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- 1. Governor Vetoes QEIA Fix Bill But Has Alternative Plan**
Deborah Harmon and Robert Miyashiro - SSC

On October 11, 2009—the final day to act on bills—the Governor vetoed the Quality Education and Investment Act (QEIA) fix bill, SB 84 (Steinberg, D-Sacramento). The bill would have required the revenue limit reduction, enacted by ABX4 2 (Chapter 2/2009), as part of the July 2009 Budget package, to occur only when an equivalent amount of additional federal or state funds was determined to be available to the QEIA recipient school districts or charter schools.

ABX4 2 shifted the K-12 QEIA program funding—which was outside of Proposition 98—to the state General Fund (GF), in order to capture GF savings in fiscal 2009-10 and bolster the state's Budget reserves. The bill reduced each local educational agency's (LEA's) revenue limit funding and transferred this amount to support the district's QEIA program. The measure also authorized LEAs to apply, on behalf of their QEIA schools, for federal Title I set aside and federal School Improvement Grant funds to offset the revenue limit reduction.

Among the many problems that were articulated regarding ABX4 2's approach were that not all LEAs with QEIA schools qualified for Title I funds, and that the federal dollars would be more restricted than the general purpose revenue limit funding.

The Governor's veto message says that SB 84 is unnecessary, would delay implementation of the (revenue limit) reductions until comparable resources are identified, and does not provide a solution. He indicates that his Administration has identified \$355 million in federal State Fiscal Stabilization Funds (SFSF) that have been provided to the state for the purpose of restoring reductions in the 2008-09 fiscal year, and characterizes that funding as a plan to achieve the savings included in the 2009-10 Budget, while holding QEIA schools harmless. In closing, the Governor writes that the Administration will be working with the Legislature to implement this plan.

We will be meeting with the Administration over the next few days to obtain further details regarding its alternative proposal. Many questions remain, including the source of funding for the \$47 million difference between the \$402 million revenue limit reduction and the \$355 million in available SFSF, and whether all of the funds will come to the participating LEAs as general purpose funding. We'll report further as we learn details. Stay tuned . . .

2. Measure Allowing California to Apply for Federal Race to the Top Funding Signed Robert Miyashiro and Terry Anderson - SSC

On October 11, 2009, the Governor's Office announced that Governor Schwarzenegger signed Senate Bill (SB) 19 (Simitian, D-Palo Alto), which removes the "firewall" between student performance data and teacher evaluations, thus allowing California to apply for federal Race to the Top (RTTT) funding.

As part of the American Recovery and Reinvestment Act (ARRA), the federal government has provided \$5 billion nationwide on a competitive basis to spur states to improve their educational systems. Of this amount, the Legislative Analyst's Office (LAO) estimated that California could secure \$815 million if it were to win awards under the three RTTT competitive grant programs. However, in order to be eligible to apply for these funds, California would have (1) to receive approval for the second round of State Fiscal Stabilization Funding (SFSF), and (2) remove any legal barriers to linking student achievement data to teacher evaluations. It is this second condition which prompted the need for SB 19.

While teachers' unions had contended that California law did not prohibit local educational agencies (LEAs) from using student performance data in evaluating teachers, U.S. Secretary of Education Arne Duncan had indicated that he believed that the state's laws, in fact, created such a barrier, and if this barrier were left in place, California would be ineligible to apply for RTTT grants. SB 19 specifically removes the prohibition from using data from the California Longitudinal Teacher Integrated Data Education System (CALTIDES), either solely or in conjunction with the California Longitudinal Pupil Achievement Data System (CALPADS), to pay, promote, or evaluate teachers, thus eliminating the barrier cited by Secretary Duncan.

However, the elimination of this barrier appears to be only the first step in the application process. Under the federal program, states must also have a comprehensive plan to promote reforms in standards and assessment, data systems, effective teachers and principals, and support for struggling schools. In addition, the federal legislation specifies other competitive criteria and invitational criteria that would allow applicant states to distinguish themselves from their competitors.

The Governor has proposed other state law changes that he believes will make California competitive for RTTT funding, and these changes are included in SBX5 1 (Romero, D-Los Angeles). These changes include lifting the cap on charter schools, authorizing students in low-performing schools to transfer to other schools, and subjecting chronically low-performing schools to governance sanctions that mirror several sanctions in the federal No Child Left Behind Act (NCLB). This special session bill has not yet passed the Legislature, and several legislators have hinted that it would be unwise for the state to adopt statutory changes simply for the sake of applying for federal funds.

At this juncture, it appears that the signing of SB 19 has removed a barrier to California's application for RTTT funds, but it is less clear whether the state will be able to submit an application that the federal evaluators will find sufficiently competitive to win an award.

