

## **EdSource's 32nd Annual Forum on California Education Policy:**

### **What's Next? BIG Issues for California and for Education**

#### **Morning Panel: Big Challenges. Any Big Solutions?**

**Mac Taylor**, California's legislative analyst

**Joe Nuñez**, associate executive director of the California Teachers Association (CTA)

**Rae Belisle**, CEO of EdVoice

**Steve Rhodes**, principal consultant for Strategic Education Services (SES)

**Kenneth Hall**, panel moderator, EdSource board member, founder of School Services of California, and an executive in residence at the University of Southern California

**Kenneth Hall (KH):** California public education is a very resilient industry. Think over the history of the issues that we've gone through as an industry. Think, as an example, if you were a leader in public education in 1971. You would have had the California Supreme Court declare the whole system of public finance for K–12 education to be unconstitutional. The court was saying that the state of California needed to throw out the entire funding system, redesign it, and try to develop an equalization system for the wealth-related differentials in California school districts.

The Legislature and California public education leaders responded with Senate Bill (SB) 90 in 1972 and the development, over the course of the next several years, of a funding system with revenue limits that is the cornerstone and the basis for K–12 education today.

Think of the difficulty if you were a leader in public education in 1978. All of a sudden the California electorate had changed the whole property tax system of our state and said that property taxes had to be rolled back by \$7 billion and that you lost that money as a state institution as of June 3, with the adoption of Proposition 13, and you had to design a brand-new system to be in place by the following July 1.

The Legislature and California public education did respond. And over the next several years, we did develop a financing system that continues today as a cornerstone of our system. Absolutely it was a very difficult time. We lost 9% to 15% of school district revenues at that moment, but the 9% to 15% was calculated *after* we had had a 6% increase in school district revenue limits. And although we lost summer school, inside of three years the Legislature had restored summer school to California public education. And though we had obviously created some major problems in terms of equities between school districts, within five years after the adoption of Proposition 13 the California courts declared the state of California had met the *Serrano v. Priest* [funding equity] obligations.

Think of 1981–82: a very difficult recession. California was losing a significant amount of money, and Gov. Jerry Brown had proposed in the January 1982 budget that there would be a 6% cost-of-living increase for school districts. The following April, as the economy of California went into a deeper recession, he pulled that projected cost-of-living increase and rolled it back to zero. Can you imagine the consternation of the state and the consternation of education leadership when San Jose Unified School District declared bankruptcy? It is the only school district in the history of California that has gone through a formal bankruptcy proceeding, and a federal bankruptcy referee determined that the salaries of that school district could be rolled back. But think of that time and just one year later, when California adopted SB 813 and responded to that kind of a crisis with major funding for a longer school year, a 180-day school year for California students and a minimum amount of minutes for every student in California public education.

Roll your eyes and your thoughts ahead to 1987–88. At that time, Gov. George Deukmejian and Speaker of the State Assembly Willie Brown were in a major debate. What kind of an income tax rebate should be given to the California electorate because of the provisions of the Gann limit [on revenues the state, local governments, and school districts can spend]? California had a revenue base that was \$1.2 billion higher than the Gann limitations. That year, Willie Brown did not want to give any of that money back but eventually compromised on giving back \$400 million. George Deukmejian said he wanted \$800 million to be given back, and as a consequence, neither of them was able to

agree. California gave \$1.2 billion back to the electorate and created major problems for California public education as we went through that recession.

What was California's education response? The adoption of Proposition 98 in June of 1988, which established a minimum level of funding for public K–14 education.

Think ahead to 1995–96. We had gone through some very difficult recession years in the early 1990s. We had had very low levels of funding. Then all of a sudden, the California economy grew; and that May revise in 1995 established such a dramatic amount of additional money that Gov. Pete Wilson proposed to use it for class size reduction. California education responded, taking K–3 class sizes around the state down to a 20:1 level, hiring 20,000 teachers, building new classrooms, and responding in turn to that kind of a challenge and that kind of an obligation.

Think of the difficult years of the 2000s. As we turned the century, we've had roller-coaster funding, going from \$1.5 billion dollars to buy out the deficit factor in 2001 down to zero and minus dollars since then. Yet California public education has developed an assessment/measurement system that is not rivaled by any other state in the union.

Public education is a resilient and a creative force. Public education has been through some very difficult times. Absolutely, this is one of those most difficult times. But is it worse than the Prop. 13 change? Is it worse than an era of bankruptcies in the early 1980s? Is it worse than any of those other times when California education has responded with resilience and creativeness? The opportunity that we have is enormous. Think of the opportunity in terms of what is the potential for K–14 education: \$9.3 billion from Prop. 1B, which is on the May 19 ballot. If Prop. 1A and 1B are adopted, California K–14 public education will receive \$1.5 billion each year for the subsequent five years starting in 2011–12. Think of the \$8 billion worth of stimulus money plus a potential of another \$1 billion of competitive grants for California public education. Legislative Analyst Mac Taylor's excellent comments that it is one-time money and you've got to be very careful are absolutely of high concern to all of us. But think of that total number that *is* available: \$17.3 billion for public education to give us an opportunity to be able to develop that renaissance that all of us have been watching for. California public education is resilient; California public education is creative; California public education will figure out a way to get through this kind of a difficulty as well.

