

**AGENDA**  
**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2**  
**ON EDUCATION FINANCE**

**Assemblymember Julia Brownley, Chair**

**WEDNESDAY, APRIL 18, 2007**  
**STATE CAPITOL, ROOM 126**  
**4:00 P.M.**

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**ITEM 6440-6610 UNIVERSITY OF CALIFORNIA (UC) / CALIFORNIA STATE UNIVERSITY (CSU)**

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**ISSUE 1: ONLINE RECORD SECURITY PRACTICES (INFORMATIONAL ITEM ONLY)**

In the last three years, there have been several incidents of online information security breaches at UC and CSU campuses. Subcommittee members will be hearing from UC and CSU information technology officials on the current policies and steps that are being taken to prevent or minimize future breaches.

**BACKGROUND:**

Budget Staff has retrieved the following newspaper articles on computer breaches at UC and CSU campuses.

***March 17, 2004 (San Diego Tribune)***

San Diego State University warned more than 178,000 students, alumni and employees that hackers broke into a University computer server where their names and social security numbers were stored. University officials said the hacker infiltrated a server in the Office of Financial Aid and Scholarships in late December and that the problem was not discovered until the last week in February. This was the second time that this university had suffered a security breach. The University notified about 1,000 in December when a server used by the library was hacked.

***June 16, 2004 (News.Com)***

Security Breach at UCLA Blood and Platelet Center. According to a UCLA statement, thieves broke into a locked van in November 2003 and grabbed a laptop with a database that included names, birth dates and social security numbers for all 145,000 blood donors.

***October 25, 2004 (News.Com)***

The California Department of Social Services warned the providers and recipients of the State's In Home Support Services (IHSS) that their names, addresses, telephone numbers, social security numbers and dates of birth may be circulating the Internet. A UC Berkeley researcher had obtained this information as part of a research project into the effectiveness of the program. The stolen computer had about 1.4 million database records.

***March 21, 2005 (Internet News.Com)***

Officials at CSU Chico announced that they were the latest victims of hackers who had broke into a housing and food service computer system that contained vital information about 59,000 current, former and prospective students as well as faculty and staff.

**August 9, 2005 (San Francisco Chronicle)**

Hackers broke into Sonoma State University's computer system, where they had access to the names and social security numbers of 61,709 people who attended, graduated or worked at the school from 1995 to 2002.

**December 12, 2006 (Los Angeles Times)**

One or more hackers gained access to a UCLA database containing personal information on about 800,000 of the University's current and former students, faculty and staff members among others. The attempts to break into the database began in October 2005 and ended on November 21 when the suspicious activity was detected and blocked. The attack on the central campus database exposed records containing the names, social security numbers and birth dates for at least some of those affected.

**April 5, 2007 (Networld.Com)**

UCSF officials acknowledged that a possible security breach may have exposed 46,000 people to potential identity fraud. University officials sent out the warning after discovering that an unauthorized party may have been able to access the personal information of UCSF faculty, staff and students by exploiting a security hole in a computer server. The personal data included names, social security numbers, and bank account numbers used for electronic payroll and reimbursement deposits. There was no evidence that any specific information was accessed or acquired.

**COMMENTS:**

UC and CSU information technology staff will brief members on current policies and the steps that are being taken to prevent or minimize online security breaches of university information.

**ISSUE 2: MATH AND SCIENCE TEACHER INITIATIVE REPORTS**

The issue for the subcommittee members to consider is the Governor's proposed funding of \$1.1 million for the UC and \$2 million for the CSU to continue to support the Math and Science Initiative efforts.

**BACKGROUND:**

As part of the 2004 Compact with the Governor, the UC and the CSU agreed to develop a major initiative to improve the supply and quality of science and math teachers in public schools. In 2005-06, both segments launched a new program "California Teach."

Under this program, the UC's program "*One Thousand Teachers, One Million Minds*", plan to quadruple the number of UC graduates who go on to teach K-12 science and math by 2010.

The UC's program includes the following:

- Provides every UC student with the opportunity to complete a UC Science, Technology, Engineering and Mathematics (STEM) major and the required courses to become an intern credentialed K-12 teacher in California in four years
- Introduces undergraduates to the K-12 classroom as freshmen and sophomores through mentored classroom assistantships and seminars taught by UC faculty and K-12 Master Teachers
- Provides new intensive summer institutes that will help students develop the skills required to be the most effective teachers in a specific STEM subject area
- Prepares teachers throughout pre-service, service, induction, and professional development experiences to become National Board Certified teachers

In 2005-06, the State provided \$750,000, which was matched by \$750,000 in UC funds to support the initial infrastructure needed to implement the initiative. In 2006-07, the State provided an additional \$375,000, again matched by UC funds, for a total of \$2.25 million for the program. The funds are being used to develop and operate math and science resources centers on UC campuses. Each campus resource center has at least \$250,000 for program operations. In addition, UC has obtained funding from California business and industry to support freshman student field experiences and to support both mentor supervising teachers and Master teachers.

