Stull Act
Interdistrict Attendance Permits	Threats Against Peace Officers
Intradistrict Attendance	
Community Colleges Block Grant	
Absentee Ballots	Mandate Reimbursement Process I and II
Agency Fee Arrangements	Minimum Conditions for State Aid
Cal Grants	Open Meetings/Brown Act Reform
CalSTRS Service Credit	Prevailing Wage Rate
Collective Bargaining	Reporting Improper Governmental Activities
Community College Construction	Sex Offenders: Disclosure by Law Enforcement
Discrimination Complaint Procedures	Threats Against Peace Officers
Enrollment Fee Collection and Waivers	Tuition Fee Waivers
Health Fee Elimination	

[a] Includes Schoolsite Discipline Rules and Alternative Schools.
[b] Includes Immunization Records—Hepatitis B.
[c] Includes Missing Children Reports.
[d] Includes Pupil Discipline Records.
CalSTRS = California State Teachers' Retirement System; and COE = county office of education.

and staffing). Other districts and COEs might not have participated due to transitional issues, such as terminating contracts with companies that had been providing reimbursement services for them.

Block Grant Left Some Issues Unanswered. Moving forward, the state left unanswered how to include new mandates in the block grant. Specifically, the state did not address at what point in the mandate determination process a new mandate would be included in the block grant. The state also did not address how much funding to provide for new mandates. (Though the block grant in 2012-13 provided levels of funding that were roughly similar to how much schools and community colleges had been claiming for the included mandates, the amounts were not directly tied to claims costs.) Additionally, the state did not address whether adjustments would be made to the block grant in the future to account for any changes in costs (such as for inflation).

Graduation Requirements Mandate Not Included in Block Grant

Science Courses Required to Graduate From High School. In 1983, the state added greater specificity to high school graduation requirements, including a provision requiring two years of science (as well as three years of English, three years of social science, two years of mathematics, two years of physical education, and one year of visual or performing arts or foreign language). Though none of the other 12 high school graduation requirements became state reimbursable mandates, the Commission on State Mandates (CSM)—the quasi-judicial body that makes mandate determinations—determined the *second* year of science to be a mandate. Specifically, CSM found that district costs could increase to (1) remodel or acquire new space for additional science courses, and (2) staff and supply equipment for them. At the same time, CSM found that offsetting savings could result from reductions in non-science courses and any other funds districts receive to pay for the mandate could be applied as offsets. Based on a sample of districts, CSM estimated costs for the mandate would be a few million dollars annually.

Several Lawsuits Over Graduation Requirements Mandate. After districts began claiming reimbursements, the state became involved in several lawsuits over many years regarding the mandate. In one case, the courts limited the state's ability to apply offsetting savings from reductions in non-science courses by essentially requiring the state to find direct evidence that the additional science course led to a reduction in other courses. Two additional lawsuits still remain unresolved. In the first case, the state is suing CSM over the specific reimbursement methodology it adopted to calculate the costs of the mandate. The state believes the methodology adopted by CSM does not meet statutory requirements. The methodology also significantly increases state costs—both prospectively and retrospectively. In the second case, school districts

Figure 10

Most Local Educational Agencies (LEAs) Opted Into Mandates Block Grants

2012-13

	Number in Block Grant	Total	Percent in Block Grant	Corresponding ADA[a]
Community colleges	67	72	93%	96%
Charter schools	877	946	93	91
School districts	634	943	67	86
County offices	35	58	60	87

[a] Reflects average daily attendance (ADA) for K-12 LEAs. For community colleges, reflects full-time equivalent students.

are suing the state regarding whether revenue limits are an allowable offset for covering science teacher salary costs. The Legislature amended state law to require this offset a few years ago. (School districts recently amended this second lawsuit to include a charge that the schools mandate block grant itself was illegal. Given the amendment, the suit essentially restarts a process that can take several years to complete.)

Significant Uncertainty Over Reimbursable Costs of Graduation Requirements Mandate. Currently, districts are claiming $265 million annually for the Graduation Requirements mandate (more than what they claim for all other mandates combined). These costs, however, are based on the reimbursement methodology that the state believes to be flawed. The costs also have not been offset with revenue limits as required under state law. (The CSM has not yet included the revenue limits offset in its reimbursement guidelines due to the pending litigation.) If the state succeeds in having the reimbursement methodology changed and the revenue limits offset applied, reimbursable claims would be significantly less than what districts are now claiming. Due to this uncertainty, the state neither included the mandate in the block grant last year nor provided any funding for reimbursement claims.

Special Education Mandate Also Not Included in Block Grant

Mandate Requires Planning and Other Activities for Certain SWDs. In 1990, the Legislature enacted a statute directing the Superintendent of Public Instruction and the State Board of Education (SBE) to implement regulations for how districts should respond when a student with a disability exhibits behavioral problems. The SBE subsequently adopted regulations requiring (1) a "functional analysis assessment" of the student's behavior, (2) the development of a positive BIP, (3) the development of emergency intervention procedures, and (4) a few other related activities. The regulations also prohibited certain types of interventions (such as seclusion and restraints). After these regulations were issued, CSM found these activities to be a reimbursable mandate.

Also Significant Uncertainty Over Costs for BIP Mandate. The BIP mandate was not included in the block grant last year nor was any money provided for reimbursement claims since districts are not yet filing for reimbursement. Though the mandate dates back over two decades, various legal challenges and settlement negotiations delayed CSM's adoption of reimbursement guidelines until just last month. At this time, it is still unclear how much districts will claim for the mandate. Based on the reimbursement guidelines adopted by CSM, statewide claims could total $65 million annually. The reimbursement guidelines require that these claims be offset, however, by special education funding specifically designated in state law for the BIP mandate. Enough special education funding is available to offset virtually all claims. Uncertainty regarding the offset exists, however, because the state is currently being sued in court over it as part of the same lawsuit regarding the offset for the Graduation Requirements mandate.

Governor's Mandate Proposals

Adds Two Mandates and $100 Million to Block Grant. The Governor proposes to include both the second science course and BIP mandates in the block grant for schools. He further proposes to increase the block grant by a total of $100 million to account for the addition of the two mandates. Given the Governor has a separate proposal that would reduce BIP costs significantly (as discussed below), it appears that most of this $100 million augmentation would relate to the second science course mandate. The increase to the block grant would result in a corresponding increase in the per-student rate for school districts and COEs from $28 to $47 and for charter schools from $14 to $23.

Modifies Requirements for BIP. The Governor also proposes to modify several of the state's BIP requirements to make them less prescriptive. For example, districts no longer would be required to use specific assessments and specific behavioral interventions. This would make state BIP requirements conform with current federal BIP requirements, thereby eliminating associated state reimbursable mandate costs. The Governor's proposal, however, retains a few state requirements in excess of federal requirements. For example, state requirements would continue to prohibit certain types of interventions as well as prescribe certain activities related to emergency interventions. As a result of these changes, the Governor estimates BIP mandate costs would drop to $7 million annually.

Suspends Six Additional Mandates. The Governor's budget continues to suspend the same education mandates in 2013-14 that were suspended in 2012-13. He further proposes to suspend six additional education mandates to conform with the approach taken on these mandates for local governments. Figure 11 provides a description of these mandates, their current status, and the Governor's proposed changes for 2013-14.

Includes Funding for Claims for New Pupil Suspension/Expulsion Mandate. Lastly, the Governor's budget provides funding for a new mandate related to pupil suspensions and expulsions. (The Governor does not identify any changes to the block grant related to the mandate.)

Figure 11

Governor Proposes to Suspend Six Mandates That Apply to Local Educational Agencies (LEAs)

	Included in Block Grant?		Suspended for Local Governments?	
Mandate	2012-13 Budget	Governor's Proposal	2012-13 Budget	Governor's Proposal
Absentee Ballots. Requires that absentee ballots be provided to any eligible voter upon request.	Yes	No	Yes	Yes
Brendon Maguire Act. Requires a special election (or the reopening of nomination filings) when a candidate for office dies within a specified time prior to an election.	No[a]	No	Yes	Yes
California Public Records Act. Requires the disclosure of agency records to the public upon request. Also requires agencies to assist the public with their requests.	No[b]	No	No	Yes
Mandate Reimbursement Process I and II: Requires reimbursement for the costs of (1) filing initial mandate test claims, if found to be a mandate, and (2) filing annual mandate reimbursement claims.	Yes	No	Yes	Yes
Open Meetings/Brown Act Reform. Requires local governing boards to post meeting agendas and perform other activities related to board meetings.	Yes	No	Yes	Yes
Sex Offenders: Disclosure by Law Enforcement Officers. Requires law enforcement to obtain, maintain, and verify certain specific information about sex offenders.	Yes	No	Yes	Yes

[a] Excluded because no claims have ever been filed by LEAs.
[b] Excluded because it had not yet finished the mandate determination process.

This mandate relates to an existing mandate requiring districts to suspend or expel students for committing certain offenses. The reimbursable costs are largely attributable to expulsion and suspension hearings, including appeals. The new mandate pertains largely to offenses not included within the purview of the original mandate. For example, the new mandate includes the requirement that a school board expel a student who brandishes a knife at another person.

Assessment of Governor's Proposals

Block Grant Increase Could Be Significantly More or Less Than Claims for Science Course and BIP Mandates. Given the uncertainty regarding the costs of the Graduation Requirements and BIP mandates, it is difficult to assess whether $100 million is an appropriate amount to add to the block grant. On the one hand, if the state were to lose all the various lawsuits involving these mandates, then the claims for the two mandates combined could be over $300 million annually. On the other hand, if the state were to prevail in court, then claims for the two mandates likely would be almost entirely offset with Proposition 98 funding. From a state perspective, this means that the block grant augmentation potentially is too large and the state might be "overpaying." From a district perspective, this means that the block grant augmentation potentially is too small. In that case, some districts might view this as a disincentive to participate in the block grant.

Graduation Requirements Mandate Also Raises Serious Distributional Concerns. Because the mandates block grant is distributed on a uniform per-student basis, districts that serve different grade spans receive the same rate. For example, an elementary district receives the same $28 per-student rate as a high school district. The Graduation Requirements mandate raises serious distributional concerns since the mandate is so costly and applies only to high schools. We estimate about $63 million of the proposed increase for the mandate would be distributed to districts for students not in high school. In effect, many districts would receive a substantial amount for a mandate that does not apply to them. These distributional issues would alter the incentives districts have to participate in the block grant (either on a continuing basis or for the first time).