That's why we have a panel to share with you some of those issues. We have experts that have been part of this process for many years and experts that play a current role in trying to resolve all of those issues:

Joe [Nunez], let's start with you and the May 19 election. The California Teachers Association has invested \$5 million now in the Prop. 1A and 1B campaign. Your president is the lone signatory on Prop. 1B, saying why it should be adopted. What are the arguments for those proposals from your point of view?

**Joe Nunez (JN):** You asked us to be provocative, so here we go. The first thing I want to ask is, Ken, never make the presentation you just made to any other audience. You asked the question, "Are things worse?" And the answer is "Yes!" And I want you to think about why the answer is yes. Because the environment that our legislators have to do their job is dramatically different now than it was in the past, when they got to try to solve the problems that were laid out for you by Ken just a minute ago.

The fact is that we now have a term-limited Legislature, a two-thirds vote requirement, and [legislative] districts that are put in place in a very partisan way. We have an environment in which legislators are incapable or unable to do work to support public education because they don't have the tools that they need to do that. Putting the history in the context of what we are dealing with now is important; but it's important to understand where we are in the environment, how the environment has changed, and why this is a much worse situation that we find ourselves in than we otherwise would be. That's number one.

Number two: I just want to say that I appreciated Mac's [Taylor, the first Forum speaker] recitation of the problem. It was a good laying out of the problem. But we have to recognize that education is 40% of the budget. Is education a priority for the state of California or not? Is it a priority for legislators or not? Is it a priority for us in this room or not?

The fact of the matter is that we took 60% of the cuts. And on top of that, we have to remember that we took a \$3 billion hit last year for this school year on top of the \$8 billion, so we actually took \$11 billion in cuts. We were 60% of the solution; we're 40% of the budget. Just because you *can* do it doesn't mean you *have to* do it. And what does that say about the priorities of the state of California?

We have some challenges before us about what are the solutions and what do we do about [propositions] 1A through 1E. The California Teachers Association went to the table to be pragmatic in this conversation. What do we have to do to try to create stability? One of the things Davis [Campbell, the Forum moderator] said early on was that it is the unstable nature of moving forward that is of most concern—the uncertainty of moving into the future. How do we create as much stability as possible? We think that passing 1A through 1E helps us create some stability moving forward.

How did we look at resolving this budget crisis? We, as Mac said, have a disagreement about whether or not these maintenance funds [based on Proposition 98] should be paid back. We believe that we've put enough arguments on the table to say, "Yes, we [the state] do owe you [education] those dollars." We finally got the leadership to acknowledge that. The problem is that if you go to the Constitution, they would have had to pay us over \$4 billion in the budget year. Mac laid out the fact that we have a cash-flow problem. When people owe you money and they can't pay it to you, what do you do? You create a payment plan. We thought we were being responsible. We said, "We know that the stimulus dollars are coming in for two years. We know they're one-time dollars. They're coming in 2009–10, 2010–11. In 2011–12, we will start the payment plan." And we said, "How do we minimize the impact on the non-Proposition 98 side [non-K–14 education]? How do we try to create an environment so that we are getting our money back that we believe we are owed, but we're minimizing the impact on the non-98 side?" We thought it was responsible to take half of the 3% that would otherwise go into the rainy-day fund, pay us back—the payments would be over about five or six years—and we would have \$9.3 billion. But this is the piece (particularly for school board members in this room) that you need to hear, and I hope you'll go back and reconsider your position on 1A.

One of the things that Davis [Campbell] said early in his introduction was that when we talk about categoricals [funding for specific programs or students], you cut the categoricals at the state level; but when the money comes back, you tell us how to spend those dollars and we all shake our heads: "Yeah, it's a long-time strategy of the state." The \$9.3 billion that are coming back to school districts, except for \$200 million that go to equalization, are going directly to the revenue limits and they are not going to be encumbered by any categoricals. That's \$35,000 a classroom forever! That's real dollars! You add the billion dollars from the state lottery, which also goes to [Prop.] 98—we have

ourselves set up to move in a constructive way in funding schools when we find ourselves at the end of this temporary tax cycle.

We see this as an opportunity (that was talked about earlier) to get us through this tough time. On Slide 25, Mac very clearly describes what the problem is in the short term if these fail: huge economic problems that will be suffered and that will be bestowed on our schools.

I'll leave it at that, and that'll be enough provocation for right now!

**KH:** Joe, is it your thought that this audience is not in support of 1A and 1B?

**JN:** I looked at the participants who are in the room, and I know that there are some folks who are opposed to the propositions; and I would ask them that they seriously reconsider their position.

**Steve Rhodes (SR):** I represent a lot of school districts, and I find a lot of school districts have been asleep on this issue. They need to wake up and pay attention to these propositions. One way of looking at them is, the state is going to lose \$16 billion of revenues if you don't pass 1A, and the school districts are going to lose \$9.3 (actually, it's \$8.6) billion of revenue if 1B doesn't pass. This is a big issue. This is a fundamental issue. It's \$1,400 per child that's built permanently into Proposition 98. It starts to take effect in 2011—the year that we're worried about the cliff falling. It will be about \$1.2 billion for K–12 schools. It's about a 2% COLA (cost-of-living adjustment). It's extremely important. We ought to focus on these propositions because it's one of the two big issues that I see that we have in the immediate future.

