

AGENDA ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

ASSEMBLYMEMBER . JOSEPH SIMITIAN, CHAIR

WEDNESDAY, MARCH 20, 2002
STATE CAPITOL, ROOM 126
4:00 P.M.

REGULAR BUSINESS

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ITEMS TO BE HEARD**6440 UNIVERSITY OF CALIFORNIA**

ISSUE 1: PROGRESS REPORT ON EQUITY ISSUES IN UC ADMISSIONS AND THE IMPLEMENTATION OF YEAR ROUND OPERATIONS (INFORMATIONAL ONLY)

UC President Richard C. Atkinson will address the Subcommittee on progress made with respect to his equity initiatives in UC admissions. He will also give the Subcommittee a brief progress report on the University's implementation of year-round operations at the Berkeley, Los Angeles, Santa Barbara campuses and plans for implementing year-round operations at the other UC campuses.

BACKGROUND/COMMENTS:**UC Equity Issues in Admissions:**

In July 1995, the UC Board of Regents eliminated the use of affirmative action in University admissions policies by adopting Regent's Resolution SP-1. Soon after the Regent's adoption of SP-1, California voters approved Proposition 209, amending the State Constitution to incorporate SP-1's ban on the use of race or ethnicity in University admissions. Since that time, the University of California has undergone dramatic changes in its admissions practices—partly in response to the precipitous decline in the admission of underrepresented students at UC campuses. At the urging of President Atkinson several important admissions changes have been adopted by the UC Board of Regents including the following:

- **Eligibility in the Local Context.** The fall 2002 admission cycle is the second in which UC will be offering an additional route to achieving UC eligibility, beyond the statewide eligibility criteria. The Eligibility in the Local Context program grants UC eligibility to the top 4 percent of students in each California high school, based on their grades in UC-required courses. UC makes this determination based on the evaluation of student transcripts forwarded to UC by individual high schools.
- **Dual Admissions.** The UC faculty and Board of Regents have approved a new program to expand upon the Eligibility in the Local Context program. Under the new "Dual Admissions" program, the top 4 percent to 12.5 percent of students in each California high school will be granted admission to UC, provided they first complete a transfer program at a community college. UC has indicated that this policy will take effect as soon as funding for the program is secured from the state.
- **Comprehensive Admissions.** At the urging of the Legislature and UC President Atkinson, the UC Board of Regents approved a modified campus selection process for freshman applicants, beginning with the class applying for fall 2002 called

"comprehensive review." The modified approach replaces the previous "two-tiered" admissions process, embedded in Regent's Resolution SP-1, in which each campus was required to admit 50-75 percent of its freshman class solely on the basis of certain narrow academic factors. It is hoped that comprehensive admissions will lead to a more thorough and complete review of a prospective student's qualifications by evaluating students using multiple measures of achievement and promise when they are applying to a UC campus. In the Budget Act of 2001, the Legislature and the Governor provided \$750,000 to encourage the implementation of comprehensive admissions at UC. Given the adoption of comprehensive admissions at UC, on March 13, 2002, Assembly Budget Chair Jenny Oropeza requested that UC provide the Legislature with a detailed report by no later than April 12th on the extent to which comprehensive admissions has been implemented at all UC campuses.

Standardized Testing and UC Admissions. UC faculty and the Regents are currently considering replacing the SAT I in UC admissions with an admissions test that is more aligned to what students learn in California's K-12 system. Aptitude tests such as the SAT I have a historical tie to the concept of innate mental abilities and the belief that such abilities can be defined and meaningfully measured. President Atkinson has asserted that neither notion has been supported by modern research and that few scientists who have considered these matters seriously would argue that aptitude tests such as the SAT I provide a true measure of intellectual abilities.

President Atkinson has stated that he believes that a new admissions test tied to the college preparatory curriculum in high school would send a clear message to students, parents and schools that what matters most is achievement in school, not mastery of test-taking skills, and that students should prepare for college by taking and excelling in rigorous courses. The Regents are expected to vote of potential changes to UC admission's testing requirements this coming July.