Current Law Approach to Offset Costs Reasonable. While we understand the Governor's desire to address the two mandate's costs, we think the existing offset language for both mandates already provides a reasonable approach. Notably, the state has been successful in the past using offsets for several other education and local government mandates. Moreover, in the case of BIP, CSM has already included the offset in its guidelines for reimbursements. Though CSM has not yet included the offset for Graduation Requirements, we believe a compelling case can be made to consider revenue limits an offset for this mandate for the following reasons.

- ***The State Did Not Require Districts to Lengthen School Day.*** When the state added specificity to high school graduation requirements in 1983, the Legislature did not believe costs would increase notably, as no change had been made to the length of the school day. Furthermore, virtually all local teacher contracts do not pay science teachers higher salaries than other teachers, such that a district could not reasonably make a claim that the second science course resulted in higher compensation costs. Though the state's ability to automatically apply offsetting savings by assuming reductions in non-science courses has been limited by the courts, the courts noted that offsetting savings could exist.

- ***Revenue Limits Pay for Teacher Salaries and Other Graduation Requirements.*** Revenue limit funding is the state program most closely aligned with paying teacher compensation, with revenue limit funding covering the vast majority of teacher compensation costs. In addition, the state effectively uses revenue limit funding to cover all the other high school graduation requirements that it established at the same time as the second science course requirement. This funding is available for districts to cover costs for the second science course.

Aligning State and Federal BIP Requirements Would Increase Flexibility and Reduce Costs. The Governor's proposal to better align state and federal BIP requirements has several positive features. First, the proposal recognizes that since the state enacted its BIP requirements over 20 years ago, many changes have been made to federal law that strengthen protections for all SWDs. As a result, the requirements in state law provide relatively few additional benefits. Moreover, state law is more prescriptive in terms of the types of assessments and BIPs that districts must develop, whereas federal law allows for a broader spectrum of options. At the same time, the Governor's proposal retains a few key state requirements that offer stronger protections than federal law, such as the prohibition on using emergency interventions that involve physical discomfort. Finally, the Governor's proposal has the advantage that it would significantly reduce the associated mandate costs.

Some Education Mandates Proposed for Suspension Similar to Local Government Mandate . . . Among the six mandates the Governor proposes to suspend, four (Brendon Maguire Act, Absentee Ballots, California Public Records Act, and Sex Offenders: Disclosure by Law Enforcement Officers) relate closely to the equivalent local government mandates. To the extent applicable, the state generally applies the same policy across local government agencies; otherwise, the state could adopt conflicting policies across different sectors of government. Absent a clear rationale for treating agencies differently, similar treatment ensures consistency in policy.

. . . But Others Have Education-Specific Considerations. The remaining two mandates have certain aspects unique to schools and community colleges. For the Mandate Reimbursement Process mandate, schools and community colleges have the option to participate in the block grant instead of filing claims for reimbursement. Therefore, suspending this mandate for LEAs would provide an even greater incentive for them to participate in the block grant instead of filing claims. For the Open Meetings/Brown Act Reform mandate, Proposition 30 (passed by the voters at the November 2012 election) eliminated the state's obligation to pay for this mandate but did not eliminate the requirement that local agencies perform the activities. This has different implications for LEAs compared to other local governments. This is because the state is not required to suspend a mandate for LEAs in order to avoid paying down prior-year claims, as it is required to do for local governments.

Several Considerations Regarding Pupil Suspensions/Expulsions Mandate. The CSM estimates that this mandate will cost a little over $1 million annually. On the one hand, it seems likely that districts would perform the mandated activities even if they were not required to do so under state law. For example, a student brandishing a knife at others would most likely be expelled by a school board. On the other hand, the mandate relates to pupil safety, which we believe generally provides a strong justification for retaining a state-mandated activity. Moreover, the mandate is closely related to an existing mandate that has been active for many years and was included in the block grant last year.

Recommendations

Reject Adding Graduation Requirements and BIP to the Block Grant. While we appreciate the Governor's attempt to try to address the costs of these two mandates, we recommend the Legislature reject his proposal to include them in the block grant since (1) considerable uncertainty remains regarding whether their cost will be much higher or much lower than the proposed $100 million augmentation, and (2) funding for the second science course mandate largely would be associated with non-high school students, to whom the mandate does not apply.

Consider Strengthening Offset for Graduation Requirements Mandate. Though we think the existing statutory provision offsetting the costs of the science mandate is appropriate for the reasons discussed earlier, the state could strengthen the language going forward. Specifically, the state could designate that first call on the future increases in per-student funding for high school students that would occur under the Governor's proposed K-12 funding formula is for the science mandate.

Adopt Proposed Statutory Changes for BIP. We recommend the Legislature adopt the Governor's proposal to align state BIP requirements more closely with federal requirements. This approach would provide districts with additional flexibility in addressing behavioral problems while at the same time maintain certain stronger student protections not included in federal law. Moreover, though state costs for the BIP mandate are subject to considerable uncertainty due to ongoing litigation, the proposal would reduce state costs for the mandate in the event the state loses in court.

Take Mixed Approach on Proposed Mandate Suspensions. Given their similarity to corresponding local government mandates, we recommend conforming to the actions taken for local governments for the Absentee Ballots, Brendon Maguire Act, California Public Records Act mandates, and Sex Offenders: Disclosure by Law Enforcement Officers. We recommend suspending the Mandate Reimbursement Process since it would provide an additional incentive for LEAs to participate in the block grant. For the Open Meetings/Brown Act Reform mandate, we recommend rejecting the proposal to suspend it but adopt the proposal to remove it from the block grant, given the changes made by Proposition 30 that eliminated the state's reimbursement obligation.

Place New Pupil Suspension/Expulsions Mandate in School Block Grant. We recommend the Legislature place the new mandate in the block grant since the mandate is intended to protect public safety. This action is consistent with last year when the Legislature placed the similar existing mandate in the block grant.

Budget Effects of LAO Recommendations. Our recommendations have two main budgetary implications. First, rejecting the Governor's proposal to add $100 million to the block grant means that this money would be available for other purposes within Proposition 98. We discuss how these funds could be used as part of the alternative Proposition 98 package laid out later in this report. Second, our approach on suspending certain mandates and placing the new pupil suspension/expulsions mandate within the block grant for schools would have partly offsetting fiscal implications, with the savings from suspending the mandates greater than the increased cost of adding the pupil suspensions/expulsions mandate. The net associated savings, however, would be small. For community colleges, we estimate the savings from the suspensions also would be minor. Given the fiscal effects are small, we recommend not making any adjustments to the block grants at this time.

SPECIAL EDUCATION

The Governor's budget includes two notable changes to the way the state funds services for SWDs. Specifically, the Governor proposes to (1) modify the state's formula for allocating special education funds and (2) consolidate funding currently provided for some specific special education activities. Below, we provide an overview of the state's current approach to funding special education, describe the Governor's proposed changes, assess the strengths and weaknesses of the Governor's proposals, and offer recommendations for how the state could improve its approach to funding special education services.

Background

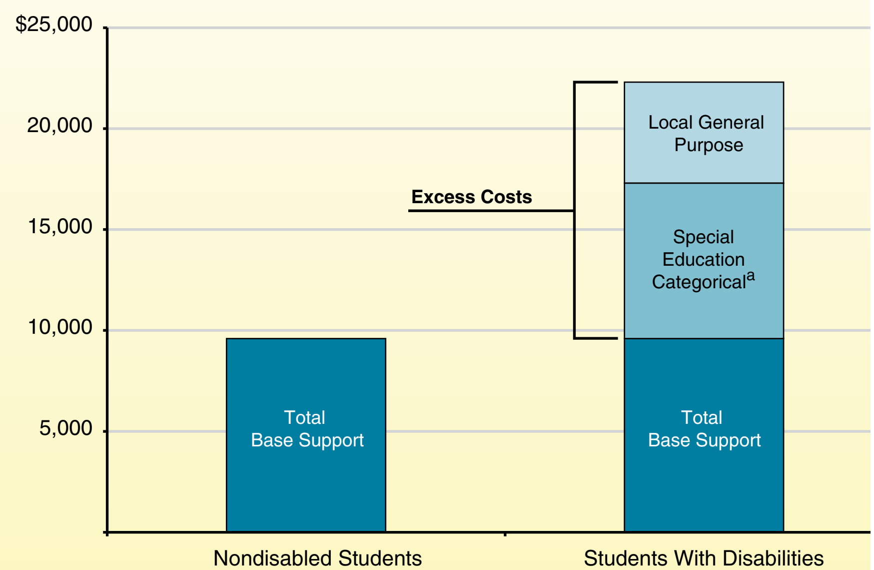
Federal Law Requires School Districts to Provide Special Services to SWDs. Federal law requires public schools to make special efforts to educate students who have disabilities. Specifically, the federal Individuals with Disabilities Education Act (IDEA) requires that LEAs provide "specially defined instruction, and related services, at no cost to parents, to meet the unique needs of a child with a disability." Once schools have determined that a SWD requires additional educational support, they develop an Individual Education Program (IEP) for the student that documents which special education services the school will provide. (Throughout this section, we use the term SWD to refer to students who have formally qualified to receive special education services.)

Special Education Services Supported by Categorical Funds. Billions of dollars are allocated to LEAs for the basic educational components—including teachers, instructional materials, and academic support—provided to *all* students, including SWDs. As shown in Figure 12 the average costs of educating a SWD, however, are more than double those of a mainstream student—approximately $22,300 compared to $9,600. To the degree SWDs require additional services beyond

Figure 12

Special Education Categorical Funds Support Much of the "Excess Costs" of Educating Students With Disabilities

Statewide Average Spending Per Pupil, 2010-11



[a] Includes state funding, a relatively small amount of local property tax revenue, and federal funds.

what mainstream students receive, LEAs receive special education categorical funds that cover much of the "excess costs." (These categorical funds are comprised of state, LPT, and federal monies.) Because special education categorical funds typically are not sufficient to cover the costs of all IEP-required services, LEAs spend from their local general purpose funds to make up the difference. In 2010-11, categorical funding covered 61 percent of special education excess costs. The remainder of our discussion focuses on these categorical funds.