**KH:** Mac, some are opposed because 1A is a spending cap. Do you see that proposition as a control on state expenditures in the future?

**Mac Taylor (MT):** It's technically not a spending cap, but it does tend to operate close to one. Basically what it does is that it sets up a long-term revenue trend; and each year, to the extent that revenues are coming in above that trend (or a cap, as some people have talked about it), those monies have to be taken off and put into a reserve. In our view, it would serve to kind of smooth out some of the ups and downs that we've experienced in the past. It's not going to solve all of our problems, as some have argued, but I think there are a lot of people (and certainly a lot of Republicans) who have been very supportive of

that notion. It wasn't as strong, as rigorous, a cap as they would have liked; but it certainly, in our view, would serve to smooth out some of the fluctuations.

**KH:** What the proposition does, then, is when you have high levels of income in California—kind of off the charts like we did in 2001–02 at the time of the technology boom—it takes those and puts them into a reserve to be used as a rainy-day fund for years when revenues fall off?

**MT:** That's fundamentally what it does. Now, it's been complicated by, as Joe [Nunez] mentioned, this diversion of 1.5% or about \$1.5 billion to pay off the maintenance factor [for schools under Proposition 98] in the near term. It also has a feature that after that's paid off, 1.5% goes for capital outlay purposes. If you looked at a picture of 1A and 1B, it looks a little bit like a Rube Goldberg, and I think that's what's made it so hard for people to explain it. It's very complicated. But I think the issue that you just focused on is kind of the essence of what it does, outside of the linkage with the extension of the tax increases. I think politically that's what has made it very difficult. If it didn't have that linkage, I think you would see fairly broad support from a lot of people, at least, for the aspects of what it does as far as the state budget.

**JN:** The other point that we have to remind folks about is not only do we get the \$9.3 billion, but also our 40% share of the taxes that are generated by the extension of the two years of these sales taxes is because, as was said, Prop. 98 lives in the general fund. This sets us up to have some stability in funding over time and to be ready, as we move forward. Hopefully, the economy does turn around, and we can be in a place to fund schools in an adequate and appropriate way.

**SR:** And I would just urge you, don't confuse people by talking about the maintenance factor and all those types of issues. It's money for schools: \$35,000 a classroom. Make it real simple and clear. That's what's at stake in this proposition. A lot of people are opposed to it because they are worried that education is going to get more money than they should. It's about time we get a little bit more money because we've been cut over time.

**KH:** Joe, the PPIC [Public Policy Institute of California] polls show that the propositions are in trouble—all of them—except Prop. 1F. Does the campaign have a particular strategy to respond and turn that around?

**JN:** Absolutely. First of all, you have to acknowledge that it's going to be a low-turnout election, and so we have to make sure that we find those people who are going to vote that are "yes" voters. We are coordinating very closely with the governor's campaign so that we aren't wasting resources in reaching voters—overlapping in our outreach to voters. We have a very targeted plan. We think that we can identify "yes" voters and get this done. It's going to be hard. It's very tough. It's going to take everybody in this room talking to their friends and neighbors about how important a "yes" vote is on May 19. But our Board of Directors, our State Council, our executive officers (led by David Sanchez) have given us the tools we need to work with the governor's committee and put together the resources we need to run a campaign.

Since I've been here [Irvine], I've seen our commercial three times! We don't see it in Sacramento, but we have a statewide radio campaign. Our goal was to try to reach voters before they get their voter pamphlet so we can talk to them first, before any organized "no" folks can get to them. We want to talk to voters. We want them to see the merits of the initiatives. And we'll be doing some dipping periodically to see if we're having an impact, and we'll try to do the work that needs to be done. We hope that you can help us and support us in doing that work.

**KH:** I want to skip to the stimulus package, unless, panel members, you want to say anything more about the election.

**Rae Belisle (RB):** I'll say one thing. I could sit and pick apart all those initiatives readily; but I won't. And one of the reasons that I won't is we have such great instability. The focus that I would have is what you do with the money. But there's no Plan B. Oftentimes you'll have, "Oh, this is what we want to get done, and if that doesn't work, we have Plan B." There is no Plan B. So I am concerned about what happens in the event that they don't pass, and the instability that it creates in the system to do good work, which is what I'm interested in.

**KH:** Rae, let me ask you about the stimulus package. In addition to the \$8 billion that Mac talked about, there are additional dollars that are competitive. We hope California could be eligible for \$1 billion of that. How does that work? And what's California's role going to be in trying to participate in those competitive grants?