Implementation of Year-Round Operations:

Since 1998-99, the Legislature has strongly encouraged UC and CSU to serve more students during the summer. The Budget Act of 2001 provided \$20.7 million in supplemental funding for the purpose of enhancing summer operations at three UC campuses—Berkeley, Los Angeles, and Santa Barbara. This funding was sufficient to provide the full marginal-cost rate for all existing FTE enrollments in these campuses' self-supported summer sessions.

The Budget Act of 2001 also made summer expansion funding contingent on the campuses' meeting minimum summer 2001 growth targets—700 additional FTE enrollments at UC. Failure to meet these targets would trigger the reversion of a proportionate share of the summer expansion appropriations. UC and CSU were required to report to the Legislature by December 1, 2001 whether they had met their enrollment targets and by January 15, 2001 on a comprehensive five-year plan that included summer enrollment targets for each of their campuses.

6420 CALIFORNIA STATE LIBRARY

ISSUE 1: IMPLEMENTATION OF THE LIBRARY BOND ACT OF 2000

The issue for the Subcommittee to consider is the California State Library's implementation of the Library Bond Act of 2000.

BACKGROUND:

The "Library Bond Act of 2000" was created by the passage of Proposition 14, which was a statewide bond measure that was approved by the voters of the State of California on March 7, 2000. The Bond Act authorized the sale of \$350 million of state general obligation bonds for the purpose of public library construction and renovation.

The Act established the California Public Library Construction and Renovation Board to adopt rules, regulations, and policies for the implementation of the Library Bond Act. Membership of the Board is made up of the State Librarian, the State Treasurer, the Director of Finance, a member of the Assembly appointed by the Speaker, a member of the Senate appointed by the Senate Rules Committee and a Governor's appointee.

COMMENTS:

Last year, the Subcommittee raised issues with the difficulty in getting funding to local communities by the State Library as part of the implementation of the Library Bond Act. In January, the California Public Library Construction and Renovation Board approved regulations to begin the application process and disbursement of funds.

Recently, some local governments have expressed concerns with the adopted regulations and funding process. There is some concern that the regulations and the funding process will negatively impact an equitable allocation of funds based on the following reasons:

- Regulations for proposals and allocation of the \$350 million bond took almost two years to adopt, with final adoption of regulations in January 2002.
- The adopted application requirements are believed to be highly extensive and detailed. For example, the County of Los Angeles Public Library and County Public Works Department estimate that the cost of completing one application will exceed \$200,000 and could approach \$300,000. The County of Los Angeles has completed a Library Bond Act Application Activity Timeline for the new City of Lawndale Library, taking 12 months for a satisfactory completion of all required components in the application packet.

- Applications for the first of three funding rounds are due in mid June 2002—some six months after adoption of the final regulations. Applications for the second funding round are due in mid March 2003 and the final funding round is in 2004.
- The June 2002 funding round will allocate \$150 million and the second—March 2003—round will allocate \$115 million. Funding not allocated in the first round or second round will be transferred to the third round. There is some concern that there will be many more applicants for the second funding round than the first. Consequently, there will be much greater competition in the second round than for first round funds. This more intense competition will be for approximately 23% less funding availability than the first round.
- Some have suggested that an unfortunate consequence of the adopted application and funding process could be the funding of projects that meet lower levels of need and are not of the same quality as projects that apply in March 2003. Additionally, any unused funds from the first round will not be available until well into 2004. Projects that have all partners and local matching funds in place as of today may not be considered for funding until well into 2004 or more than four years after passage of Proposition 14.

To address some of the potential problems, several suggestions have been made, including:

- Amendments to the regulations to provide for much less funding to be available in the first round, with most funding available in the second—2003—round.
- Amendments to the regulations to insure that any funds not allocated in the first round should be carried over to the second round.

The Subcommittee will hear from the California State Library on these issues during the hearing.

ISSUE 2: SUPPORT BUDGET

The issue for the Subcommittee to consider is the California State Library support budget.

BACKGROUND:

The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs such as the California Literacy Campaign, develops technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation Act, which establishes a formula under which the State contributes funding for basic local library services.