The Governor's 2007-08 budget proposes \$1.1 million for the UC to continue to support the math and science resource centers.

The CSU, being the largest producer of math and science teachers in the State, is using the math and science teacher initiative funds to expand its capacity in math and science teacher education. Rather than relying on a single program model, the CSU has expanded multiple pathways each one designed to serve a targeted group of potential math and science candidates. Each of the 23 campuses has designed its approaches based on the strengths of that campus along with the needs and opportunities in the region. In addition, each campus has a specific action plan that includes a numerical goal for increased credential production and strategies for reaching that goal. The campus approaches are integrated within a CSU system-wide program that includes the seven comprehensive strategies for implementing the initiative.

The CSU's approach includes recruitment of new students into the teaching field, financial support to assist in credential completion, increasing credential production through new approaches that expand credential pathways, community college program alignment, online preparation, and flexible programs for career changers.

In 2005-06, the State provided \$250,000 for the development of curriculum and services for four-year blended credential programs for math and science majors. In 2006-07, the State provided \$1.3 million for the CSU to continue the system-wide implementation of the initiative. This amount includes \$715,000 in base funding and a one-time increase of \$652,000. The Governor's 2007-08 budget proposes a \$2 million increase in base funding for a total of \$2.7 million.

#### COMMENTS:

Budget bill language requires the UC and CSU to submit a report to the Legislature and the Governor by April 1 of each year on the Math and Science Initiative's progress toward increasing the quality and supply of science and math teachers.

The UC has yet to submit the required report. However, UC staff has committed to submitting and presenting the findings of this report at the time of this hearing.

The CSU submitted the report to Budget staff via electronic mail on Thursday, April 12<sup>th</sup>. Report highlights of CSU's initiative include:

**Math and Science Teacher Production Growth.** Since 2005-06, credential production has increased 37.8 percent from 767 to 1,057. It increased 63.9 percent in math and 15.8 percent in the sciences. Increases are projected to continue at the level needed to double credential production.

**Teacher Recruitment Projects (TRPs).** According to the CSU, these projects have been in existence since 1987. In 2005-06, these projects were directed to focus on math and science teacher candidate recruitment. TRP activities include workshops and information sessions, faculty advising, test preparation, early field experiences through service learning and tutoring, and stipends for textbooks and other educational materials. From the report, however, Budget staff was unable to determine whether there has been an increase in recruitment since 2005-06.

**Related Initiatives Addressing Teacher Supply.** Activities include:

- National Science Foundation (NSF) Robert Noyce Scholarship grants for math and science teachers. A total of 12 campuses have been awarded these scholarships with total funding of more than \$5.2 million for campus multi-year scholarship programs. The Noyce scholarships provide \$10,000 for each of two year to math, science and engineering majors entering a credential program, and stipends of \$10,000 to career changers from math and science professions.
- Federal Funding for Math and Science Teacher Recruitment. In 2006, three campuses were awarded grants totaling more than \$5.1 million for a five-year period.
- Math and Science Teacher Retention. CSU campuses host summer institutes for math and science teachers. Most campuses will be including their own math and science graduates.

CSU staff will elaborate on the findings of the report and current efforts the system is taking on in the budget year including the establishment of the math and science resource centers. The proposed \$2 million funding augmentation is to be used for the establishment of these resource centers.

### **LAO Recommendation**

In their 2007-08 budget analysis, the LAO withheld recommendation on this issue pending review of the progress reports from both UC and CSU. However, during the pre-hearing and having received the CSU report, the LAO indicated to Budget staff that they believe it is premature to expand the program at this point and further recommend against the \$2 million General Fund proposed augmentation.

**ITEM 6360 COMMISSION ON TEACHER CREDENTIALING (CTC)****ISSUE 1: SUPPORT BUDGET**

The issue for the subcommittee to consider is the Commission on Teacher Credentialing (CTC) 2007-08 proposed budget.

**BACKGROUND:**

The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues permits and credentials to classroom teachers, student services specialists, school administrators, and child care instructors and administrators. In total, CTC issues almost 200 different types of documents. In addition to setting teaching standards and processing credentials, CTC (1) performs accreditation reviews of teacher preparation programs; (2) develops, monitors, and administers licensure exams; and (3) investigates allegations of wrongdoing made against credential holders. The CTC also administers two local assistance programs—the Internship and Paraprofessional Teacher Training programs.

The Governor's proposed budget includes a total of \$58.9 million for CTC in 2007-08. Of this amount, \$39.8 million is Proposition 98 General Fund to support the Alternative Certification Program or Internship Program (\$31.7 million), the California School Paraprofessional Teacher Training Program (\$7.8 million), and the Teacher Misassignment Monitoring (\$308,000).

**Internship Programs.** These programs provide an alternative route to the teaching credential through intensive preparation programs that enable candidates to work as intern teachers while they complete credential requirements. An intern is defined as a program operated by a school district, county office of education, college, or university, or other public education entity and designed to provide a concentrated internship program leading to a teaching credential. The Commission allocates \$2,500 per intern per year to qualified program sponsors for the purposes of providing instruction, support and assessment to interns. Currently, this program serves 8,000 participants.