**RB:** It's actually close to \$5 billion on a national basis, and it's competitive. I suspect that you'll see a lot more activity in the fall, when guidance comes from the U.S. Department of Education and applications are due. Then we'll see what the guidelines from the feds look like. We don't have a lot of that information yet. We've had a lot of conversation about what it might look like, and I think that you hear anywhere from zero for California to \$1 billion. I'm hoping it'll be somewhere in the middle, at least around \$500 million. One of the reasons for the wide span of zero to \$1 billion is because there are a lot of assurances that are tied on that "Race to the Top" federal money—interesting title. There are pots of innovation funding in there. I think [U.S.] Secretary [of Education Arne] Duncan has indicated his desire that there is going to be a lot of change. And as has been mentioned by other speakers, when you're in such an unstable financial situation, sometimes systemic change is difficult. In California, just as an example to spice it up (Joe, you can comment back), we're one of two states that has what some call a firewall between student achievement data and teacher data. That's one of the issues that has been raised by Secretary Duncan, that they want to see that connectivity. We'll have to see. I've gone through this a couple of times now with different administrations. They all come out pretty bold, but I have found that it doesn't always stay. I am waiting to see what comes out in the guidance to see just how bold they're going to continue to be.

**KH:** Are you saying that California would not be eligible because of the firewall?

**RB:** They have a series of assurances that they want to have made. It's unclear what they really mean, so let me just take a couple of them. One, they talk about rigorous standards and assessments, and they want you to improve those. Okay, well, we're California and there are a few things that we've done well. One of them, I think, is our standards and assessment system. If they say to us, "We want you to do a better job," well what would that look like? I think if you sit long enough and listen hard enough, you will hear a lot of talk about regional consortiums and collaborating with surrounding states, and it may be a movement toward national standards. Every group I talk to, it comes up—especially in the foundation and philanthropic circles. So what does that mean for California? Are we going to improve upon them? Are we going to open them up at a time when you have fiscal instability? Opening up standards, opening up assessments, is a very, very expensive proposition; and it has taken us 10 to 12 years just to get this system that we

have finally in place. Are we going to open it back up? But if you take it at face value, that's what Arne Duncan is saying. I don't know what it will end up looking like, and I'll be interested to see his guidance on it. The state has put in their application for the stimulus money. What we always do is what districts do. Whenever I was at the State Board [of Education] and I would review LEA [local education agency] plans, they always said everything we wanted them to say. "Oh, yes, we'll do that assurance and that assurance." Then we're in litigation because they're not doing it at all, but I have the LEA plan that says they have no problem with any of that. That's exactly what the state does with the feds. We have filled it all out: "Yes, no, not a problem, we can do all of that." And we're thinking, "How are we gonna do all that?" I asked them, "Are we really doing that?" They don't know. We'll have to see how that plays out over time. I don't have the answers, but I see lots of issues and problems. And we don't have a lot of time, but it'll be interesting.

**KH:** Now, Race to the Top dollars, are those one-time? Or those competitive grants, are those one-time? [Race to the Top federal funds are designed to support student achievement reforms, and states can compete for them. LEAs can compete directly for other federal funds that are part of the Federal Education Stimulus.]

**RB:** They go over a couple of years. It's interesting because what I think from an LEA perspective (and I've talked to a lot of different LEAs and private nonprofits) is that you can apply directly for some of those pots of money. I think there are some innovative ideas. If you can not look at any of Mac's charts— none of his data at all, so you can focus and not shiver—you could actually be creative to think of some things you might do. They could be done with teachers, with credentialing, a whole array of things. I know that there are some LEAs out there who are looking at some creative things that they can do. Let's say that you get \$5 million to start something. You're not going to bank on it, like extending your school day, but it could be a one-time influx of funding that you need to get something off the ground. I think there are opportunities there.

**SR:** I'd like to stress that also. I think that the emphasis in the governor's office has been on the immediate, formula-driven federal dollars [preK-16 portion of the State Fiscal Stabilization Fund, Title I funds for educationally disadvantaged students, and IDEA funding for students with disabilities]. I think now the emphasis is going to be on these

competitive grants. They're looking for suggestions; they're looking for concepts; and they're looking for ideas.

And also, it's not just this Race to the Top [dollars] or the innovation [funding], which you apply for directly. It's also money that's in Health and Welfare, it's money in EPA, weatherization, school buses on diesel engines. We're looking at school health centers. We're looking to do AVID [a program to help underachieving middle and high school students go to college]. Lots of different avenues are out there—lots of different pots of money. You've got to go out there and seek it out, but I think there are marvelous opportunities for K–12 education.

**JN:** I really do want to respond to my friend Rae on the issue of national standards and data. I liken this to when a kid acts up and you punish the whole class, instead of going to the child who is having the problem and trying to manage their behavior. And that's what the national government is doing with this NCLB [No Child Left Behind] reauthorization, and this baloney around national standards. (How do you really feel, Joe?) California is way ahead of many other states in our standards and accountability, in our testing and assessment systems, yet we're going to be held accountable because Mississippi or Alabama has such a low definition of "proficient," aren't doing the work that they need to be doing. Well, that's just baloney. When do we get credit for the work that we've been doing for the last 10 years? When do we get credit for putting a law in place and having adults change their behavior and seeing the kind of progress we've made and the number of kids we've moved from "far below basic" [on California Standards Tests] up through the system? People point out: "Yeah, but you're not 100% 'proficient.'" You know what? It's never going to happen. But what are we doing and how have teachers' behaviors changed to help more kids move through the system, to be better readers and better mathematicians? Kids and teachers have been doing terrific work for the last number of years. It's hard work every day—those of you who work in schools know that.