The Governor's proposed budget includes a total of \$105.7 million for the California State Library, a reduction of about \$24.2 million or 18.6 percent over the current year. Of these total funds, the Governor proposes \$84.8 million in General Fund support, a reduction of \$2 million or 22 percent from the revised current year. The major provisions of the California State Library budget include:

- **Public Library Foundation.** The Governor proposes a reduction of \$11.2 million for the Public Library Foundation, leaving \$41.7 million in this program. This reduction would reduce the amount available to local libraries for acquiring library materials, staff support, operating expenses and equipment.
- **State Operations.** The Governor proposes a reduction of \$3.1 million in State Operations, including the elimination of 18.2 personnel years. These reductions will affect library acquisitions, outreach and technical assistance to local libraries, regional resource sharing and the California Research Bureau.
- **California State Portal Web-site.** The Governor proposes a \$188,000 increase in reimbursement authority to continue development and enhancement of the California State Portal web-site.
- **Library Maintenance & Repairs.** The Governor proposes a \$76,000 augmentation for maintenance and repairs for the Library and Courts buildings.

COMMENTS:

In the Governor's November 2001 proposed current year reductions, the Governor proposed reducing the California State Library's Public Library Foundation funding by \$7.9 million. The Legislature rejected the Governor's proposal and maintained funding in the current year at \$52.9 million for this program.

For the budget year, the Governor assumes his proposed current year reduction of \$7.9 million plus an additional reduction of approximately \$3.3 million—totaling a proposed total reduction of \$11.2 million in the Public Library Foundation. Given the reliance of local libraries on funds from the Public Library Foundation, the California Library Association has requested that the Subcommittee consider restoring all or part of the Governor's proposed reduction.

6420 CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

ISSUE 1: SUPPORT BUDGET

The issue for the Subcommittee to consider is the California Postsecondary Education Commission support budget.

BACKGROUND:

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. The commission serves as a principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education and analyzing both state policy and programs involving the independent and private proprietary educational sectors.

The Governor's budget proposes a total of \$11.9 million for CPEC, \$8.6 million of which are federal funds for the Dwight D. Eisenhower Professional Development Program of training grants for K-12 teachers, and 3.3 million in General Fund support. This represents a General Fund decrease of \$469,000 or 12.4 percent over the current year. The table below provides a summary of proposed expenditures for CPEC from all sources of funds.

California Postsecondary Education Commission				
Summary of Expenditures				
(Dollars in Thousands)				
	2001-02	2002-03	\$ Change	% Change
<i>State Operations</i>				
General Fund	\$3,784	\$3,315	-\$469	-12.4
Federal Funds	430	430	0	0.0
Reimbursements	125	3	-122	-97.6
Subtotal, State Operations	\$4,339	\$3,748	-\$591	-13.6
<i>Local Assistance</i>				
Federal Funds	8,163	8,163	0	0.0
Subtotal, Local Assistance	\$8,163	\$8,163	\$0	0.0
Total	\$12,502	\$11,911	-\$591	-4.7

The major budget adjustments proposed in the 2002-03 budget include:

- **Mathematics and Technology Teacher Pipeline Program.** The Governor proposes to reduce the Commission's budget for this program by \$125,000 in the current year due to the sunset of the program.
- **Dwight D. Eisenhower Professional Development Program.** The Governor proposes augmenting the Commission's budget by \$2.1 million in federal funds for the current year, which will provide additional grants through this program.
- **General Fund Reductions.** The Governor has reduced the Commission's General Fund budget by \$200,000 (5.4 percent) in the current year through a series of actions affecting most state agencies.
- **2001 Eligibility Study.** The Governor proposes a reduction \$96,000 in one-time funds provided for this study and provides an augmentation \$14,000 for one limited-term position to continue work on the study.
- **State Operations.** The Governor proposes a reduction of \$332,000 in State Operations, including the elimination of four positions (\$315,000) and a reduction of general support (\$17,000), in addition to the above reductions.