Funds Allocated to Special Education Local Plan Areas (SELPAs), Not Directly to LEAs. Because economies of scale often improve both programmatic outcomes and cost-effectiveness, the state distributes special education categorical funds to 127 SELPAs (rather than to the approximately 1,000 LEAs in the state). Most SELPAs are collaborative consortia of nearby districts, COEs, and charter schools, although some large districts have formed their own SELPAs, and three SELPAs consist of only charter schools. (Additionally, one unique SELPA consists solely of court schools in Los Angeles County.) Single-district SELPAs typically receive funding directly from the state and offer or contract for special education services on their own. In contrast, consortia SELPAs work internally to decide how best to divvy up special education funding for all the SWDs in their region. In most cases, consortia SELPA members opt to reserve some funding at the SELPA level to operate some shared, regionalized services, then distribute the remainder to LEA members to serve most of their own SWDs locally.

Most Funds Allocated to SELPAs Based on Overall Student Population, Not Number of SWDs. Prior to 1998, California distributed special education funds using a "cost-based" model—essentially funding individual SELPAs based on the costs they incurred serving SWDs. Beginning in 1998-99, California switched to a "census-based" approach for distributing most special education funds. This methodology allocates special education funds to SELPAs based on *total* ADA, regardless of SWD counts or the SELPA's special education expenditures. The census-based funding approach implicitly assumes that SWDs—and associated special education costs—are spread fairly evenly throughout the overall student population.

Funds Allocated Using AB 602 Formula. California's census-based formula for distributing special education categorical funds to SELPAs commonly is referred to as the "AB 602" formula after the authorizing legislation. The AB 602 formula incorporates (1) state categorical monies, (2) a relatively small amount of LPT revenues that flow through the state's categorical program, and (3) federal IDEA funds. In 2012-13, the state allocated about $2.9 billion in state and LPT funds and $1 billion in IDEA monies through the AB 602 formula. The amount of AB 602 funding each SELPA receives from each source varies based on four key factors: (1) historical AB 602 per-pupil rates, (2) total ADA, (3) federal allocation formulas, and (4) historical LPT revenue allocations. Figure 13 illustrates the basic process for determining each SELPA's AB 602 allocation.

AB 602 Funding Rates Vary Across SELPAs. The first step in determining a SELPA's AB 602 allocation is identifying its unique per-pupil funding rate. When the state first transitioned to the AB 602 formula in 1998-99, each SELPA's per-pupil rate was derived based on how much it had received under the old cost-based special education funding model. Because SELPAs had structured services in varying ways—including some that hired more special education staff and opted for more costly student placements—there was some discrepancy amongst these rates. While the state made some investments in equalizing

AB 602 rates over the ensuing years, large discrepancies remain. Individual SELPA per-ADA rates range from about $570 to about $1,090, with a statewide weighted average rate of about $660. As shown in Figure 14 (see next page), the majority of pupils—about 60 percent—attend LEAs that receive between $630 and $659 per ADA.

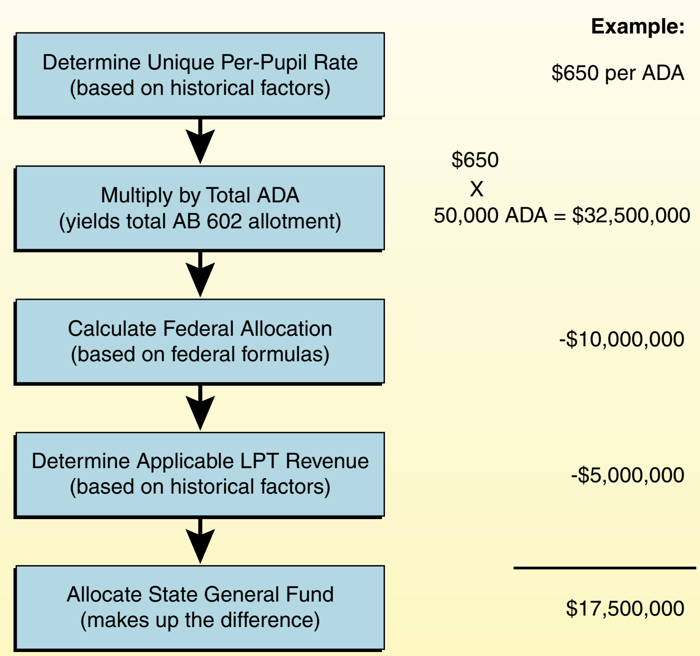
Total AB 602 Allocation Calculated by Multiplying Per-Pupil Rate by Total ADA. While some additional calculations are made for SELPAs that have gained or lost ADA since the prior year, the second step in determining each SELPA's AB 602 allocation is to multiply each SELPA's unique per-pupil funding rate by its total ADA. In the illustration displayed in Figure 13, the rate ($650 per ADA) multiplied by total ADA (50,000) yields an AB 602 funding total of $32.5 million.

Federal Fund Allotments Based on IDEA Formulas. The third step in calculating each SELPA's AB 602 allocation is determining how much federal funding it will receive based on a set of IDEA formulas. Each SELPA's specific federal fund allotment is calculated based on three factors: (1) a "population amount" based on total SELPA enrollment, (2) a "base amount" related to how many SWDs the SELPA served in 1999, and (3) a "poverty amount" based on the number of students in the SELPA receiving free or reduced price meals. The bulk of federal funds are allocated based on the census-based "population" component, providing all SELPAs the same per-pupil rate ($99 in 2011-12). The other two components of the formula differ across SELPAs based on historical conditions and student characteristics. Consequently, the overall amount of federal special education funds each SELPA receives per pupil also varies. In 2011-12, individual SELPAs' IDEA funding ranged from a per-ADA high of $248 to a low of $104, with a statewide weighted average rate of about $175.

Amount of LPT Revenues Used for Special Education Partially Based on Historical Allocation Patterns. The fourth step in calculating a SELPA's AB 602 allocation is determining how much LPT revenue it will receive for special education. The amount each SELPA receives varies based on local property wealth and the LPT

Figure 13

Basic Process for Determining Each SELPA's AB 602 Allocation



SELPA = Special Education Local Plan Area; ADA = average daily attendance; and LPT = local property tax allocation for special education in the mid-1970's. (Legislation implementing Proposition 13 in 1978 essentially locked in place the allocation shares that local jurisdictions had used in 1977.) Some SELPAs located in areas of high property wealth also receive additional LPT revenues known as "excess ERAF" (Education Revenue Augmentation Fund). The LPT revenues, however, do not increase a SELPA's overall AB 602 allocation, but rather serve as an offset to how much state General Fund the SELPA ultimately receives. In 2011-12, just over half of the state's 127 SELPAs received some amount of LPT revenues for special education. For the 74 SELPAs receiving LPT revenue, funding rates varied from a per-ADA high of $700 to a low of $17, with a statewide weighted average rate of about $110.

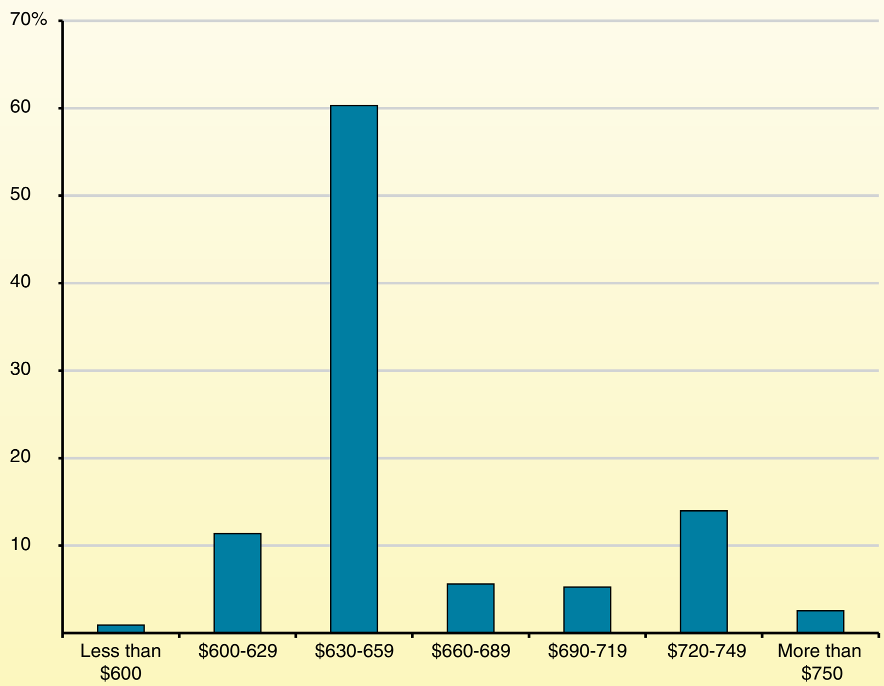
State General Fund Makes Up Difference After Other Funds Are Applied. The fifth and final step in calculating a SELPA's AB 602 allocation is to determine how much the state General Fund will contribute. The state provides sufficient funds to "make up the difference" after accounting for the SELPA's federal funds and LPT revenues. In the illustration shown in Figure 13 the state General Fund contributes just over half of the SELPA's overall AB 602 funding.

Modification to State Allocation Formula Has Led to Complications. The state's AB 602 formula originally was designed to be relatively straightforward—blending federal, LPT, and state funds interchangeably to fund a total SELPA amount. The funding calculation grew more complicated in 2005-06, however, when the state responded to changes in federal law by modifying how the formula operates in some situations. Specifically, federal law now prohibits a state from using federal funds to pay for COLAs or growth adjustments that are required by *state* law. Consequently, the state now goes through a complex annual calculation for SELPAs that grow or decline in ADA from one year to the next. Specifically, the state provides a funding rate of $465 per ADA—referred to as the "Statewide Target Rate" (STR)—to fund *new* SELPA ADA and to compute COLAs. (Please see nearby box for more discussion of the STR.) The state, however, uses a SELPA's unique blended rate (state plus federal funds, averaging roughly $660 per ADA) to fund *existing* ADA and apply reductions when

Figure 14

Special Education Per-Pupil Funding Rates Vary

Percent of Statewide Average Daily Attendance, 2011-12



a SELPA declines in ADA. This discrepancy has led to a gradual "ratcheting down" of funding rates in some SELPAs. Additionally, the state made other modifications (also due to changes in federal law) that resulted in complicated calculations to ensure year-to-year increases in federal funds are treated separately from all other AB 602 adjustments.