The piece on data—this is my issue. Yes, there is a firewall between CALPADS [longitudinal student data system] and CALTIDES [individual teacher data system]. And CTA will do everything we can—I need to be a little more explicit—we will never allow the firewall to be taken down. Now, let's talk about why. The state of California already

gives school districts the authority to use criterion-referenced testing as an element in a teacher evaluation. Go get 'em! Do your job! You have the tools you need to evaluate teachers. Do your job and do it well. When you do your job well, that means that our teachers do their jobs well. Let's create a system—let's apply for the Race to the Top funds—to give districts the dollars they need to have the best evaluation system in the districts possible. But I'm telling you, if you let the state get involved at that level, there are only possibilities for mischief. Look what happened with DMV when we had a statewide system. I mean, just start the list. I'm telling you, let's work to give districts the tools they need to have the best system possible so that teachers can be evaluated appropriately. But we will never agree to having test scores be used to evaluate teachers or to have that data available at a statewide level.

**KH:** Rae, do you have a couple of thoughts you'd like to share?

**RB:** I'll start off by saying I agree on the national standards issue, and I've been fighting with a number of people about that. So we're in complete agreement.

Davis [Campbell, Forum moderator] mentioned in his remarks the idea of having things based on data, not having them based on anecdotal information. (I don't even disagree with the DMV analogy—I've been in state service for a long time, I appreciate that.) But at the same time, I want to see data. It's not to evaluate at a statewide level the performance of individual teachers because that should be done at a district level by administrators who are doing their job and working with teachers at that level. I agree with that.

But at the same time, I think there is information that is needed at the state level to take care of policymaking issues that come before the Legislature, the governor, and those of us like me who are advocating or at the State Board of Education. We don't always have what we need.

In keeping with what Joe said, I agree that we have made fundamental progress. When I came to the State Board in '97, we did not have standards, we did not have an assessment system, we did not have an accountability system. We didn't have any of that. We were in the dark. We have taken great strides to improve that. I disagree with some of the comments that have been made earlier about not being able to make systemic change. Sometimes when you're in a crisis, it's the perfect time to do that. So we have Tier 3

[districts can use categorical funds in this group for any educational purpose]. I think as Mac was saying, Tier 3 is interesting in the funding. At the state level, we leave all the laws in place because it would be very difficult to actually repeal them. It's only just a part-time thing, just for a little while—that's how we play it. We leave all the laws there, so you all can feel kind of warm and comfortable about having them. Then we don't make you spend any of the money on [a specific categorical program]. But the pressure is there from your community because they can still turn to that massive Education Code [state law] and say: "The code sections are still here, and they say you're supposed to do that." Then you have to refer them to the budget; and it gets very complicated, they think you're lying, and you can't win the debate with them.

But what you could do is the same thing that we're asking districts to do; and that is, focus on the core. I was thinking of this when I was on the airplane coming down here— "Fasten your seatbelt, put your stuff underneath the seat." Then once you're in the air, you can undo the seatbelt, you can wander around the cabin, everybody brings their stuff out. It's a similar thing with our system. When we started a standards-based system, no one really knew what that meant, and many of the people that I talked to said, "Oh yeah, it's the new 'new thing.' Whaddaya think, a year? Two years? These things will be toast." Okay, they were wrong because we kept our head down and just kept moving forward. We had to be very rigid to give people an illustration of what it looked like. We had textbooks that were aligned to standards, and by golly you don't get the money, you can't buy anything unless you use the books we said, right, K-8? People would complain, and I had lots and lots of battles about that, but it was to permeate into the system what standards looked like.

Then we had an assessment system. We started with NRTs [norm-referenced tests], and we moved to standards, criterion-referenced, tests—once again, pushing the standards into the system.

And we did accountability. Now we've come to a place where we're giving flexibility. So the state needs to be able to focus on its core issues, which I would propose to you what those might be.

**KH:** We'd love to have that conversation with you.

**RB:** We will. But I think that you need a really good growth model, so that when elementary kids go to middle schools and middle school teachers are bringing them two grade levels up but they aren't yet proficient, that those teachers get credit for what they've done and some more realistic understanding of the data. We need to have things like that, and we just happen to have a growth model bill out there, Joe.

**JN:** Aren't we meeting with you next week to talk about it?

**RB:** Yes, you are, on Monday. I'm very excited about it.

**KH:** It's too bad that both of you are not on the State Board of Education at the same time.

**RB:** You know, we were both there together, though I worked for him at the time as the executive director.

**JN:** And remember that!

**JN:** Look, all of the stuff that Rae just talked about, we completely agree with. We think that data systems in place to help us with a growth model and those pieces are what we should be moving toward. But I've just got to be clear that the federal government, Secretary Duncan, and the President [Barack Obama] have talked about linking performance to test scores to teachers, and that is unacceptable to us. I just can't overemphasize that, because there are too many teachers in this room who will kick my ass if I leave this dais without making that point. Excuse me.

**KH:** All right, let's shift. Steve [Rhodes], I want to talk more about the stimulus package because we're talking here about the competitive grants, and so on, and the Ride to the Top, etc. But there are stimulus dollars that will come much more quickly, and there are guidelines and specifics as to when school districts are going to receive those dollars. I'm wondering if maybe you can take us through those. Let's start with Title I: \$1.1 billion for California?