COMMENTS:

It is unclear how some of the proposed reductions in state operations will affect the Commission's ability to fulfill some its statutory reporting requirements. CPEC has indicated that some of the reports that could potentially be affected by these reductions are the Commission's reports on standardized testing, faculty salaries and transfer. In addition, the timely delivery of other reports may also be impacted. On the other hand, the Department of Finance does not agree with the assertion that CPEC statutory reporting requirements will be adversely impacted by the Governor's proposed reductions. CPEC and the Department of Finance should clarify to the Subcommittee which activities will be affected by the proposed reductions in state operations during the hearing.

Legislative Analyst Recommendations: The Legislative Analyst has raised two issues with proposed budget for CPEC. These issues include the recommendation that the Legislature delete \$96,000 for budgeted data expenses for services the Commission no longer receives through the Teale Data Center and a recommendation for budget bill language related to the Commission's outreach program inventory.

The CPEC's budget includes \$96,000 for payments to Teale Data Center for data processing and storage on Teale's Terradata system. However, since 2000 CPEC has not used these services, having moved its data from the Terradata system to CPEC's own computers. Nevertheless, CPEC continues to make payments of \$8,000 a month to

Teale for these unused services. The LAO recommends that CPEC terminate its payments for Terradata services, and that funding for this purpose be removed from CPEC's budget. CPEC would like the Subcommittee to consider redirecting funding within the Commission's budget for the Teale Data Center to other Commission priorities as a means to deal with some of the proposed cuts in state operations.

The Legislative Analyst also takes issue with the outreach program inventory that was approved last year. The LAO recommends continuing the \$150,000 provided in the current year for the outreach program inventory. However, the LAO recommendation is contingent on adoption of budget bill language to ensure that the report is timely and responds to the Legislature's needs. CPEC indicates that work on the outreach program inventory is still in its preliminary stages. The LAO believe that a more comprehensive study of outreach programs has the potential to identify opportunities for program consolidation and to identify overlap and duplication. The LAO also believes that a report on K-12 outreach programs should include, at a minimum, the following: an inventory of outreach programs, estimated programs expenditures for each school, identification of program overlap and duplication of services, and the potential for program consolidation. To accomplish these goals, the LAO recommends adoption of the following budget bill language:

6420-001-0001 Provision 1. Of the amount appropriated in Schedule (2), \$150,000 in one-time funds is included to complete a comprehensive study of state outreach programs. This study shall include the name and County-District-School code of all public elementary, middle, and high schools participating in the following K-12 outreach programs: Advancement via Individual Determination program; Collaborative Academic Preparation Initiative; Precollegiate Academic Development program; California Academic Partnership Program; Educational Opportunity Program; Student Opportunity Access Programs; Early Academic Outreach Program; Mathematics, Engineering, and Science Achievement; Puente; and K-12 School-University Partnerships. For each school, the study shall also include the number of students participating in each program, and estimated program expenditures. Finally, the study shall identify overlap and duplication among these programs. The study shall be submitted to the Legislature and the Governor on or before March 1, 2003.

6660 HASTINGS COLLEGE OF LAW

ISSUE 1: SUPPORT BUDGET

The issue for the Subcommittee to consider is Hastings College of Law's support budget.

BACKGROUND:

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors, who are appointed by the Governor for 12-year terms. The Juris Doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

The Governor's budget proposes a total of \$30.3 million for Hastings College of Law, representing an overall decrease of \$387,000, or 1.3 percent, from the current year. Of these funds, \$15.4 million is in General Fund support, which reflects an increase of \$307,000 or 2.0 percent over the current year. The table below provides a summary of proposed expenditures for Hastings College of Law.

Hastings College of Law Summary of Expenditures (Dollars in Thousands)				
	2001-02	2002-03	\$ Change	% Change
General Fund	\$15,115	\$15,422	\$307	2.0
Hastings Fund	15,411	14,717	-694	-4.5
Lottery Education Fund	154	154	0	0.0
Total	\$30,680	\$30,293	-\$387	-1.3

The major provisions of the Hastings College of Law budget include the following:

- **General Fund Support.** The Governor proposes a \$227,000 in the base budget, which corresponds to the 1.5 percent increase provided by the Governor to UC and CSU in their base budgets. According to Hastings College, funds from this increase will be used to continue salary increases granted in 2001-02.
- **Annuitant Benefits.** The Governor proposes an increase of \$80,000 for annuitant benefits increases.