3. PERS Discusses Alternative Health Plan Benefit Design Deborah Harmon - SSC

On October 7, 2009, California's Public Employees' Retirement System (PERS) held an informational session on alternative plan benefit design. The focus was to educate constituents about alternative basic plan designs and to obtain public comment on new benefit design options. Attendees heard presentations from Mercer Health & Benefits LLC (Mercer) on alternative design

options and additional health plan options. Attendees also heard from an assistant professor at Stanford University on consumer responses to alternative design options.

PERS has not made any proposals but is talking about options to expand choice for members and/or allow them to reduce their premiums in exchange for greater out-of-pocket costs. Mercer suggested that choice may encourage employees to play a more active role in their health care choices. Alternative plan designs might also increase flexibility for participating employers. There could be a benefit in additional health plan competition, particularly in the current economic climate.

PERS estimated the cost savings from changing copays only at between 4% and 9%; the cost savings from altering benefits at 0% to 1%, and the cost savings from both changing copays and altering benefits at between 5% and 10%. Savings were estimated to be higher if changes were made to existing plans.

Mercer touched on potential unintended consequences of increasing choice, including the fact that higher levels of cost sharing in low-cost plans may deter participants from seeking needed health care. Moreover, there could be an impact from risk selection. Healthier people generally chose lower cost plans, and employee gravitation to lower cost plans could lead to increased premiums for higher cost plans. Mercer shared the federal employee plan experience with Kaiser to illustrate the problem. There is a 33% difference in premium rates between the federal employee high plan and standard plan, but only a 5% difference between those two plans in the value of the benefit design.

Before adopting any changes, PERS will want to consider research documenting that increased cost sharing reduces both necessary and unnecessary care. Ambulatory visits to the emergency room go down, although inpatient admissions remain the same. Presenter Kyna Fond, an Assistant Professor of Economics at Stanford University, who cited a survey by Dixon, Greene and Hibbard, Health Affairs 2008, said that consumers in high-deductible health plans sometimes engage in risky behavior—like deciding not to go to the doctor when they should have, or deciding against having a doctor-recommended laboratory test. Fond suggested that plans be designed to use cost sharing when appropriate. Under a "value-based" benefit design, the cost sharing could be waived when utilization is appropriate. Fond said that offering additional plan options to contain costs relies upon migration across plans. She presented Massachusetts state employees' experience, based on a ten-year study, of plan migration. Among other things, the study indicated:

- Members who migrate have higher spending than average plan enrollees
- Migration across Health Maintenance Organization (HMO) and fee-for-service plans is correlated with health spending level
- Males are less likely to migrate than women
- Age affects direction of migration, with older employees migrating to less restrictive plans

Constituents made a variety of suggestions that focused both on employees and on our health care delivery system. For example, one constituent suggested providing employee incentives for healthy lifestyles, while another suggested changing the doctor and hospital reimbursement system that favors illness and allegedly rewards inappropriate, unnecessary services.

PERS intends to further discuss alternative health plan benefit design at its January off site meeting, and at future Health Benefits Committee meetings. K-14 schools should be part of the discussion.

4. Governor's pen gives boost to charter schools Allen Young – SI&A

While repeal of the state's charter school cap still awaits legislative approval in an upcoming special session this week, Gov. Arnold Schwarzenegger signed a number of other charter-related bills that he said will "cut red tape and simplify funding formulas," the governor's office reported Monday.

SB 191 by Sen. Roderick Wright, D-Inglewood, will correct a funding problem created by a prior bill related to conversion charter schools in unified school districts. Under SB 191, a unified school district can make per-pupil reductions to conversion charters without the hurdle of being bound by some prior year funding guarantees. The new law is intended to help remove the financial deterrent of districts approving charter petitions.

SB 592 by Sen. Gloria Romero, D-Los Angeles, will allow a charter school or local government entity to hold charter school bonding authority, thereby opening charter access to over \$900 million in voter-approved bond money through Propositions 44, 55, and 1D construction funds.

To help regulate the new wave of digital textbooks, SB 247 – by state Sen. Elaine Alquist, D-San Jose, removes language that prohibited districts from purchasing digital textbooks under the instructional materials funding realignment program. Districts now have a choice between purchasing digital or hardbound textbooks that students can use at school or at home with realignment program funding.

AB 1398 by Assemblyman Bob Blumenfield, D-San Fernando, changes the definition of "technology-based materials" to include electronic learning resources to be used by teachers and students as long as the district is already in compliance with existing "sufficient textbook" law. Formerly, "technology-based materials" excluded equipment, including electronic equipment.

A supporter of free online curriculum, Schwarzenegger started his own electronic textbook initiative last spring, calling on officials from the California Department of Education to compile a list of standards-based free online textbooks to be made available to districts.

"I am happy to sign these bills that build on the goals of California's first-in-the-nation digital textbook initiative," said Schwarzenegger in a statement.