**California School Paraprofessional Teacher Training Program.** The program was established for the purpose of recruiting school paraprofessionals to participate in a program designed to encourage them to enroll in teacher training programs and provide instructional service as fully credentialed teachers. The programs are operated by a school district or county office of education and are designed to provide a professional development and support system leading to completion of a bachelor's degree and, ultimately, a teaching credential.

Currently, the program serves 1,779 participants who are working on completing their bachelor's degrees and/or their professional teacher preparation. Participants receive grants of \$3,000 annually.

**Teacher Misassignment Monitoring.** The Commission is charged with the oversight of the appropriate and legal assignment of certificated personnel. Education Code requires each county superintendent of schools to monitor and review the certificated employee assignments in one-fourth of their school districts each year and to submit an annual report to the Commission summarizing the results of all assignment monitoring and review. This section also requires the Commission to submit a report to the Legislature concerning teacher assignments and misassignments based on these reports of the county superintendent. The law also requires that the Commission monitor and review certificated assignments for the State's seven single-district counties at least once every three years. The Commission allocates \$308,000 to school districts to reimburse districts for the expenses associated with these activities.

The following table provides information on expenditures by fund:

<b>Commission on Teacher Credentialing: Summary of Expenditures by Fund</b>			
<i>(Dollars in Thousands)</i>			
	<b>Actual 2005-06</b>	<b>Estimated 2006-07</b>	<b>Proposed 2007-08</b>
General Fund	\$2,700	-	-
General Fund, Proposition 98	24,988	49,881	39,881
Teacher Credentials Fund	11,442	15,369	14,601
Test Development and Administration Account	2,814	4,792	4,188
Reimbursements	76	1,027	248
<b>Total Expenditures (All Funds)</b>	<b>\$42,678</b>	<b>\$71,069</b>	<b>\$58,918</b>

The Governor's proposed funding includes a decrease of \$12.2 million from the 2006-07 budget. Of this amount, \$10 million are associated with the Governor's proposal to add \$10 million in one-time General Fund Proposition 98 in 2006-07 for EnCorps, a new teacher recruitment program. The one-time funding would be available in 2007-08. However, since funds are appropriated from 2006-07 Proposition 98 savings, expenditures for the new program are budgeted in 2006-07 and appear as a funding loss in 2007-08. In addition, the budget proposes a net reduction of \$1.4 million in expenditures from the two special funds that support the CTC's State operations -- the Teacher Credentials Fund and the Test Development and Administration Account. The majority of this reduction reflects a \$1.5 million decrease in pro-rata charges assessed to the CTC and a \$100,000 increase for other baseline budget adjustments. In total, the Governor's budget proposes to expend \$18.8 million from CTC's two special funds in 2007-08.



The 2005-06 budget provided a \$2.7 million General Fund (Non-Proposition 98) appropriation to address a shortfall in special funds to support the CTC's state operations budget. These funds were provided on a one-time basis. Healthy fund balances were restored in 2006-07 and expenditures from the Teacher Credentials Fund and the Test Development and Administration Account were increased by \$2.7 million to offset the elimination of one-time General Funds.

#### **MAJOR BUDGET CHANGES:**

***Credential Processing Time.*** The Governor proposes to continue position authority provided in the 2006-07 budget to reduce credential processing time and backlogs. Specifically, the 2006-07 budget converted four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment and Waivers Division for this purpose. The Governor proposes to continue this authority until June 30, 2008.

The Governor also proposes to continue language requiring the CTC to submit quarterly reports to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

***EnCorps.*** The Governor proposes to provide \$10 million in one-time Proposition 98 funds to create the EnCorps Teacher program in 2007-08. This program is intended to add 2,000 experienced retirees to the teaching corps, particularly retirees with subject matter knowledge in several shortage fields -- math, science, and career-technical education. The program is proposed as a public-private partnership between local education agencies and private business and industry. Once recruited by the EnCorps program, retirees would be prepared for teaching through CTC's Intern Program, which provides internship grants to Institutions of Higher Education, school districts, and county offices of education. It is unclear how business and industry would participate in EnCorps. According to the Administration, there is some potential for business and industry to continue the salaries of EnCorps participants during their internship. Funding for this program would be available for a two-year period commencing in 2007-08.

***Teacher Data System Development.*** The Governor's budget provides \$1.1 million in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2007-08. Of this total, the Governor provides \$248,000 for 2.5 limited-term positions and other expenses to CTC and \$894,000 for one limited-term position and other expenses to the California Department of Education (CDE) for development of CALTIDES. The 2006-07 budget provided a total of \$938,000 in one-time federal Title II funds for this purpose -- \$252,000 for CTC and \$686,000 for CDE.