COMMENTS:

At this time, there are no major issues with the Governor's proposed budget for Hastings College of Law. The Subcommittee may need to revisit the proposed budget for Hastings during May when the state's fiscal situation will be clearer and consider appropriate adjustments, including the consideration of increasing non-resident fees and exploring other revenue generating, cost savings options.

7890 CALIFORNIA STUDENT AID COMMISSION

ISSUE 1: PROGRESS REPORT ON IMPLEMENTATION OF SB 1644

The issue for the Subcommittee to consider is the California Student Aid Commission's progress in implementing SB 1644 (Ortiz), Chapter 403, Statutes of 2000, which provided for the single largest expansion of financial aid in California history. In addition, this item is intended to serve as a follow-up to issues raised at the January 15, 2002 Joint Informational hearing with the Assembly Higher Education Committee.

BACKGROUND:

In 2000, the Legislature passed and the Governor signed SB 1644, creating the new Cal Grant Entitlement program and Competitive Awards program. The entitlement awards are guaranteed to students who graduate from high school in 2000–01, or thereafter, and meet financial, academic, and general program eligibility requirements. The following programs make up the new entitlement:

- Cal Grant A provides tuition and fee funding for high school graduates who have at least a 3.0 grade point average (GPA) on a four-point scale, allowing for a maximum award of \$9,708 per year for students attending independent colleges;
- Cal Grant B provides funds to low-income disadvantaged students who graduated from high school with at least a 2.0 GPA. The award provides up to \$1,551 for book and living expenses for the first-year, and in the second year also helps pay for tuition and fees, up to a maximum grant award of \$9,708 per year for students attending independent colleges at qualifying four-year post-secondary institutions; and
- California Community College Transfer Award provides funding to students who graduated from high school and who have a community college GPA of at least 2.0 on a four-point scale.

In addition, the legislation provided for the Competitive Awards program under which, 22,500 competitive Cal Grant A and Cal Grant B awards are available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards (11,250) are offered to those applicants who did not receive an entitlement award and meet the March 2nd deadline. The remaining 11,250 awards are offered to students who are enrolled at a California Community College and meet the September 2nd deadline.

Last year, the Subcommittee heard a progress report on the Student Aid Commission's implementation of the new Cal Grant Program. In May of last year, revisions were made to the Student Aid Commission's budget that included \$35 million being returned

to the General Fund due to less than anticipated demand or under-utilization in the Cal Grant Entitlement Program.

COMMENTS:

In January of this year, the Subcommittee participated in a joint hearing lead by the Assembly Higher Education Committee intended to be an inquiry into the California Student Aid Commission's (CSAC) implementation SB 1644 (Ortiz), Chapter 403, Statutes of 2000. The following issues were raised regarding the implementation of SB 1644:

Ensuring Students Eligible for the Entitlement Program Receive An Award.

Projections made by CSAC regarding the number of students who might need financial help and would qualify under the criteria set out in SB 1644 have not materialized.

- **Outreach:** The Subcommittee's approach to this issue last year was to provide additional support for outreach related efforts in the amount of \$5 million to insure that students who were potentially eligible for the entitlement program knew about the program and also knew how to apply. This amount was later reduced to \$2.5 million in the Budget Conference Committee and later vetoed by the Governor. This year, the Student Aid Commission received external funding to augment existing state funds for outreach purposes. In response to last year's under-utilization of the Cal Grant Entitlement program, one of the major initiatives conducted by CSAC this year was the "College Goal Sunday" effort in collaboration with various partners including the Governor's Office, the Lieutenant Governor's Office, and all the segments of higher education.

It remains to be seen how successful this year's College Goal Sunday and other outreach efforts actually were in attracting more student applications, reaching potentially eligible students and in making students better informed on what is required to get a Cal Grant Entitlement award. Similarly, there appears to be a lack of a comprehensive long-term strategy for outreach to California's students with respects to the Cal Grant Entitlement program. Instead, the Student Aid Commission and others interested parties have been more reactive to the less than anticipated demand or under-utilization. While it is true that the College Goal Sunday effort was a proactive approach to dealing with the problem, the Subcommittee may wish to request that the Student Aid Commission report on whether or not they have a comprehensive long-term outreach strategy plan that will go beyond one-year efforts. In addition, the Subcommittee may wish to request specific outcome information that could be helpful in determining the success of College Goal Sunday.