**SR:** That's correct. You should receive 50% probably within the next four weeks, and the other 50% before October. The Department of Education and the governor's office are working very closely together—and that's refreshing, by the way! The Department of Education is calculating the precise numbers. There are lots of computer printouts that will show you numbers that are pretty close to what your district is going to receive. They have to refine those numbers, include charter schools, and make other types of corrections; but the Section 28 letter (this is asking permission from the Legislature—not

actually asking permission, it's telling them: "We've got this federal money; we're going to spend it this way; you've got 30 days to kind of yell and scream if you wish").

**KH:** It's a notification process more to the Legislature than it is an approval process.

**SR:** And that clock is already ticking.

**MT:** Steve should know better, as a former Legislative Analyst, obviously he's forgotten everything he learned. While it's a 30-day process—and you could argue it's notification—there's a long-standing tradition that the administration does not move ahead if the Joint Legislative Committee has problems with that. Because what we can do is take away the authority of Section 28. It's there as a convenience to everybody, as a way to address things that have to be taken care of in a short period of time. The question that we're going to have is not, "Should we distribute the money?" It's just, "Do those monies have to go out in the 08–09 year?"

**SR:** That's the question you can ask. And let me tell you what the answer is from the governor's office ...

**MT:** No, let me finish first. It's not a question that you can ask. It's part of the law. If you look at the Budget Act, Section 28, it's just a control section at the end of the Budget Act. It lays out the criteria that a request must meet, and one of them is that it has to be spent in the 2008–09 year. If it's determined that it doesn't have to be, then it really shouldn't even be proposed. So it's not a question of what we want to ask, or do we have our druthers, it's part of the law.

**KH:** Let me back up, Mac, and let me see if I can find out what your intents are. Are you saying that it would be your recommendation to the Joint Legislative Budget Committee to deny that ability to be able to transfer the Title I monies to schools?

**MT:** No. It would be that the Section 28 might not be the appropriate process. The Legislature could go ahead and say "yes," or it could consider it in their budget process, for example, after we learn what happens with the election. They could come in and say, "At this point, we give approval to go ahead and spend those." So I'm not trying to suggest that it *should* be held up, that it *will* be held up, that it shouldn't get out to schools very shortly. But there is a very long-standing tradition and process about the whole Section 28 allocation system.

**SR:** You *are* suggesting to hold up the money. You don't want the money to go out to the school districts until after the election or in July or in August. You want that money not only in the Title I, the IDEA [a federal law that provides funds for students with disabilities], and the Stabilization Funds (and by the way that's \$6 billion that school districts are going to receive), you want that money held up so you could use it to balance the budget if there need to be future cuts. That's what your recommendation is.

**MT:** But you make it sound like the monies won't eventually be spent on education. They will. It's just that we can pass it out to you, and the districts can all think: "Oh my, we've got all this new money now we can spend." And then we're going to turn around three weeks later and cut you by the same amount of money. That doesn't make any sense to us. So yes, we have a slightly different perspective on this. The money will go out to schools.

**SR:** I wasn't going to bring this up, but I've got to bring this up. I was going to behave, and I just can't. *Some* of those recommendations—just to make clear what some of the recommendations by the Leg Analyst's office are—"You know, take some of this Title I money and look at the EIA [Economic Impact Aid] formula, and give some of this Title I money into the EIA formula." [Economic Impact Aid funds are for students who are transient, need to learn English, or are from low-income families.]

**MT:** Economic Impact Aid, which has not been cut...

**SR:** ...and so you get a savings that you can now spread across everybody. Or do the same thing to the QEIA program [Quality Education Investment Act intervention program for low-performing schools]. I probably did make lousy recommendations when I was a staff person— I must have, and they were terrible—but I mean that type of stuff is illegal! Not to mention what Washington is going to think. I'm going to take one second, okay? The federal stimulus money is one of the bright stars that we got—\$8 billion. I think it's probably going to be more like \$12 billion to education. You're going to get \$6 billion between now and October. It is a bright star. Governors didn't ask for this. This is something the president wanted, and this is something Congress wanted for schools. If we handle this right, this is not going to be the end of it. We're going to get some additional funds. But some of these funds—like the Title I, the IDEA—50% later, 50% later. The Stabilization—33% later. If we spend this money incorrectly, we won't

get those additional funds, and we'll jeopardize the funding in the future. This is a very, very difficult task for school districts to do, because you're going to have to balance. You are going to know within the next six weeks, at the latest, how much money you're going to get in each one of these pockets of money. And in the Stabilization, it's going to be \$2.56 billion. That is enough money to backfill all the cuts that you're probably going to have to make in 2009–10.

Now the problem you have is that the feds want you to use that money to jack the economy, save jobs, hire people. If you're going to postpone that, you're going to have a PR problem not only with your local community and the press and so forth, you're going to have a potential problem with the feds. You are going to be audited like you've never been audited before with these funds. And remember, you're going to get these funds within—it's not going to be six weeks; it'll probably be more like four weeks. You need to plan for how you're going to spend it. And you're going to have to figure out ways of balancing. You cannot—you *cannot*—put it into reserves. You're going to have to figure out, how do you spread it over a couple years? How many jobs do I save? You've got to have a proposal, and you need to be working on that right now if you haven't. It's extremely, extremely important. The image of this is extremely, extremely important.