**Teacher Performance Assessment.** The Governor's Budget provides \$237,000 for 2.0 positions and other expenses to support development and implementation administration of the Teacher Performance Assessment pursuant to SB 1209 (Scott). This bill was signed into law on September 12, 2006. This bill includes the following changes: (1) streamlines preliminary credential requirements for new teachers who have completed State adopted credentialing requirements in another state, (2) consolidates testing requirements for teacher credential candidates, (3) provides incentives to strengthen the preparation of teacher interns, and (4) encourages experienced teachers to teach and mentor new teachers in high priority schools among other revisions of teacher credentialing law.

<b>COMMENTS:</b>
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Budget staff would like to note that the CTC has made substantial progress in reducing its backlog of credential applications and remains committed to further reduction and elimination of this backlog in 2007-08. This effort will require continued staffing in 2007-08, as proposed by the Governor.

In regards to the proposed new teacher recruitment program, EnCorps, Budget staff understands that the new program would be an expansion of the existing Intern Program. The 2006-07 budget provides \$31.7 million in Proposition 98 funding to CTC for this program, which currently provides funding for approximately 8,000 interns annually. The proposed expansion is based on one-time funding to address particular teacher shortages in math, science, and career-technical education.

**ISSUE 2: APRIL 1<sup>ST</sup> DOF LETTER: IMPLEMENTATION OF THE REVISED ACCREDITATION SYSTEM AND SUPPORT FOR CREDENTIAL REFORM ACTIVITIES**

In an April 1<sup>st</sup> letter, DOF proposes the following amendments to the January 10<sup>th</sup> budget:

**Amendment to Budget Bill Item 6360-001-0407, Support, Commission on Teacher Credentialing**

It is requested that Item 6360-001-0407 be increased by \$340,000 to provide 2.0 permanent positions to implement the revised accreditation system and one limited-term position to support credential reform activities. Pursuant to Chapter 517, Statutes of 2006 (SB 1209, Scott), the Commission on Teacher Credentialing (Commission) will revise the standards related to intern and induction programs. The Commission will also review and revise the Special Education Credential, the Reading and Language Arts Specialist Credential, the Reading Certificate, and the Designated Subjects Credential for Career and Vocational Education.

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

X. Of the funds appropriated in Schedule (1), \$227,000 and 2.0 permanent positions are provided to support implementation of the revised accreditation system.

X. Of the funds appropriated in Schedule (1), \$113,000 and 1.0 limited-term two-year position is provided to support review and revision of the Special Education Credential, the Reading and Language Arts Specialist Credential, the Reading Certificate and the Designated Subjects Credential for Career and Vocational Education, and revision of the standards related to intern and induction programs.

**COMMENTS:**

The *2006-07 Budget Act* provided one-time federal funds to support the evaluation of the Special Education Credential and the revision of standards related to teacher intern and induction programs. The continued resources for these activities will support work toward the revision of special education standards and the revision of teacher intern and induction standards as identified in SB 1209.

Over the last two years, the CTC has been in the process of evaluating an outdated accreditation process for teacher preparation programs. The accreditation workgroup recommended to the Commission a model that was data driven and ensures accountability. This model was adopted by the Commission in September 2006. The CTC is currently working on the implementation plan to ensure the new model will be ready in 2007-08. Once implemented, the accreditation model will generate additional workload that is addressed by these positions.

In addition, the Governor is also proposing legislation (SB 52, Scott) in the current year directing the CTC to streamline the credentialing process for career-technical education teachers. These efforts are intended to address 175 different credentials for career technical education teachers reflecting industries and trades in California. The Governor proposes that, by September 30, 2007, the CTC establish a more streamlined list of credentials utilizing the 15 industry sectors included in California's new curriculum standards for career-technical education.

CTC staff will brief the members in further detail on the revised accreditation process and the teacher credentialing reforms.

**ISSUE 3: SUPPLEMENTAL REPORT LANGUAGE (SRL) OF THE 2006  
BUDGET ACT: LEGISLATIVE WORKING GROUP ON TEACHER  
CREDENTIALING AND ACCREDITATION REFORM**

The CTC and LAO will provide an overview of the Report of the Legislative Working Group on Teacher Credential and Accreditation Reform (March 2007) as required by Supplemental Report Language (SRL) of the *2006 Budget Act*.

**BACKGROUND:**

The Supplemental Report of the *2006 Budget Act* required the Assembly Education Committee and Senate Education Committee to convene a working group to undertake major teacher credential and accreditation reform.

The language required the reforms to include:

- 1) Significantly simplifying credential requirements, devolving credentialing responsibility to institutions of higher education and county offices of education, and eliminating any redundancies associated with credential reviews and fingerprinting;
- 2) Significantly simplifying the state's existing accreditation system by shifting from periodic, input-oriented reviews to annual reviews of measurable performance outcomes; and
- 3) Considering various governance options for administering the teacher credentialing process.

Pursuant to the SRL, the working group included staff representatives from the Senate Education Committee, Assembly Education Committee, Senate Budget Committee, Assembly Budget Committee, the Legislative Analyst's Office, the Office of the Secretary for Education, the Department of Finance, the Commission on Teacher Credentialing, and the Department of Education. The working group met on January 4, 2007, to discuss the issues outlined above.