Somewhat Different Approach Used to Fund Charter-Only SELPAs. The state funds the three charter-only SELPAs somewhat differently from the process described above, in that the state and federal funding formulas operate completely separate. In contrast to traditional SELPAs, how much charter SELPAs receive in federal funding pursuant to the IDEA formulas is not used as an offset in calculating how much they receive in state aid, and the blended state and federal per-pupil funding approach is never used. Each year, the state calculates how much state General Fund to provide to charter SELPAs based on the uniform STR of $465 per ADA. This same STR is used as the basis for (1) adding funding if the SELPA grows in ADA, (2) providing a COLA, and (3) decreasing funding if the SELPA declines in ADA. Any federal funds the charter SELPAs receive pursuant to the IDEA formulas are in addition to this state AB 602 allocation. (Because LPT revenues are allocated based on historical county patterns and charter SELPAs are relatively new entities, they do not receive LPT revenues for special education.)

The Statewide Target Rate (STR)

The STR Originally Intended to Help Equalize AB 602 Rates to Statewide Average. To address funding disparities in per-pupil rates across Special Education Local Plan Areas (SELPAs), the state designed the AB 602 formula with a component that would slowly equalize rates to the STR. The STR was designed to reflect the statewide average rate in 1997, adjusted for cost-of-living adjustments (COLAs), if provided. Each time a SELPA grew in average daily attendance (ADA), the new ADA was funded at the STR, not the SELPA's unique per-pupil rate. For SELPAs with unique rates below the STR, this had the effect of gradually increasing their overall per-pupil rates towards the STR. (For example, if a SELPA had 100 students funded at an AB 602 rate of $575 per ADA and grew by 10 students funded at an STR of $600, the next year its unique AB 602 base rate would be $577 per ADA.) For SELPAs with unique rates above the STR, this had the effect of gradually decreasing their overall per-pupil rates towards the STR. (For example, if a SELPA had 100 students funded at an AB 602 rate of $625 per ADA and grew by 10 students funded at an STR of $600, the next year its unique AB 602 rate would be $622 per ADA.)

AB 602 Modification Reduced STR, Disrupted Equalization Efforts. When the state modified the AB 602 formula in 2005 in response to changes in federal law, it calculated a new STR by removing the average amount of per-pupil federal funds SELPAs received. Because federal funds have not been removed from funding rates for all components of the AB 602 calculation, the STR no longer functions as a method of equalizing all SELPA rates to a statewide average. Rather, because all SELPAs' unique blended state and federal AB 602 rates are above the new STR, the STR now has the effect of ratcheting *down* funding rates for essentially *all* growing SELPAs, not just those funded above the statewide average. Since 2007-08 (the last year the state provided a COLA), the STR has been set at $465.

Dedicated Special Education Grants for Specific Purposes. In addition to their annual AB 602 allotment, SELPAs receive allocations of state and federal funding for more specific purposes. As described in Figure 15, some of these special education categorical programs are available to all SELPAs, whereas participation for others is limited based on specific eligibility criteria or historical factors. In addition to the grants displayed in the figure, some LEAs receive funding through the state's Home-to-School Transportation program to support IEP-required busing for SWDs.

Federal and State Funds Also Support State-Level Initiatives. In addition to the grants listed in Figure 15, state and federal funds are used for various initiatives designed to support

Figure 15

Some Special Education Funding Is Provided to SELPAs for Specific Purposes

2012-13 (In Millions)

Program	Description	State	Federal	Totals
Mental health services	Allocated to all SELPAs to provide educationally necessary mental health services to SWDs.	$348.2	$69.0	$417.2
Out-of-Home Care	Allocated to those SELPAs whose regions contain LCIs, based on the assumption that LCIs will have higher rates of children qualifying for special education services.	158.1	—	158.1
Preschool services	Allocated to some SELPAs to provide services to SWDs ages three through five.	—[a]	102.0	102.0
Infant services	Allocated to some SELPAs to provide services to SWDs ages birth through two.	73.2	14.4	87.6[b]
Program specialists and regionalized services	Allocated to all SELPAs to provide regionalized services. Includes additional funds ($2.7 million) provided to small SELPAs that contain fewer than 15,000 students.	91.4	—	91.4
WorkAbility I LEA Project	Allocated to some SELPAs to provide SWDs with vocational training and job placement.	29.5	—	29.5
WorkAbility I Vocational Education Project	Allocated to some SELPAs to provide SWDs with vocational training and job placement.	10.1	—	10.1
LID equipment	Allocated to all SELPAs to purchase materials and equipment for students with LIDs.	13.2	—	13.2
LID services	Allocated to all SELPAs to provide specialized services to students with LIDs.	1.7	—	1.7
LID ROCPs	Allocated to LEAs that run vocational programs for high schoolers with LIDs.	5.3	—	5.3
Extraordinary cost pool	Available for SELPAs that face extraordinary costs due to students placed in nonpublic schools.	3.0	—	3.0
Extraordinary cost pool for mental health	Available for very small SELPAs that face extraordinary costs due to student placements related to mental health needs.	3.0	—	3.0
Staff development	Allocated to all SELPAs to train and prepare staff and parents that work with SWDs.	2.5	—	2.5
Other	Three small grants provided to certain SELPAs for specific purposes.	1.7	0.3	2.0
Totals		**$740.8**	**$185.7**	**$926.4**

[a] Many SELPAs also use some of their base AB 602 funds to provide preschool services to SWDs, however, specific expenditure data are not available.

[b] An additional $37 million in federal Individuals with Disabilities Education Act Part C funding and $238 million in state funding is allocated to Regional Centers to provide services to infants with developmental delays.

SELPA = Special Education Local Plan Area; SWDs = students with disabilities; LCI = licensed children's institution; LEA = local educational agency; LID = low-incidence disability; and ROCP = Regional Occupational Center or Program.

and improve the state's special education delivery system. In particular, the *2012-13 Budget Act* included $4.5 million ($3.4 million in federal funds and $1.1 million in state funds) to provide special education-related professional development and technical assistance activities to LEAs around the state. The CDE contracted with Napa COE to run these activities through the California Services for Technical Assistance and Training (CalSTAT) project. Additionally, the budget provided $200,000 for CDE to research cross-cultural assessments. (These funds relate to a 1979 court case that required the state to develop methods other than intelligence quotient tests for assessing learning disabilities, particularly for African-American students.)

Governor's Proposals

The Governor's budget includes two notable changes to the way the state funds special education. Specifically, he proposes (1) changing how SELPAs' AB 602 rates are calculated and (2) combining eight special education categorical grants in various ways.

Removes Federal Funds From State's AB 602 Formula. The Governor proposes to delink the federal and state special education allocation formulas completely. Under this approach, a SELPA's IDEA funds no longer would serve as an offset to its state allocation. Instead, each SELPA's state AB 602 allocation would be calculated independently based on a *state-only* per-ADA rate. (Under the Governor's proposal, a SELPA's LPT revenues would continue to count as a contributing revenue to make up this state allotment.) Because the new per-ADA rates would be derived by subtracting federal funds from SELPAs' *blended* AB 602 rates—which differ based on historical factors—the new rates also would vary across SELPAs. Separately, each SELPA would continue to receive federal allocation pursuant to the IDEA formulas. This approach would treat all SELPAs similarly to how charter-only SELPAs are funded under current law.

Rolls Two Special Education Grants Into the AB 602 Formula. As displayed in the top row of Figure 16 (see next page), the Governor proposes to consolidate two grants—Program Specialists and Regionalized Services (PSRS) and staff development—into the AB 602 base. Currently, roughly $90 million in PSRS funds are set aside for regional SELPA activities. Small SELPAs located in less populous areas of the state receive $2.7 million in supplemental PSRS funding. Additionally, SELPAs currently receive $2.5 million specifically to conduct staff and parent training activities. The Governor's proposal would change current law by allowing all associated funds to be used for any special education purpose, at the discretion of the SELPAs' LEA members. The SELPAs could choose to continue dedicating the same amount for regional and staff development activities or allocate a share of these funds to member LEAs to help cover the costs of IEP-required student services. Currently, PSRS funds are allocated on a per-ADA basis, but at historical and slightly different per-pupil rates—similar to AB 602. The staff development grant currently is allocated on a per-SWD basis, so adding it to the AB 602 ADA-based formula would represent a change in how future funds are distributed.

Consolidates Six Grants Into Three. Figure 16 also shows how the Governor would consolidate six special education grants into three larger grants. Specifically, he proposes to:

- ***Combine Two WorkAbility Grants.*** The proposal would consolidate two discrete grants supporting WorkAbility, a vocational education program that serves SWDs in middle and high schools. The proposal would not alter the allowable uses or current recipients of the funds, as the two grants already are administered as one program.

- ***Combine Two Low-Incidence Disabilities (LID) Grants.*** The proposal would combine discrete grants for LID specialized services and LID equipment and materials. (LIDs are defined as hearing impairments, vision impairments, and severe orthopedic impairments.) The proposed change would allow SELPAs to use the combined funds on any mix of services or equipment costs, provided the funds still were targeted for students with LIDs.

- ***Merge Assessment Research Grant Into Technical Assistance Grant.*** The proposal would eliminate the grant currently dedicated to researching how best to assess students from different cultural backgrounds, and shift the funding to increase a grant that CDE currently uses for CalSTAT statewide technical assistance activities. The proposal would leave it to CDE's discretion whether to require CalSTAT to dedicate a share of the funding for activities related to cross-cultural assessments, or to allow the funds to be repurposed for other activities.

Governor's Proposals Improve System, but Could Go Further

We believe the Governor's proposed changes to special education funding would lead to notable improvements in the system, yet do not go far enough towards addressing existing problems.

Proposed Change Would Make State's Allocation Formula Simpler and More Rational . . . The Governor's proposal to fully remove federal funds from the state's special education allocation formula would simplify a system that has grown exceedingly complicated since 2005. Modifying the state's allocation formula in this way would create a consistent, rational funding policy for growing and declining ADA, as well as avoid complications in years when federal

Figure 16

Governor Proposes to Consolidate Some Special Education Grants

2013-14 Proposed Amounts (2012-13 Amounts Adjusted for Growth and COLA)

Proposed Changes	Affected Grants	Programmatic and Distributional Effects
Add two grants to AB 602 formula	• Program specialists and regionalized services (PSRS) ($90.3 million) and supplement for small SELPAs ($2.7 million). • Staff development ($2.5 million).	Would allow SELPAs to use funds for any special education purpose, rather than restricting for regionalized activities and staff training. Would not change distribution of PSRS funds, but would distribute staff development funds based on ADA rather than counts of SWDs.
Combine two WorkAbility grants for vocational education activities	• WorkAbility I LEA Project ($29.5 million). • WorkAbility I Vocational Education Project ($10.3 million).	Would not have any programmatic or distributional effects.
Combine two grants for serving students with LIDs	• LID equipment ($13.4 million). • LID services ($1.7 million).	Would allow SELPAs to change mix of spending between services and equipment for students with LIDs. Likely would not have any distributional effect.
Combine two grants used for statewide activities	• Statewide training and technical assistance ($1.1 million). • Development of cross-cultural assessments ($200,000).	Could increase technical assistance activities (currently run out of Napa COE) by $200,000. Could change nature of activities related to cross-cultural assessments.