Among the bills vetoed by the governor, however, was AB 8 by Assemblywoman Julia Brownley, D-Santa Monica. The bill was aimed at launching a serious effort to revise how schools are financed by gathering a working group to bring recommendations forward.

In his veto message, Schwarzenegger said that while he supports making the school finance system less complex and more transparent, the bill merely authorizes a study that can be done without legislation.

Click below for the disposition of major bills of interest to K-12 educators sent to the governor during the last days of session.

5. Stimulus dollars helping some, but state revenues continue to fall Tom Chorneau – SI&A

The Schwarzenegger administration announced over the weekend that federal stimulus funds managed by the state agencies had created or saved more than 100,000 jobs in California through the end of September – a figure that does not include the billions in additional stimulus dollars given to local governments, school districts and other entities in the state.

The news followed more sobering numbers from State Controller John Chiang that indicated the state's economy continues to spiral downward, although at a slower pace than earlier in the year.

Spending reports required of state agencies under the American Recovery and Reinvestment Act show that the state bureaucracy has been awarded \$12.7 billion in stimulus funding, although less than half -- \$5.3 billion -- has actually been spent through the end of September.

Local educational agencies were required by the California Department of Education to file similar reports on how stimulus money was spent to create or protect jobs, but details of those reports are not yet public.

Meanwhile, the controller's office released revenue numbers that continue to show California struggling with the recession.

First, collections from all three of the state's biggest revenue sources fell below estimates for the month of September: personal income tax was off by \$934 million; corporate taxes were down \$183 million; and sales taxes missed projections by \$99.8 million.

Perhaps more importantly are some of the trends behind the numbers:

- Year to date, both corporate and personal income tax revenues were down by double-digit percentages over last year (13 percent and 16 percent, respectively).
- Withholdings on personal income is also down by 7.1 percent so far this year.
- Estimated tax payments for both personal income and corporations are down even more sharply -- falling by almost 35 percent (personal tax) and 11 percent (corporate) when compared to last year.

The Franchise Tax Board reports the number of people unable to meet either their self-reporting or assessed-tax debt has grown 28 percent over the past two years with the year-to-date receivables to the state have grown to \$1.6 billion since the end of last August.

"While there are encouraging signs that California's economy is preparing for a comeback, the recession continues to drag state revenues down," Chiang said in a statement. "I urge lawmakers and the Governor to prepare for more difficult decisions ahead."

6. Comic opera performance by governor and Legislature merits disdain

Dan Walters - Sacramento Bee

As Arnold Schwarzenegger and legislative leaders were staging their comic opera showdown over water policy and the fate of 707 bills last week, the venerable Field Institute was conducting its latest poll on their standing among California voters.

Not surprisingly, the governor and lawmakers failed to complete an agreement to protect the Sacramento-San Joaquin Delta and create more reliability in water supply.

Not surprisingly, Schwarzenegger backed down from his threat to veto all late session bills without a water deal.

Not surprisingly, Field's poll found that Schwarzenegger's approval rating had dipped below 30 percent for the first time in his gubernatorial reign.

And not surprisingly, "voter impressions of the job the state Legislature is doing continue to set new lows," with approval down to 13 percent.

Legislative leaders say they are "on the verge" of a "comprehensive package" of water bills, but they've been saying that for weeks. Schwarzenegger and legislators apparently have a broad understanding of a deal's parameters but are still struggling with details - primarily who would benefit and who would pay - that always bedevil such a complex issue.

The more detailed they get, the more the deep-seated divisions among "water buffaloes," as the powerful water interest groups have been dubbed, come into play. But with Sunday's deadline for action on the Legislature's bills looming, and the governor's veto threat having failed to finalize a water deal, it was time for saving face.

So Schwarzenegger declared that there had been sufficient progress on water to justify calling a special session - which means absolutely nothing in realpolitik terms - and backed away from his veto threat.

The governor hurriedly announced signing about two-thirds of the bills and vetoing the rest, roughly the same rejection proportion as past years.

It's no wonder that Californians hold their politicians in such evident contempt, such as Schwarzenegger's 27 percent approval rate in the Field Poll. It's lower than any of his six gubernatorial predecessors except Gray Davis, whom Schwarzenegger succeeded as Davis was being recalled.

Meanwhile, the Legislature, controlled by Democrats, has the lowest approval rating in a quarter-century, 13 percent, and that includes a tiny 16 percent approval among Democrats.

Ineffectual political wheel spinning, not only on water but the deficit-riddled state budget and other issues, has, it would appear, finally driven home to Californians the dysfunction of their state government. Even Ron George, the chief justice of California, dwelled on the crisis of governance in a recent speech.

Perhaps Californians are coming to realize that they have a structurally unworkable state government and that deep systemic reforms - perhaps via a constitutional convention - are desperately needed.