**Issues and Recommendations**

The following is a summary of each of the issues addressed by the working group and resulting recommendations:

**Issue 1: Significantly simplifying credential requirements, devolving credentialing responsibility to institutions of higher education and county offices of education, and eliminating any redundancies associated with credential reviews and fingerprinting.**

- Significantly simplifying credential requirements.

*Recommendation:* The Legislature should ask the CTC to conduct a survey of districts regarding the use of supplemental authorizations. The survey should ask whether or not there is a desire among districts for these authorizations and should include questions about the purpose of the authorizations, how districts use them, and whether districts find the authorizations helpful or constraining. The survey should also seek advice on the feasibility of consolidating the 63 supplemental authorizations into broader categories.

The Legislature should also ask the CTC to look into the feasibility of limiting supplemental authorizations to the 13 single subject credential authorizations listed in Education Code 44257 and limiting subject matter authorizations to the 10 core subjects listed in Section 9101 of Title IX of ESEA (English, reading/language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography).

The Legislature should require the CTC to report to the Legislature by April 1, 2008 on the results of the survey and on recommended changes to: 1) supplementary/subject matter authorizations; 2) career technical education credentials; 3) adult education credentials; and 4) special education credentials.

The Legislature should also continue to monitor recently enacted legislation, specifically SB 1209 and SB 2042 to see if the legislation has been implemented as intended.

- **Devolving credentialing responsibility to institutions of higher education (IHE) and county offices of education.**

Recommendation: Although the Commission has made progress in reducing credential processing times, the Legislature may want to consider making changes to statute that would ensure credential processing is timely and efficient. The Legislature should, in consultation with the CTC, institutions of higher education (IHEs) and school districts, determine a reasonable timeline for credential processing and establish that timeline in statute. This timeline should also include a deadline for IHEs to submit credential information to CTC. Once this timeline is in statute, the Legislature could amend statute to shorten the term of the Temporary County Certificate to six months or less.

If instead, the Legislature wishes to devolve credentialing responsibilities to IHEs or County Offices of Education (COEs), the Legislature should first consult with both groups, school districts and other interested stakeholders on the feasibility of this option.

- **Eliminating any redundancies associated with credential reviews and fingerprinting.**

Recommendation: The criminal background review of the credential application process does include redundancies that result in additional costs. However, it appears that these redundancies provide certain protections to both pupils and credential candidates that may be important to preserve. Should the Legislature seek to devolve credentialing and criminal background responsibilities to counties, it may require changes to various sections of the education and penal codes to ensure adequate protection of school children and due process for candidates and teachers who apply for credentials.

**Issue 2: Significantly simplifying the State's existing accreditation system by shifting from periodic, input-oriented reviews to annual reviews of measurable performance outcomes.**

Recommendation: The Commission's actions appear to be in line with the recommendations of the LAO. Staff recommends that the Legislature monitor the Commission's implementation of the new system and ask the Commission to report on the implementation and accreditation activities prior to the 2009-10 fiscal year.

The Legislature may wish to consider amending existing statute to require that accreditation of educator preparation programs be based, in part, on program and candidate data collected by programs and reported to the Commission.

**Issue 3: Considering various governance options for administering the teacher credentialing process. Should educator licensing be a function of the State Board of Education?**

*Recommendation:* The working group did not have a final recommendation with regard to shifting responsibilities from an independent and autonomous board to a subcommittee of the State Board of Education or any other governance models. While shifting some of the Commission's workload to the State Board of Education could potentially lead to better coordination between K-12 policy and educator preparation, it could also dilute focus on educator-specific issues due to the competing demands of the State Board's portfolio.

Given the complexity of a shift in the governance structure, the Legislature should continue to monitor the progress of the Commission as it addresses some of the operational concerns previously mentioned in this report. Should financial, processing, or other problems persist, the Legislature can revisit the governance issue in 2007-08.

**COMMENTS:**

Copies of the full working group report are available on the Assembly Education website: <http://www.assembly.ca.gov/acs/newcomframeset.asp?committee=6>.



## **ITEM 7980 CALIFORNIA STUDENT AID COMMISSION (CSAC)**

### **ISSUE 1: SUPPORT BUDGET**

The issue for the subcommittee to consider is the California Student Aid Commission (CSAC) 2007-08 proposed support budget.

### **BACKGROUND:**

CSAC is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant program, which is the primary state source of financial aid. In addition, the Commission administers the federal guaranteed Student Loan Operating Fund (SLOF) program.

The Governor's proposed budget includes State and federal funds totaling \$1.7 billion. Of these total funds, \$892 million is General Fund support, all of which is used for direct student aid for higher education. A special fund covers the Commission's operating costs.