COLA = cost-of-living adjustment; SELPA = Special Education Local Plan Area; ADA = average daily attendance; SWDs = students with disabilities; LEA = local educational agency; LID = low-incidence disability; and COE = county office of education.

funds increase. Moreover, simplifying the current formulas would help policy makers and the public better understand special education funding policies. Developing such an understanding could, in turn, facilitate future efforts to assess and address needed improvements to those policies.

. . . But Maintain Unjustified Differences Across SELPAs' AB 602 Funding Rates. Through his Local Control Funding Formula (LCFF), the Governor proposes to gradually equalize general purpose and other categorical funding rates across school districts. In contrast, the Governor has no proposal to address existing differences in special education funding rates. While the proposal to remove federal funds from the AB 602 calculation would clarify each SELPA's state funding rate, it would not make significant progress towards eliminating the disparities among those rates. No policy rationale exists for these disparities, and leaving them in place means that SELPAs with historically lower per-pupil rates receive less state funding to meet the same responsibilities as those with historically higher rates.

Proposed Consolidations of Special Education Grants Would Somewhat Increase Local Flexibility . . . We believe the Governor's proposal to roll two stand-alone special education grants into the AB 602 formula is a good first step towards increasing SELPAs' flexibility. Currently, the PSRS and staff development grants fund activities that *all* SELPAs must perform. As such, allocating the funds on an equal per-ADA basis and allowing SELPAs to determine how much to spend on these activities, weighed against other special education priorities, makes sense. Moreover, this particular component of the proposal is consistent with the Governor's overall K-12 funding approach that removes most spending requirements, including those related to staff development. Consolidating funds for researching cross-cultural assessments into more broad statewide capacity-building efforts also seems reasonable.

. . . But Miss Opportunity to Have Greater Impact. Unlike his broader approach to restructuring K-12 funding, the Governor proposes to maintain numerous discrete special education grants and requirements. We believe many of these spending restrictions lead to inefficiencies and constrain SELPAs' abilities to prioritize local needs. To begin with, two of the grant consolidations the Governor proposes would have only minimal effects. Combining the two LID grants would make relatively minor changes to existing spending parameters. Because the two WorkAbility programs essentially already are jointly administered, their consolidation would not result in *any* increased spending discretion at the local level. This program seems particularly worthy of more substantive reform. Federal law requires all LEAs to offer activities designed to help high school SWDs transition to adult life, but only a small percentage of LEAs receive additional WorkAbility funding to do so, and those that do must conduct a prescribed set of vocational education activities at a relatively high per-student cost. Moreover, the Governor's proposal misses opportunities to consolidate other special education grants and reduce associated spending restrictions. For example, in a given year a particular SELPA may have fewer SWDs requiring mental health services and more who require speech and language therapies—but currently each SELPA receives a funding allocation that remains fixed and restricted only for providing mental health services.

Recommendations

As detailed below, we recommend the Legislature build upon the Governor's proposals but also make a couple of additional improvements.

Adopt Governor's Proposal to Fully Delink State and Federal Allocation Formulas. Because it would make the state's special education funding approach simpler, more rational, and more understandable, we recommend the Legislature adopt the Governor's proposal to remove federal funds from the state AB 602 formula.

Provide Additional Funds to Equalize AB 602 Funding Rates in Tandem With LCFF Rates. We recommend the state adopt a plan for equalizing special education funding rates that is aligned with whatever approach it adopts for equalizing general education rates. For example, in 2013-14, the Governor proposes to provide about 10 percent of the funding needed for districts to reach their new per-pupil target rates under his proposed LCFF formula. Should the Legislature choose to adopt this approach, we recommend the 2013-14 budget also provide about 10 percent of the funds necessary to equalize AB 602 rates. We recommend similar alignment between general education and special education equalization efforts in future years. We recommend adopting a target AB 602 rate at the level where 90 percent of ADA in the state receives the same rate—$535. (The state has used the 90th percentile target to equalize revenue limits in the past.) We estimate equalizing to this target rate would cost approximately $300 million. As such, we recommend the Legislature increase special education funding by $30 million—or about 10 percent of the total equalization cost—in 2013-14.

Update STR to Reflect New Equalization Target. In addition to providing funds to equalize AB 602 rates, we recommend updating the STR from $465 (which reflects an outdated statewide average rate) to $535 (which represents the rate for the 90th percentile of ADA). Under this approach, all new SELPA ADA would be funded at $535. (The SELPAs would continue to experience funding reductions for declines in ADA based on their unique AB 602 state rate.) This would ensure the STR operates as it was originally envisioned when the AB 602 formula was designed—to gradually increase overall per-pupil rates for SELPAs funded below the equalization target and gradually decrease overall rates for SELPAs funded above the target. In contrast, leaving the STR at $465—as proposed by the Governor—effectively would establish a much lower equalization target. Figure 17 illustrates the differences in AB 602 calculations and the STR under the various models we have discussed.

Maximize Flexibility by Consolidating Additional Special Education Categorical Programs. To empower local SELPAs with additional flexibility over how best to serve their SWDs, we recommend the Legislature adopt a more expansive approach to streamlining special education funding than that proposed by the Governor. Our approach, displayed in Figure 18 (see page 40), is consistent with our recommendations—and the Governor's proposals—for increasing local discretion over other K-12 funds. In addition to adopting the Governor's proposed grant consolidations, we recommend the following changes:

- ***Add Mental Health Funding to AB 602 Base Grant.*** All SELPAs are required to provide IEP-related mental health services, and the associated funding already is allocated on a per-ADA basis. As such, our recommendation to consolidate this grant into the SELPA's base funding would not change any SELPA's allocation. Rather, the change would provide SELPAs with greater discretion to target special education funds for the needs of their local SWDs (whose mental health needs may change from year-to-year).

- ***Continue Providing Additional Funding for Small SELPAs.*** While we recommend adopting the Governor's proposal to roll the PSRS grant into the AB 602 base, we recommend continuing to provide some additional funding to exceptionally small, geographically isolated SELPAs that cannot take advantage of economies of scale.

- ***Combine WorkAbility Grants into "Transition Services" Funding Supplement, Allocate to All SELPAs.*** As discussed earlier, the Governor's proposed consolidation of the two WorkAbility grants would have virtually no effect on the existing program. Maintaining this categorical program, with its specific requirements and uneven statewide participation rates, seems counter to the restructuring approach the Governor is applying to K-12 education. We recommend adopting a more consistent approach, which would increase local flexibility and equalize funding across all SELPAs serving high school SWDs. Under this approach, the funds would be allocated based on a SELPA's ADA in grades 9-12 and could be used to provide any transition service for SWDs in those grades. (Transition services is an area where the state has been flagged by federal review as needing improvement.) Because reallocating these funds across all SELPAs would decrease per-pupil rates compared to the existing grants, the Legislature could consider increasing funding for this new grant in the future should it wish to enable SELPAs to continue offering WorkAbility-like services.

Figure 17

Illustration of Four AB 602 Funding Models[a]

Per-Pupil Funding Rates for:	Existing ADA	New ADA	Lost ADA	Effects
Original Model (1998-2005)	**$660** SELPA's unique blended rate	**+$600** Blended STR	**-$660** SELPA's unique blended rate	Uses blended rate for both growing and declining SELPAs. Equalizes to blended STR.
Current Model (2006-Present)	**$660** SELPA's unique blended rate	**+$465** State STR[b]	**-$660** SELPA's unique blended rate	Uses state rate for growing SELPAs and blended rate for declining SELPAs. Ratchets down per-pupil rates for growing SELPAs.
Governor's Proposed Model	**$475** SELPA's unique state rate	**+$465** State STR	**-$475** SELPA's unique state rate	Uses state rate for both growing and declining SELPAs similarly. Equalizes per-pupil rates down to low STR.
LAO Recommended Model	**$475** SELPA's unique state rate	**+$535** Updated state STR	**-$475** SELPA's unique state rate	Uses state rate for both growing and declining SELPAs similarly. Equalizes per-pupil rates to 90th percentile.

[a] Simplified display with illustrative rates.

[b] Funded with a combination of state and federal funds. In all other cases shown, "state" is funded only with state funds (and "blended" is funded with a combination of state and federal funds).

ADA = average daily attendance; SELPAs = Special Education Local Plan Area; and STR = Statewide Target Rates.

- ***Add LID ROCP Funding to LID Block Grant.*** The state currently provides funding for students with LIDs to participate in ROCPs. The per-pupil rates are quite high ($6,199 per visually impaired ADA, $3,549 per deaf ADA, and $1,964 per orthopedically impaired ADA) because these students require more intensive assistance. Given all other state funding for ROCP has been subject to categorical flexibility since 2009 and the Governor is proposing to permanently eliminate ROCP programmatic requirements and funding, continuing to earmark funds for SWDs to participate in this specific program seems illogical. Instead, we recommend combining the funds with the other two LID grants and distributing the funds on an equal rate for each student with a LID. Under this approach, educators can dedicate the funds to the most appropriate educational program for the student—be it an ROCP-like program, other CTE program, or other activity.

- ***Combine Two Extraordinary Cost Pools (ECPs).*** The state currently maintains two

Figure 18

LAO Alternative for Consolidating Special Education Grants

2013-14 Proposed Amounts

Affected Grants	Governor's Proposal	LAO Recommendation
Changes to Base Funding		
• Program specialists and regionalized services (PSRS) ($90.3 million) and supplement for small SELPAs ($2.7 million) • Staff development ($2.5 million) • Mental health funding ($426 milllion)	Adds PSRS and staff development to AB 602 base funding. No proposed change for mental health funding.	Adopt Governor's proposal, but also add mental health funding to AB 602 base. Continue providing some supplemental AB 602 funding for small SELPAs.
Transition Services		
• WorkAbility I LEA Project ($29.5 million) • WorkAbility I Vocational Education Project ($10.3 million)	Combines, does not change allocation or program requirements.	Combine into new "Transition Services" funding supplement, remove specific program requirements, change distribution to allocate equal amount per ADA in grades 9-12.
LID Programs		
• LID materials ($13.4 million) • LID services ($1.7 million) • LID ROCP ($5.3 million)	Combines LID materials and services. No proposed change for LID ROCP.	Adopt Governor's proposal, but also combine LID ROCP funding into new "LID Block Grant," remove ROCP-related requirements.
Statewide Activities		
• Statewide training and technical assistance ($1.1 million) • Cross-cultural assessments ($200,000)	Combines.	Adopt Governor's proposal.
Extraordinary Cost Pools		
• For NPS placements ($3 million) • For NPS placements (mental health) ($3 million)	None.	Combine, adopt uniform set of eligibility criteria for subsidizing high-cost student placements.