**KH:** Mac, do you distinguish at all between Title I and Special Education [IDEA] dollars versus the Stabilization funds, or do you see that all of them are on the table as potential state budget funds?

**MT:** No, I think you have to distinguish. I think there are some that you're going to have to spend as supplemental. We've recommended, suggested, to the Legislature that they should be very careful about the way they use them—for one-time purposes, that they don't make ongoing commitments for it.

But I think Steve's last comment just made my point. He said you had to plan for the use, for the expenditure of those monies. You're not going to be spending them in the near term. You're going to be spending them in 09–10. And we think we need to do it smartly. Steve is living in the old world of the 09–10 budget that was passed; that is your world. In that world, his points are more valid. We are not going to, in all likelihood, be in that world when we get to May or June. In that case, the Legislature, in our view and what I'll continue to recommend, needs to be smart in thinking about how to use those

funds (the Fiscal Stabilization in particular) in the way that the federal government intended, which was to maintain spending at as high a level as is possible. If we're going to have to make additional cuts, that's exactly what we should use them for.

**SR:** "Old" is a nice word, and I've been called that many, many times. Sometimes I like to take advantage of it, because I get a little forgetful every once in a while. But you're not going to get this money in 09–10. You're going to get this money now! You've got to plan for it now. You're not going to be able to postpone those decisions until after January. What are you going to do with the people that you're planning to lay off, and the layoff notices that you've made? Are you just going to take this money and let it sit?

**KH:** 30 seconds. You are welcome to join in this debate. You can tell that it has risen in intensity, and we would love to have you participate as well. Do not hesitate to raise your questions and pass them to the staff, and I would be pleased to take audience questions.

I don't know quite where to start—I guess, on the issue that the audience, Mac, has been watching for Title I money coming now, has been watching for Special Ed./IDEA money coming now, not later. They have been thinking in terms of 50% of this money comes out four weeks later. They've been thinking in terms of the federal government's speed issue is important, maintenance of staff is important, maintenance of jobs is important, and you're throwing a huge wrinkle in all of that planning for this entire room.

**MT:** No, I don't think that's true at all, Ken. The Section 28 that Steve referred to, you have 30 days, so it's at the middle part of May that under that process you'd make a decision. If the Legislature decides to wait another three weeks, I don't know how anybody could argue that that's somehow delaying districts in their use of the funds. They're not going to spend these monies and commit resources in 08–09. It can't happen physically. So we're not talking about necessarily delaying. We're not saying they wouldn't have the funds in July. And we're not saying they won't be spent on education. So I think there's really a fundamental difference here. Again, I have to stress, the budget situation on which a lot of these comments were made are based on February. I don't think February is going to be the world that we're going to face in six weeks.

**SR:** I'm going to talk about something related.

**KH:** 30 seconds.

**SR:** I think the Stabilization Funds that they're going to be giving out—not "I think," I'm quite certain— will be based upon the cuts that were made: 50% the revenue limits, 50% the categorical cuts. I think you'll have to apply to the governor's office for them. I think that will be a very simple process; it will be on a web page. There will be certain things that are in laws that you'll have to commit to, like you can't buy swimming pools and things like that. But you'll have pretty broad discretion on how you spend these monies. But I think you will find a lot of reporting requirements. What I tell my clients when dealing with these funds is, think about how that front page in the newspaper is going to read when they ask you how you're going to spend your money. You've got to have a viable story that you're going to be telling them, and you need to get prepared for that now.

**RB:** Just one comment on that: Something new, and that is site-level reporting. You have to show how money is being used down to the site level, which is something that we traditionally haven't done. We have spaces in the SACS [standardized account code structure] codes to do that, but we haven't done it.

**KH:** Can you give us a check-marked list so that "I concurred" and "I concurred" and "I concurred" and each site fills out this little assurance form?

**RB:** It doesn't look like that, from what I've seen so far. It looks like they actually want to see how the funding is spent at the site level. So we'll see.

**KH:** Do they know we have 8,000 sites in California? Do they know that one size doesn't fit all? We're not Nebraska?

**JN:** We're back to that one little kid acting out.

**KH:** Okay, questions from the audience. We're going to shift in terms of focus. Joe, the California Teachers Association has not supported a cut in pay in my district.

**JN:** Good!

**KH:** As a consequence, we are having to reduce staff, and we are encouraging them and asking them to save jobs by taking a cut in pay. Why is that not on the table?

**JN:** I'm going to leave local bargaining to the local folks who do that, who know all the context of what's going on in the local, and good luck. I think that everybody has to bring their interests to the table and do the best job they can. I will tell you that in 1978, I was rified in one of those crises that you described, and our local made the decision to protect

the salary schedule instead of jobs. I was rehired, they now have one of the higher salary schedules in the area, and I'm glad they did it. So you know, you have to work it out locally. Bring your interests to the table and do the best job you can with all the resources you have.

**KH:** When does California ever get around to revising school finance and develop an effective school-finance system? We spent \$3 million on a "Getting Down to Facts" study [of California education funding and governance]. We had some excellent information. What's happened? When is California ever going to revise the system, as has been so often called for?