The following table provides information on CSAC's budget by program:

<b>California Student Aid Commission: Summary of Expenditures by Fund</b>			
<i>(Dollars in Thousands)</i>			
	<b>Actual 2005-06</b>	<b>Estimated 2006-07</b>	<b>Proposed 2007-08</b>
General Fund	\$735,471	\$827,178	\$891,608
Federal Student Loan Reserve Fund	655,200	682,800	682,800
Student Loan Operating Fund	108,100	110,691	110,357
Federal Trust Fund	12,287	10,622	10,622
Reimbursements	72,953	28,377	28,377
<b>Total Expenditures (All Funds)</b>	<b>\$1,584,011</b>	<b>\$1,659,668</b>	<b>\$1,723,764</b>

### **MAJOR BUDGET PROPOSALS:**

**Cal Grant Program Adjustments.** The Governor's proposed budget includes a \$61.3 million increase over the revised 2006-07 level for anticipated growth in the Cal Grant program, reflecting increased participation and the undergraduate fee increase of seven percent and 10 percent at UC and CSU, respectively.

**Assumption Program of Loans for Education (APLE).** The Governor's budget provides a \$2.9 million increase over the revised 2006-07 level for anticipated growth in costs in the APLE program (*Issue 2*).

**Math and Science Teacher Initiative APLE Warrants.** The Governor's is proposing the authorization of 600 new warrants for the APLE program for students participating in the Governor's Math and Science Teacher Initiative (*Issue 2*).

**Cal Grant Delivery System.** The Governor's budget proposes \$1.1 million to support the Cal Grant Delivery System. Of this amount, \$798,000 is one-time funding.

The table below compares CSAC's revised 2006-07 budget with the proposal for 2007-08. As the table shows, funding for State financial aid programs would increase by \$64 million, or 7.7 percent, from the current year. This increase is primarily due to additional costs associated with the Cal Grant programs (\$61 million) and APLE program (\$2.9 million). In contrast to some past years, no funding from the Student Loan Operating Fund would be redirected to support Cal Grant costs.

<b>Student Aid Commission Budget Summary<sup>a</sup></b>				
<i>(Dollars in Millions)</i>				
	2006-07 Revised	2007-08 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant Programs				
Entitlement	\$666.5	\$725.6	\$59.1	8.9%
Competitive	114.2	117.3	3.1	2.7
Pre-Chapter 403/00 <sup>b</sup>	1.4	0.2	-1.2	-86.6
Cal Grant C	8.9	9.2	0.3	3.2
Subtotals—Cal Grant	(\$790.9)	(\$852.2)	(\$61.3)	(7.8%)
APLE <sup>c</sup>	\$46.3	\$49.3	\$2.9	6.3%
Graduate APLE	0.4	0.4	—	—
National Guard APLE	—	0.2	0.2	N/A
Law enforcement scholarships	0.1	0.1	—	—
<b>Totals</b>	<b>\$837.8</b>	<b>\$902.2</b>	<b>\$64.4</b>	<b>7.7%</b>
Funding Sources				
General Fund	\$827.2	\$891.6	\$64.4	7.8%
Federal Trust Fund <sup>d</sup>	10.7	10.7	—	—
<sup>a</sup> In addition to the programs listed, the commission administers the Byrd Scholarship, Child Development Teacher and Supervisor Grant, and California Chafee programs—all of which are supported entirely with federal funds. It also administers the Student Opportunity and Access program, a state outreach program supported entirely with Student Loan Operating Fund monies. <sup>b</sup> These programs predate the Cal Grant Entitlement programs and are being phased out. <sup>c</sup> Assumption Program of Loans for Education. <sup>d</sup> These monies pay for Cal Grant costs.				

**COMMENTS:****LAO Analysis**

**Cal Grant Programs.** The Governor's budget would increase funding for the Cal Grant Entitlement programs by \$59 million, or 8.9 percent, and Cal Grant competitive programs by \$3.1 million, or 2.7 percent.

The Governor's budget funds approximately 900 new High School Entitlement awards. This reflects growth of 2 percent, consistent with the projected growth in high school graduates for 2006-07. It also funds 880 new Transfer Entitlement awards, which reflects a 15 percent increase over the current year. The Governor's budget includes no funding to increase the number of new Competitive awards because CSAC already issues 22,500, which is the maximum number allowable under statute.

The budget proposal includes augmentations to increase the fee coverage portion of Cal Grant awards for UC and CSU students to match proposed fee increases at those segments. The maximum Cal Grant award for needy students at private institutions would remain unchanged from the current-year level of \$9,708.

**Cal Grant Entitlement Expanded.** Chapter 822, Statutes of 2006 (AB 2813, De La Torre), expanded eligibility for the Transfer Cal Grant Entitlement. Prior to enactment of this bill, qualified students who were transferring from a community college to a four-year university were entitled to a Cal Grant if, among other requirements, they had not yet reached 24 years of age. Chapter 822 raised the age threshold to 28 years of age. This change is estimated to result in several hundred additional students receiving the entitlement each year, with a fiscal impact of about \$2 million in the budget year.