SELPAs = Special Education Local Plan Area; LEA = local educational agency; LID = low-incidence disability; ROCP = Regional Occupational Center or Program; and NPS = nonpublic school.

ECPs with similar but distinct eligibility criteria. Individual SELPAs can apply for a share of these funds if they experience exceptionally high costs associated with placing students in specialized schools. The Governor did not propose changes to this structure; however, we believe streamlining the application and approval process would maximize effective use of these funds. Specifically, we recommend combining the two pools and applying one uniform set of eligibility criteria.

ADULT EDUCATION

The Governor's budget proposes a number of changes to adult education in California. In particular, the Governor proposes to (1) eliminate school districts' adult education categorical program and consolidate all associated annual funding into his new K-12 funding formula, (2) create a new $300 million CCC categorical program for adult education, and (3) shift school districts' apprenticeship categorical funds to a new CCC apprenticeship categorical program. Below, we provide background on the state's adult education system, describe the Governor's proposals, provide an assessment of these proposals, and offer an alternative package of recommendations for improving adult education.

Background

Adult Education Has Multiple Purposes and Providers. In contrast to collegiate (postsecondary) education, the primary purpose of adult education is to provide persons 18 years and older with the precollegiate-level knowledge and skills they need to participate in civic life and the workforce. Under state law, adult education also can serve various other purposes, including offering enrichment classes to older adults and providing instruction on effective parenting techniques. Adult schools, which are operated by school districts, and community colleges are the main providers of adult education in California.

Community Colleges Can Offer Adult Education on "Credit" or "Noncredit" Basis. Figure 19 (see next page) shows that both adult schools and community colleges are authorized to offer courses in each of ten instructional areas. The figure also shows that, in six of these ten categories, community colleges can offer instruction on a credit or noncredit basis. For example, community colleges can choose to offer English as a second language (ESL) and "health and safety" instruction (which consists largely of exercise and fitness classes) as either credit or noncredit. In addition, community colleges offer a number of noncredit vocational courses and certificate programs (such as certified nurse assisting, culinary arts, and welding) whose content is very similar or identical to credit instruction.

Adult Schools Historically Funded Through a Categorical Program. Prior to 2008-09, the state provided funding for adult schools through a categorical program that provided a uniform per-student funding rate ($2,645 per ADA in 2007-08). In early 2009, the Legislature removed the categorical program requirements and allowed school districts to use adult education funding (along with funding associated with many other categorical programs) for any educational purpose. (This flexibility is currently authorized through 2014-15.) Based on our survey of school districts, only between 40 percent to 50 percent of the $635 million nominally provided in annual

Proposition 98 adult education funds likely is now being spent on adult education. Given the current funding rules, school districts effectively determine their own per-student funding rate.

CCC Adult Education Funded Through Apportionments. In contrast, community colleges receive general-purpose apportionment monies to fund instruction, with colleges independently deciding the mix of credit and noncredit instruction they deem appropriate. Current law establishes one funding rate for credit instruction and two funding rates for noncredit instruction. The funding rates are as follows:

- ***Credit.*** In 2012-13, the funding rate for each full-time equivalent (FTE) student in credit coursework is $4,565. Colleges receive this funding rate regardless of whether the instruction is collegiate or precollegiate/adult education.

- ***"Enhanced" Noncredit.*** Chapter 631, Statutes of 2006 (SB 361, Scott), established an enhanced funding rate for noncredit instruction in elementary and secondary education, ESL, and vocational instruction. In 2012-13, this rate is $3,232 per FTE student.

- ***Regular Noncredit.*** All other noncredit courses (such as home economics) receive $2,745 per-FTE student.

We estimate that in 2011-12, community colleges spent approximately $1.4 billion in apportionments on adult education coursework—about $1.2 billion for credit instruction and about $200 million for noncredit instruction.

Estimate Over 1.5 Million Students Served in 2009-10. Though enrollment data have been incomplete since categorical flexibility was adopted in 2009, we estimate adult schools and community colleges provided adult education instruction to at least 1.5 million students (headcount) in 2009-10, which translates into about 550,000 FTE students. Figure 20 shows that the CCC system provides the largest share of adult education in the state, primarily through its credit program.

Student Outcomes Comparable at Adult Schools and CCC Noncredit. While the state lacks a single data system that allows for comprehensive comparisons between adult schools and community colleges, a recent study by Comprehensive Adult Student Assessment Systems (CASAS) can supply insights into comparative student outcomes. Data from CASAS indicate that students in adult schools

Figure 19

Adult Education Includes a Wide Array of Instructional Areas

Instructional Area	Adult Schools	CCC Noncredit	CCC Credit
Adults with disabilities	X	X	X
Apprenticeship	X	X	X
Vocational education[a]	X	X	X
Immigrant education (citizenship and workforce preparation)	X	X	
Elementary and secondary education	X	X	X
English as a second language	X	X	X
Health and safety[b]	X	X	X
Home economics	X	X	
Older adults	X	X	
Parenting	X	X	

[a] Also referred to in statute as career technical education.
[b] Includes exercise and fitness classes.

and CCC noncredit programs generally have similar demographic characteristics (such as age, gender, and ethnicity) and perform nearly equal. For example, between 2005-06 and 2008-09, about half of the students in each segment's cohort advanced at least one instructional level, with another 40 percent of students showing learning gains within the same instructional level. About 10 percent of students in each segment did not demonstrate any notable progress.

Separate Pot of Funding Linked to Apprenticeship Programs. Schools districts and community colleges also each receive a relatively small amount of state funding for apprenticeship programs—a type of adult education instruction related to job training. In 2012-13, school districts are receiving $15.7 million and community colleges are receiving $7.2 million in associated funding. Under current law, school districts must use their apprenticeship categorical funds only for related instruction. In contrast, under current law, CCC's apprenticeship categorical program is part of a larger "flex item," which allows districts to transfer apprenticeship funds to any other categorical program (such as facilities maintenance or transfer education programs).

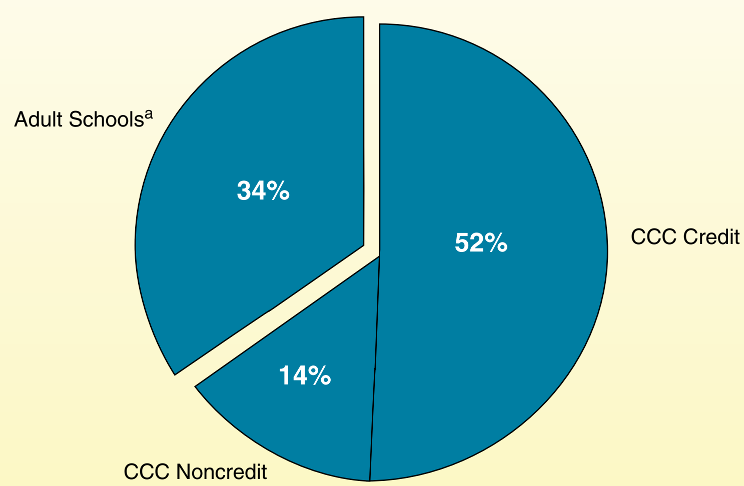
CDE Administers Federal Adult Education Program. A primary source of federal funding for adult education is the Workforce Investment Act (WIA). In 2011-12, the state was allotted a total of $91 million in WIA funding to support ESL and adult elementary and secondary programs—the instructional areas authorized under the act. A total of 169 adult schools and 17 community colleges (along with 38 other providers such as county libraries) received WIA funding. The CDE administers the federal program on behalf of the state.

Adult Education Suffers From a Number of Problems. In a recent report, *Restructuring California's Adult Education System* (December 2012), we identified a number of major problems and challenges with adult education. Specifically, our report found the current system of adult education to have: (1) an overly broad mission; (2) unclear delineations between adult education and collegiate studies at CCC; (3) inconsistent and conflicting state-level policies at adult schools and CCC (concerning funding, faculty qualifications, fees, and student placement tests); (4) widespread lack of coordination among providers; and (5) limited student data, which makes oversight difficult.

Figure 20

Community College Credit Instruction Accounts for Large Share of Adult Education

Full-Time Equivalent Students in Adult Education Courses, 2009-10



[a] Total is somewhat understated because not all adult schools reported enrollment data for 2009-10.

Governor's Proposal

The Governor's budget would make a number of changes to adult education, as described below.

Folds School District Adult Education Categorical Funds Into K-12 Funding Formula. For the budget year, the Governor proposes to eliminate school districts' adult education categorical program and consolidate all associated annual funding ($635 million Proposition 98 General Fund) into his proposed K-12 funding formula. Though there would no longer be any state requirements pertaining to adult schools, school districts would be permitted to continue operating adult schools (using general-purpose state funds, federal WIA funds, and fee revenue).

Creates a New $300 Million CCC Categorical Program for Adult Education. The Governor then provides a base Proposition 98 General Fund augmentation of $300 million to create a new adult education categorical program within CCC's budget. These new funds would be distributed to CCC districts using a formula based on the total number of students they served in the prior fiscal year (adult education as well as collegiate instruction). The administration also would change current law by not providing a specific per-student rate for instruction using these categorical program funds; rather, the CCC Chancellor's Office would have the authority to set the funding rate. The Governor's plan would allow community colleges to use these monies to provide instruction directly or contract with school districts (through their adult schools) to provide instruction. The administration has indicated that it will evaluate the need for funding increases in future budgets.

Limits CCC Apportionments to Credit Instruction Only. The Governor further proposes to restrict CCC apportionments to credit instruction. The approximately $200 million currently spent on noncredit instruction would remain in CCC's apportionments and would be available to colleges to provide credit instruction. Since the Governor does not propose to make any changes to what constitutes credit instruction, however, community colleges still would be permitted to use apportionments to provide adult education by offering such instruction on a credit basis.