**RB:** I think we're on the edge of it now. What I find interesting is the categorical [spending] flexibility that we've just been given with over 40 categorical programs. It's for only five years, but putting that yoke back on will be very difficult. In the context of the next five, there'll be some pressure to have new ones pop up like weeds, but I think it will be difficult because of all the economic news that Mac has been sharing with us. I really think that we're at the edge of being able to have that conversation.

Assemblywoman [Julia] Brownley has a bill out there, Assembly Bill 8, where she's looking at not necessarily student-weighted funding but a different way of looking at it. [Under student-weighted funding, dollars are allocated to schools on a per-pupil basis, the amount determined or "weighted" based on each student's needs.] I think that this crisis is not going to be as short-term as people might think. I'm a big, avid finance person, at least on the stock market. I see that we had the first drop in the CPI since 1955, we've had job losses, we're just hemorrhaging. Even the last month, I guess, the numbers didn't go down quite as much by 50,000, but still I think it's going to be bad. What that tells you is that you have an opportunity to do things differently and focus on the core. So as opposed to an input-driven system where you've said to everyone: "Here's what you need to do. You have to have this book, and you have to do that, and then it's Tuesday at 3:00 so that would mean that you're doing math and it won't be hands-on and you're going to put the manipulatives away," and all the things that we've done—those things are over. Instead, you're going to look at choice among public schools, you're going to look at a good testing system, accountability, and you're going to let districts have the flexibility to do what works. If they have a program that works (such as project-based

learning, which I typically don't like), I don't care. But I need an accountability system to do it. Then we have to figure out what to do with those schools that don't seem to be able to make the grade. We probably have never done a great job on that, but, for the first time, we have no money at the state level set aside for how we're going to deal with that.

So I think renaissance is here.

**KH:** Let me come back to that and see if I can get some of these other questions in. Mac, the question is on Proposition 1A. There is additional authority given to the governor to be able to set aside appropriated expenditures by the Legislature during an economic downturn. Can you explain that? And should that not be of concern to those that are trying to develop public agency budgets?

**MT:** It allows the governor, under certain situations, to reduce state operations and capital outlay appropriations by a given amount. He can also reduce certain cost-of-living adjustments [COLAs]. But we think the Legislature could put the COLAs that are vulnerable in the budget each year as a way of limiting the governor's discretion in that area. If that's the way it works out, he has some additional authority. But hopefully, again, speaking as a legislative staffer, it's not turning decision making over to him by too much.

**KH:** Rae, California has not been successful at winning federal competitive grants in the past. Why would you think they could now be successful in winning the Race to the Top grant? Does the state have the capacity to write a competitive proposal? George Bush is gone; do you think we have a better chance now?

**RB:** It's hard to say what party our governor is in; I'm not sure. That's a good comment, and I think that's why when I first started out my comments and Mac was smiling, the range of zero to \$1 billion on the amount that California might be able to get. Then I raised the firewall issue, where I think Joe made very clear where he's at. I think it will depend, really, on how dogmatic Arne Duncan and the rest of them at the U.S.

Department of Education are going to be on the assurances that they've set out and the rhetoric that they've put out on what they want to see with that. Remember that we talked about the Innovation Funds and there are some Teacher Incentive Funds that can be gotten through local LEA applications? I have much more hope for getting funding through that mechanism than I do at the state level.

**KH:** You've posed excellent questions, and my apologies that we've not been able to address more of them. One closing question for our panel, not more than 30 seconds each. Rae talked to it a little bit. When is the renaissance for public education going to occur? We went through 30 years of ups and downs in the history description. When is there a new renaissance? Joe?

**JN:** It's a hard question to answer because those of you who are in schools every day are being asked to do more and more to make sure the kids are reaching their targets, make sure that they are getting "proficient." Then what we do is we cut \$11 billion out of the system and ask you to continue to do the work that has to be done every day. It's hard to see the light at the end of that tunnel. That's why it's so important to vote "yes" on May 19. If we have any hope of getting to that renaissance and to have the basis of dollars that we can use to springboard to a renaissance, it's going to be based on voting "yes" on May 19. It gives us some breathing room so that we have the dollars we need to do the work in schools, to create the environment to have a renaissance.

**KH:** Steve? 30 seconds. Renaissance?

**SR:** I agree with the election. I agree with the stimulus. I think those are two things that we have to focus on. My problem with the renaissance is whether California has a commitment to really helping those students who are needy. We have more of those students, and I haven't seen evidence that the commitment is there.

**KH:** Mac, do you see a renaissance on the horizon anywhere?

**MT:** Not based on our charts, no.

**KH:** We don't like your charts, by the way. Rae, any closing comments on a renaissance for tomorrow?

**RB:** I really think that a crisis like this gives us an opportunity to think differently about how education is delivered and how we focus on it. It's not something that comes naturally because when times are good and everyone is comfortable, you don't see change happen. It's just the way of human nature. So I view it as a positive that we're looking at it already. I think when we look back from a 20-year perspective to this time that education will look very different—not only in the delivery but in how students perform—and we'll have a better handle on it. But it's going to be very uncomfortable, as change often is.

**KH:** This has been one of the best panels I've ever had an opportunity to be able to moderate. I hope you'll join with me in saying thank you very much.