LAO Recommendation

**Private Cal Grant Funding Restored, but Still No Policy.** As called for in state law, students attending a public university segment have the cost of their fees covered through Cal Grants. Because of the wide variation in tuition charges among the many private and independent colleges in the state, the value of the Cal Grant for students attending such institutions varies, though a maximum amount is established by the annual budget act.

In recent years, we have recommended the Legislature establish in statute a policy that would link the value of the Cal Grant for needy students at *nonpublic* institutions to the General Fund subsidy the state provides for needy students at *public* institutions.

Last year the Legislature passed legislation (AB 358, Liu) that would have set the private Cal Grant at 90 percent of the average General Fund subsidy provided to needy UC and CSU students. This bill was vetoed by the Governor. For 2007-08, the Governor proposes to leave the maximum private Cal Grant award unchanged at \$9,708, which we estimate to be about \$1,300 lower than the parity target sought by AB 358.

**Cal Grant Delivery System (GDS).** The Governor's budget proposes \$1.1 million to support the Cal Grant Delivery System. Of this amount, \$798,000 is one-time funding.

According to CSAC, the current system does not provide students with Web access to current grant status or provide the student with tools to determine best options for the student educational goals and cost. Students with specific Cal Grant questions often have to wait an excessive amount of time in a telephone queue to obtain an answer to a simple question that could be obtained through the Web. In addition, one of the major factors that was considered in replacing the existing program, is that the U.S. Education Department has already begun requiring certain institutions (those participating in PELL and Direct Lending) to update their technology to an XML format. CSAC has been receiving information regarding this new technology in preparation for the Department to require it of all institutions, including the Commission. While CSAC has not been notified yet as to when exactly this XML technology will be required, they are preparing for such a time by upgrading the 1970's technology currently supporting the system.

GDS will allow students to have access to real time transactions and data retrieval, they will be able to make information changes such as student demographics and take actions such as school changes online, and will provide them with the tools to determine desired college of attendance and potential financial aid available from State and federal government.

**GDS Cost.** Information submitted by CSAC last year included a one-time cost of \$5.2 million over two years and 5.3 positions above the current staffing level. Of this amount, \$2.3 million is to be used for the IT contract, hardware and software. Ongoing costs will be \$369,500 per year.

The *Budget Act of 2006* provided \$1.5 million to support this system. Of this amount, \$1.3 million was one-time funding.

CSAC staff will brief members on the status of GDS and how the proposed funding will be used.

**ISSUE 2: IMPACT OF PROPOSED FEDERAL BUDGET ON STUDENT LOANS**

Sam Kipp, EdFund President will brief members on the potential impacts of the proposed federal budget on student loans.

**BACKGROUND:**

Operating under California statute, EdFUND is a nonprofit "auxiliary" organization of the California Student Aid Commission, which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions. Colleges and universities, which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFUND is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFUND, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace. In recent years, when EdFUND's Student Loan Operating Fund was flush, the Legislature and the Governor EdFUND dollars to support the continued operations of the Student Aid Commission (\$15.4 million ongoing) as well as to supplant state money in the Cal Grant program (on a onetime basis.)

**Status of Student Aid Commission/EdFUND Operating Agreement.** The Student Aid Commission's governing board annually delineates the activities of the Commission's auxiliary organization (EdFund) through a Memorandum of Understanding, also known as their "operating agreement." In recent years, the Legislature has expressed concern with some aspects of the way EdFund has carried out these activities and with CSAC's oversight of EdFund activities. For example, in 2005, the Legislature held several hearings that identified concerns with the administration of FFELP in the state. In response, the Legislature: (1) directed the LAO to prepare a report that identified various "structural options" for improving access to these loans; and (2) directed the State Auditor to perform an audit of CSAC and EdFund's administration of FFELP. The CSAC committed to the Auditor and the Legislature that it would modify its operating agreement with EdFund in response to their concerns. When it became clear that CSAC would not be able to approve a new operating agreement before the existing agreement was set to expire on September 30, 2006, CSAC sought an extension until January 31, 2007. In notifying the Legislature of this extension, CSAC and EdFund assured the Legislature that the extension would allow sufficient time to

develop a new agreement that responds to the Auditor's concerns. In mid-January, CSAC now stated that it would be unable to meet that deadline and sought another extension until June 30, 2007. The Joint Legislative Budget Committee granted CSAC the extension. Again, CSAC assures the Legislature that it will have a new agreement in place before the June 30, 2007 deadline. Staff recommends that the committee request that the Student Aid Commission and EdFUND provide an update on the status of adopting a new Operating Agreement.