Shifts School Districts' Apprenticeship Categorical Funds to CCC. The Governor also proposes to shift funding from schools districts' apprenticeship categorical program into a new CCC apprenticeship categorical program (which, unlike CCC's current apprenticeship categorical program, could be spent only on apprenticeship instruction). The administration indicates that school districts, however, would continue to be permitted to administer apprenticeship programs. The administration has not yet clarified how school districts would be funded for these activities.

Focuses Adult Education on Core Mission for CCC. Under the Governor's proposal, state support for adult education at the community colleges would be narrowed from ten instructional areas to six instructional areas, with four areas (health and safety, home economics, older adults, and parenting) eliminated. (While they would not be able to claim apportionments for instruction in these four areas, community colleges still could provide opportunities for students to take these classes—as many already do—through "community services education," which are fully supported by student fees.) By contrast, school districts would continue to be permitted to use their state funding to offer whichever adult education courses they so choose.

Does Not Propose to Change WIA Administrator. The Governor proposes for CDE to retain responsibility for administrating the WIA program on behalf of the state.

Governor's Plan Has Major Problems

Given adult education's numerous and significant challenges, we believe the Governor should be commended for identifying adult education as a high priority to address. We also find merit with his proposal to focus state support on CCC adult education programs that advance the core goals of civic engagement and workforce training. We think the Governor's overall approach for adult education, however, has serious shortcomings, as discussed below.

Many Community Colleges Would Face Significant Challenges in Assuming New Responsibilities for Adult Education. Under the Governor's plan, school districts would be permitted to provide adult education. By permanently eliminating adult schools' dedicated funding stream and repealing all associated statute relating to adult education, however, a number of school districts likely would discontinue offering adult education. To the extent this were to happen, responsibility for providing adult education would fall to community colleges. Yet, as discussed in our December report, community colleges vary significantly in terms of the amount and type of adult education they offer and the extent to which they consider adult education to be part of their educational mission. While all community colleges offer at least some adult education instruction, the vast majority focus on remedial math and English courses for students seeking a college degree, rather than literacy, high school diploma, and other programs designed for less-advanced students. As such, a number of community colleges likely would face significant challenges in expanding their mission to administer programs and serve students with whom they have had very limited familiarity and experience to date.

If Adult Schools Continue to Operate on Their Own, Longstanding Problems Would Remain. Though adult schools and community colleges generally cover the same geographic areas, over time state policies have created two markedly different systems for the two providers. As a result, there is a notable lack of consistent standards for providers, faculty, and students. For example, students in a similar vocational training program (such as medical assisting) may be required to pay anywhere from no enrollment fees to thousands of dollars depending on whether they enroll at an adult school or community college. Moreover, as our December report found, adult schools and community colleges often work independently from one another at the local level. This lack of coordination results in fragmented pathways for students seeking to transition from adult education to collegiate studies. To the extent that certain school districts chose to continue funding adult education, we are concerned that the Governor's proposal would do nothing to address these outstanding problems.

Governor's Proposal Would Do Nothing to Address Irrational Funding Structure for Adult Education. As discussed in our December report, funding levels for adult education are inconsistent and lack a rational policy basis. Since flexibility was enacted, per-student funding rates for adult schools have varied by school district. And, despite containing content that is often very similar or even identical, adult education courses at CCC are funded at different rates depending on whether a college decides to offer them on a credit or noncredit basis. The Governor's proposal does nothing to address these discrepancies. That is, because he does not propose to distinguish between collegiate education and adult education, community colleges would continue to be permitted to offer approximately $1.2 billion of adult education on a credit basis (through apportionments) while providing other adult education instruction through a categorical program at a funding rate to be determined by the CCC Chancellor's Office. Figure 21 shows how adult education could continue to be funded at different rates depending on which provider—adult schools or CCC—offered such instruction and whether the courses were offered by CCC on a credit or noncredit basis.

Fewer Students Likely Served in Adult Education. The exact effect of the Governor's proposal on adult education enrollment levels is not possible to determine, as school districts and community colleges could respond in various ways. We believe, however, that the Governor's proposal could result in between 30,000 to 50,000 fewer FTE students served statewide in the budget year as compared with the current year. This estimate is based on three factors: (1) school districts likely would serve fewer adult students given all associated state funding would be permanently folded into the K-12 funding formula, (2) shifting all existing CCC noncredit apportionment funding to the higher credit rate also would result in notably fewer students served, and (3) these drops would be only somewhat offset by the students served through the new CCC adult education categorical program.

Proposed Method of Allocation Would Not Address Local Service Disparities. As discussed in our December report, after multiple years of budget cuts and categorical flexibility, considerable variation exists at the local level in terms of the availability of adult education instruction. For example, some adults live in areas of the state in which adult schools still offer literacy and high school diploma programs, while others live in areas in which school districts have significantly reduced such instruction (or closed their adult school altogether). By proposing to allocate the $300 million in new monies to community college districts based on the total number of CCC students they served in the prior year, the Governor would not provide any assurance that adult education funding is aligned with relative program need.

Ongoing Data Problems Are Not Addressed. The December report also found that data on adult education are generally poor. For example, ever since school districts were permitted to spend adult education categorical funds on other educational purposes, the state has been unable to identify the number of students served and the amount spent annually on adult education. In addition, only a handful of community colleges report to the CCC Chancellor's Office the number of noncredit certificates (such as skills certificates) earned by students. Another notable problem is that adult schools' and CCC's data systems are not coordinated because they use different student identification numbers. As a result, tracking student transfers from adult schools to CCC (or other postsecondary institutions) is very difficult. Because of these data gaps, the public's ability to hold providers accountable for performance is significantly impaired. The Governor's proposal fails to address this issue, however, as there would be no requirement (or incentive) for providers to begin reporting even these basic enrollment, funding, and outcomes data.

Figure 21

Governor's Proposal Would Not Address Inconsistent Funding Policies for Adult Education

Per-Student Funding Rates

	2012-13	Governor's Proposal
Instruction at adult schools	Determined by each district	Determined by each district
CCC credit adult education	$4,565	$4,565
CCC noncredit adult education	$3,232	Determined by CCCCO

CCCCO = California Community College Chancellor's Office.

Proposal to Shift Apprenticeship Funds to CCC Has Problems. Like other types of adult education, school districts and community colleges share responsibility for providing apprenticeship instruction. Employers provide on-the-job training to apprentices (and pay their wages and benefits) and enter into partnerships with individual educational providers for formal classroom instruction. Though proposed trailer bill language would allow school districts to continue operating apprenticeship programs, the administration has not determined whether they would be eligible to access categorical program funds. To the extent school districts were excluded from this funding, the Governor would effectively limit the options that employers have to enter into such agreements. It is unclear why this would be advantageous either to employers or students. Moreover, it is unclear to us why the Governor would create a second apprenticeship categorical program for CCC given his stated intent to streamline funding for education.

No Justification for Different Treatment of State-Supported Instructional Areas. Under the Governor's proposal, both adult schools and community colleges would continue to be allowed to use state funding for adult education. Yet, community colleges would be restricted to using their state support for core instructional areas (such as literacy programs) while adult schools would be permitted to offer various noncore programs (such as home economics and fitness courses for older adults) using state funding. We do not understand the policy rationale for treating these providers differently as regards to the type of subsidized instruction they can provide.

LAO Recommendations

In light of the above assessment, we recommend the Legislature take a number of actions to improve adult education in California. Because we find that adult schools and community colleges each have comparative advantages for delivering adult education, we recommend an alternative approach from the Governor's that builds upon the strengths of each provider and creates the foundation for a more focused, rational, collaborative, responsive, and accountable system.

Focus on Core Adult Education Mission. We recommend the Legislature approve the Governor's proposal for CCC to focus state support on six instructional areas. We also recommend the Legislature focus on the same six instructional areas for adult schools.

Clearly Delineate Precollegiate and Collegiate Education at CCC. We recommend the Legislature work with the administration to develop consistent delineations of noncredit and credit instruction at the community colleges. To the extent precollegiate-level coursework is shifted from credit to noncredit, districts would be eligible for less apportionment funding. The Legislature could decide to keep CCC funding at the same level, however, which would allow community colleges to accommodate additional students (either in adult education or collegiate courses).

Resolve Inconsistent and Conflicting Adult Education Policies. To further achieve consistency of standards for adult schools and community colleges, we recommend the Legislature and Governor address policy differences concerning (1) faculty qualification requirements, (2) fees, and (3) student placement tests. Specifically, we recommend the Legislature amend statute so that faculty no longer need a teaching credential to serve as an instructor at an adult school. By aligning policy for adult schools with that of the community colleges, instructors could readily teach adult education courses with both providers. In addition, we recommend the Legislature consider levying a modest enrollment fee (such as $25 per course) for students in adult schools and noncredit CCC programs. We also recommend the Legislature amend statute to allow CCC faculty to place students into adult education courses based on assessment results (as faculty at adult schools currently are permitted to do) and require that adult schools use only assessment instruments that have been evaluated and approved for placement purposes (as community colleges are required to do).

Reject Governor's Categorical Program Proposals. We recommend the Legislature reject the Governor's proposals to (1) eliminate school districts' adult education categorical program, (2) create a new $300 million CCC adult education categorical program, (3) allow the CCC Chancellor's Office to determine the per-student rate for funds in the categorical program, and (4) allocate categorical funds to community colleges on a formula basis. Instead, we recommend the Legislature (1) restore adult education as a stand-alone categorical program for school districts, (2) provide up to $300 million for the reconstituted program, (3) provide adult schools with the same noncredit funding rate that community colleges receive, and (4) allocate funds to school districts based on the amount of General Fund monies they are currently spending on adult education.

Recommend Allocating Future Resources in Ways That Promote Both Access and Success. To foster more cooperation among providers and make the adult education system more responsive to local needs, in future years we recommend the Legislature: (1) allocate base adult education funds to providers on a combination of enrollment and performance, (2) make new funding available on a regional basis based on relative program need, and (3) promote collaboration among providers by adopting common course numbering for adult education.

Reject Transfer of Apprenticeship Funds to CCC. We also recommend the Legislature reject the Governor's proposal to shift funds from school districts' apprenticeship categorical program to a new categorical program within CCC's budget. Instead, we recommend that school districts' apprenticeship categorical funds be shifted to and consolidated within the reconstituted adult education categorical program we recommend above (resulting in a total of $315.7 million in funding for the categorical program). This would give school districts more flexibility to determine the appropriate mix of adult education programs they offer.