### **Status of Pending Federal Changes Impacting EdFUND.**

Pending changes to the FFELP, which are made at the federal level, will have a direct impact on EdFUND and its fiscal condition. Many of the proposed changes are pending and any programmatic reductions would not occur until the beginning of the next federal fiscal year. Even under the best-case scenario, the proposals being debated in Congress may result in a fiscal scenario for EdFUND that will call into question its ability to continue subsidizing the ongoing operations of the California Student Aid Commission and its associated programs. Following is a discussion of three key components that impact the fiscal condition of EdFUND and services to students:

a) Status of California Voluntary Flexible Agreements (VFA). One of the most crucial fiscal issues uncovered by the Bureau of State Audits (BSA), in an audit conducted of EdFUND in April of 2006, concerned the negotiation of the state's Voluntary Flexible Agreements (VFA) with the United States Department of Education (USDE). In 1998, amendments to the Higher Education Act of 1965 gave USDE the authority to negotiate VFAs with individual guaranty agencies. Those guaranty agencies with VFAs receive waivers from certain federal laws and regulations in exchange for meeting specified performance outcomes, all of which are negotiated on a state-by-state basis. The overarching intent of the VFA process is to improve FFELP by encouraging experimentation and sharing of best practices among guaranty agencies. More specifically, VFAs are intended to shift the focus from collecting on defaulted student loans (the emphasis of the standard guaranty agency model) to improving outreach, default prevention, and loan servicing. Currently, five guaranty agencies, including CSAC, have VFAs.

EdFUND is predicting that, moving forward, no additional revenues will be derived from the VFAs. The President's current budget proposal eliminates the program altogether. However, staff would note that, including California, several other large state guarantors (including Texas, Massachusetts, and Wisconsin) have VFA contracts in place, and eliminating the program would have fiscal ramifications nationwide.

b) Defaulted Loan Collection Activities. Like many state guarantors, the bulk of EdFUND's revenues are derived from recoveries on student loan defaults. Under current law, guarantors are allowed to retain 23 percent of the revenue derived from collections activities. Revenues to guarantors that are derived from repackaging defaulted loans into the newer Consolidation Loans, were reduced by the federal government in October of 2006, allowing EdFUND to keep only 10 percent (where they were previously able to retain 18.5 percent). Under each of the various federal funding scenarios, including the President's Budget Proposal as well as the competing House of Representatives bill (H.R. 5), the amount of funding that guarantors will be allowed to retain will be reduced – anywhere from 3 percent to 7 percent in the first year (depending on the proposal). H.R. 5 would reduce the collection revenues incrementally, allowing guarantors to keep 20 percent of the revenues in 2007-08 and then reducing that amount to 18 percent in out-years. The President's proposal would reduce revenues immediately; beginning in 2007-08, guarantors would be allowed to retain only 16 percent of collection revenues.

c) Assessment of a Default Fee on Student Loans. Recent changes in federal law now require FFELP guaranty agencies (including EdFUND) to charge borrowers a one percent federal default fee on the principal amount of all FFELP loans issued after July 1, 2006 and deposit the proceeds of the fee into the Federal Fund. The assessment of this fee was designed to increase the amount of federal funding that guaranty agencies held in reserve, thus decreasing the federal government's fiscal liability for the program. Guaranty agencies in exceptional financial health have been able to waive the fee for student borrowers, thereby "backfilling" the fee revenue with their own resources. EdFUND, whose financial reserves have declined significantly, was able to waive the fee for borrowers from July 1, 2006 through September 30, 2006 – which was the period of time during which the bulk of the student loan activity occurs. In order to avoid having to assess a one percent fee on students in the future, EdFUND has partnered with 18 student loan lenders in the current year and approximately 13 lenders for 2007-08, who have agreed to pay the fee on behalf of its student clients. This arrangement will allow EdFUND to comply with federal law (and deposit an amount equal to one percent into the Federal Fund) without having to charge borrowers directly.

**COMMENTS:**

Sam Kipp, EdFUND President, will brief members on the impact of the federal proposal on student loans.

**ISSUE 3: FOLLOW-UP ON THE 2006 EDFUND AUDIT RECOMMENDATIONS  
(INFORMATIONAL ITEM ONLY)**

Sam Kipp, EdFund President, will brief members on the status of the recommendations.

**BACKGROUND:**

In 2006, the Joint Legislative Audit Committee (JLBC) requested that the Bureau of State Audits (BSA) review CSAC's governance and oversight of its auxiliary organization, known as EdFUND, including EdFUND's financial management and business practices. The audit committee was interested in ensuring the proper use of state assets in maximizing support for financial aid purposes.

**Audit Highlights**

- BSA's review of the Commission and EdFUND's administration of the FFEL Program revealed the following:
- Changes in federal laws governing the FFEL Program raise doubts that the State will be able to sustain the program.
- Ongoing tensions between the Commission and EdFUND have hampered the Commission's ability to renegotiate a revenue agreement with the U.S. Department of Education, which may have cost the State at least \$24 million in federal fiscal year 2005. These tensions also have delayed attempts to expand and diversify EdFUND's financial services.
- The Commission approved sizeable bonuses for EdFUND executive staff even when the FFEL Program had an operating deficit.
- The Commission has maintained poor oversight over EdFUND. For example, the Commission has not ensured that EdFUND travel and business policies are fiscally conservative, which results in less funding available for the Commission to fulfill its mission.

**COMMENTS:**

Sam Kipp, EdFUND President, will brief members on the status of the BSA recommendations.