Improve Data State Receives. To improve public oversight of adult education going forward, we recommend the state begin collecting consistent data from adult schools and CCC. Such data would include enrollment levels, student learning gains in ESL and elementary and secondary education courses, and vocational certificates earned by students. Lastly, we recommend the Legislature promote a coordinated data system by clarifying its intent that adult schools and CCC use common student identification numbers.

COMPARING GOVERNOR'S PLAN AND LAO RECOMMENDATIONS

Below, we summarize the major fiscal differences between the Governor's Proposition 98 budget plan and the LAO recommendations we discuss throughout this report. Although we recommend the Legislature use the Governor's basic budget approach and generally dedicate newly available Proposition 98 funding for paying down deferrals and transitioning to a new school funding formula, we have some recommendations that differ from the Governor's specific proposals. Figure 22 summarizes these major differences.

LAO Recommendations Free Up More Than $300 Million Proposition 98 Funding. Most notably, we recommend a different treatment of Proposition 39 revenues and expenditures. As we discussed earlier, although this treatment reduces the minimum guarantee by $260 million, it frees up $190 million in Proposition 98 monies that can be used for operational purposes. In addition, we recommend rejecting the Governor's proposal to add the Graduation Requirements and BIP mandates to the schools mandates block grant, thereby freeing up $100 million. We also recommend rejecting the Governor's proposal to provide $16.9 million to CCC for various technology projects. We believe most of the Governor's associated objectives could be achieved largely within existing resources, though we note, given available funding, the Legislature could provide one of the higher education segments with $1 million to administer a competitive grant program to redesign and share more online courses, particularly courses commonly required for degrees. (Online education is discussed in our companion report, *The 2013-14 Budget: Analysis of Higher Education Budget*.) Altogether these recommendations free up more than $300 million in Proposition 98 operational funding.

Figure 22

Major Differences Between Governor's Proposition 98 Budget and LAO Recommendations

Issue	Governor's Proposal	LAO Recommendation
Treatment of Proposition 39 revenues	Includes all Proposition 39 revenues in the Proposition 98 calculation.	Excludes $450 million in Proposition 39 revenues set aside for energy efficiency projects from the Proposition 98 calculation.
Energy efficiency projects	Provides $450 million to schools and community colleges on a per-student basis for energy efficiency projects. Counts these expenditures towards the Proposition 98 minimum guarantee.	Provides $450 million to California Energy Commission to allocate funds on a competitive basis among all public agencies. Excludes these expenditures from the Proposition 98 minimum guarantee.
Adult education	Provides $300 million to create a new CCC adult education categorical program.	Restructures adult education system in an alternative way that provides for greater transparency, consistency, coordination, and accountability.
CCC general purpose funds	Provides an unallocated $197 million for priorities to be determined by CCC Chancellor's Office.	Designates additional funding for existing obligations, including paying down CCC deferrals. If further funding provided, links with specified objectives, including meeting enrollment and performance expectations.
K-12 mandates	Provides $100 million to add Graduation Requirements and Behavior Intervention Plans (BIP) to mandates block grant.	Does not add $100 million to block grant. Strengthens offset language for Graduation Requirements mandate. Makes statutory changes to BIP mandate to align better with federal law.
Special education equalization	No proposal.	Provides $30 million to equalize special education funding rates.
CCC technology initiatives	Provides $16.9 million (unspecified mix of ongoing and one time) to (1) develop 250 new online courses, (2) adopt a common learning management system (LMS), and (3) expand credit-by-examination options.	Provides $1 million in one time, non-Proposition 98 funds to modify existing online courses for use by faculty across the state. Encourages CCC to adopt a common LMS using existing resources. Withholds recommendation on credit-by-examination proposal pending more information.

Freed-Up Funds Offset by $30 Million Recommended Increase in Special Education Funding. As discussed in more detail in the "Special Education" section of this report, we recommend the Legislature provide $30 million to equalize AB 602 per-pupil funding rates. Taken together, our recommendations would free up a net of more than $275 million in Proposition 98 funds.

Adult Education Recommendation Differs in Many Ways From Governor's Proposal. As we discuss in the "Adult Education" section of this report, we recommend the Legislature reject the Governor's approach to "Adult Education" restructuring. We lay out an alternative approach under which the state would spend roughly the same total amount for adult education. Compared to the Governor's budget, however, our alternative likely would serve additional adult students at lower cost. Under our alternative, both school district-run adult schools and CCC would be funded directly to provide adult education, and the same rules would apply to them. Perhaps most notably from a fiscal perspective, our alternative would fund virtually all adult education at the enhanced noncredit adult education rate (which is lower than the CCC credit rate but higher than the 2007-08 adult school rate). Our alternative also would take a considerable amount of CCC credit instruction that in practice is adult education and officially reclassify it as noncredit adult education. These changes would free up considerable CCC funding that could be used to serve additional CCC students (either in adult education or collegiate courses)—resulting in more students served at a lower cost.

A Few Other Recommendations Have No Net Effect on Proposition 98 Spending. A few of our other recommendations also differ from the Governor's proposals but do not result in additional Proposition 98 costs or savings. Most notably, for special education, we recommend the Legislature consolidate a few additional programs not included in the Governor's consolidation package. Specifically, we recommend the Legislature add student mental health funding to AB 602 base funding allocations, add another program to a consolidated grant for students with LIDs, and consolidate the state's two extraordinary cost pools (for which the Governor has no proposal). Regarding transitional services for high school age SWDs, we recommend an approach that uses the same amount of funding but allocates in a manner allowing a greater number of SELPAs to provide such services. Taken together, our more extensive set of special education recommendations would provide SELPAs with greater flexibility in meeting the needs of SWDs at no additional cost. Apart from the Graduation Requirements and BIP mandates, our other mandate recommendations also vary somewhat from the Governor's proposals. In particular, we recommend adding one new mandate (Pupil Suspensions and Expulsions II) to the schools block grant and suspending one fewer mandate (Open Meetings/Brown Act Reform) compared to the Governor's plan. Given the minor fiscal effect associated with all these differences, we recommend no corresponding change in total funding for the schools block grant.

Base Augmentations for CCC Could Be Decided Within Context of Broader Higher Education Budget Plan. We recommend the Legislature reject the Governor's proposal to provide CCC with an unallocated $197 million base augmentation. Instead, we recommend the Legislature make its spending decisions within the context of the higher education budget package. If additional funding is available, we recommend the Legislature first address existing obligations, such as paying down CCC deferrals, and then linking any further funding to enrollment and performance targets.

Recommend Waiting Until May to Build Proposition 98 Budget Package. Because of the significant uncertainty regarding General Fund revenues in both 2012-13 and 2013-14, developing a specific Proposition 98 spending plan may be premature until additional revenue information is available in May. As we discussed earlier, higher General Fund revenues in 2012-13 would result in a roughly dollar-for-dollar increase in the minimum guarantee. The 2013-14 minimum guarantee also could change significantly compared to the Governor's estimates. Both changes could affect the Legislature's specific spending decisions for each year. Regardless of the specific amounts appropriated in each year, we recommend the Legislature maintain the same basic priorities set by the Governor: paying down one-time obligations and providing funds to transition to a new funding formula.

SUMMARY OF LAO RECOMMENDATIONS

✓ ***Paying Down Outstanding Obligations.*** Recommend a generally balanced multiyear budget approach similar to the Governor's plan that simultaneously pays down outstanding obligations and builds up base support. As part of this approach, recommend eliminating school and community college payment deferrals by 2016-17—prior to the expiration of Proposition 30's personal income tax increases.

✓ ***Timing.*** Recommend waiting until May to finalize the Proposition 98 budget package given significant uncertainty in General Fund revenues in 2012-13 and 2013-14 and the potentially large corresponding swings in the Proposition 98 minimum guarantee.

✓ ***Redevelopment-Related Rebenching.*** Recommend annually updating redevelopment-related rebenching adjustments until revenues begin to stabilize.

✓ ***Proposition 39.*** Reject Governor's proposal. Recommend the Legislature instead:

- Exclude Proposition 39 energy-related funds from Proposition 98 calculation and do not count Proposition 39 expenditures toward minimum guarantee.
- Charge California Energy Commission (CEC) with administering a competitive grant process under which all eligible public entities (including schools and community colleges) could apply for funds.
- Require CEC to develop grant evaluation process that takes into account facility needs and requires applicants to submit certain energy audit data.

✓ ***Mandates.*** Take the following mixed approach on Governor's mandates proposals:

- Reject proposal to add $100 million and two mandates—Graduation Requirements and Behavioral Intervention Plans (BIP)—to mandates block grant for schools. Consider requiring that future funding increases provided under the proposed K-12 funding formula be used to offset teacher salary costs for Graduation Requirements mandate.
- Adopt proposed modifications to BIP mandate to align state requirements more closely with federal requirements.
- Adopt proposal to fund new mandate related to pupil suspensions and expulsions. Include this mandate in the schools block grant.
- Adopt proposal to suspend five mandates. Reject proposal to suspend one mandate related to public meeting requirements.

✓ ***Special Education.*** Adopt more expansive version of Governor's two proposals. Specifically:

- Adopt Governor's proposal to fully delink state and federal special education allocation formulas, but also (1) provide $30 million to equalize per-pupil funding rates in tandem with equalizing general education per-pupil rates, and (2) change the Statewide Target Rate to reflect the current 90^{th} percentile (the rate at which 90 percent of students are funded at the same rate, with the remaining 10 percent funded at higher rates).
- Instead of Governor's proposal to consolidate 8 special education categorical grants into 4 larger grants, provide greater flexibility by consolidating 12 grants into 5 larger grants with broader spending parameters.

✓ ***Adult Education.*** Reject all but one of the Governor's adult education proposals. Specifically, recommend the Legislature:

- Approve the Governor's proposal to reduce the number of CCC's authorized state-supported instructional programs from ten to six. Focus state support on the same six instructional areas for adult schools.
- Resolve inconsistent and conflicting policies regarding faculty qualifications, student assessment, and fees at adult schools and community colleges. Also, provide a clear and consistent distinction at CCC between adult education and collegiate instruction.
- Restore adult education as a stand-alone categorical program for school districts. Provide up to $300 million for the reconstituted program. Allocate these funds to school districts based on the amount of General Fund monies they are currently spending on adult education. Provide adult schools with the same noncredit funding rate that community colleges receive. Also, consolidate school districts' apprenticeship categorical funds within school districts' reconstituted adult education categorical program.
- Gradually reallocate providers' base budgets on basis of both enrollment and performance. Allocate new funds for adult education based on regional needs.
- Promote coordination by adopting common course numbering for adult education. Also, promote a linked data system for adult schools and CCC.

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