- **High School GPA Verification:** There has been considerable concern over the way in which public and private high schools verify GPAs of potentially Cal Grant eligible students. When a high school fails to submit a GPA for a potentially Cal Grant eligible student, that potential recipient is disqualified for the program. There are two

primary reasons for why a high school may not decide to submit GPA information to CSAC. The first and primary reason is the lack of technical ability or resources. The second reason is a lingering concern regarding the applicability of federal privacy statutes as incorporated in the federal Family Education Rights and Privacy Act (FERPA). This legal concern has been alleviated by Student Aid Commission General Counsel opinions that verify the ability for schools to transfer information to the Commission under existing law. The Student Aid Commission has been successful in working with the Community Colleges to develop full electronic transfer of GPA information for 100 campuses. However, the electronic transfer of this information from high schools is lagging behind.

One particular concern for high school GPA transfer is the large number of high schools that do not use Social Security numbers as a unique personal identifier. The problem is that the CSAC database requires that both the school and the student submit a social security number to match up and verify the GPA information for eligibility purposes. This administrative problem means that even if a student had done their part by filling out the FAFSA and requesting their school verify their GPA, they may still not qualify for consideration of an entitlement award. Some of this is fixed by CSAC giving students and schools the opportunity to correct discrepancies or lack of information.

Several legislative members have begun advocating requiring high schools to keep social security information for all their students, but there are potential privacy and mandate issues with this approach. AB 1059 by Assembly Budget Committee Chairwoman Jenny Oropeza, as passed by the Assembly Higher Education Committee, would have required high schools to submit GPA information for all seniors that are potentially eligible for a Cal Grant Entitlement award. This bill has been severely amended in the Assembly Appropriations Committee, however, the notion of shifting the burden of GPA verification from the student to the institutions may be worthy of further exploration by the Legislature.

Lastly, CSAC is also exploring getting the federal government to add a California section to the FAFSA where students could submit another type of personal identification number. However, this initiative may face substantial challenges because the FAFSA is intended to apply in all states, making this approach very difficult.

Ensuring Student Eligible for the Competitive Program Can Compete for Awards.

By statute there are only 22,500 competitive awards given out per year. These awards are for both high school students and community college students, with 50% of awards being set aside for community college students. Community college students are given two opportunities to apply, and therefore are able to compete for a greater number of awards than the statutorily required 50%. Due to the number of applicants in the competitive awards program over 80,000 potentially eligible students did not receive a competitive award.

- **Awards versus Letters:** Education code section 69437, as amended by SB 1644 states that "A total of 22,500 Cal Grant A and B awards shall be granted annually ... on a competitive basis for applicants who meet the general eligibility criteria." The current CSAC interpretation of this statute is that they may only send out 22,500 award letters. If a student does not take advantage of this opportunity, CSAC may not attempt to provide this aid to another needy student. Per this interpretation, the award is the letter, not the eventual check that is received by a student. As a result of this interpretation, the number of actual check awards in 2001-02 will be lower than currently reported by CSAC and any funding available for unclaimed awards will revert back to the General Fund.

Non-utilization within the Cal Grant program can be a result of a student's decision not to attend college, for whatever reason, or a student's decision to attend an out-of-state institution. Non-utilization rates have a significant impact on the number of actual grants provided. According to CSAC, the general non-utilization rate varies by type of student, type of grant, and institution. For most awards, the rate of non-utilization is between 10% and 15%. The Assembly Committee on Higher Education Committee has drafted legislation, AB 1766, designed to provide CSAC with operational latitude to over-award grants based on historic non-participation rates. There may be fiscal issues with over-awarding, and, as a result, it is unclear what the Department of Finance position would be on this issue. The Subcommittee may wish to get the Student Aid Commission and the Department of Finance to respond to this issue at the hearing.

- **Community College GPA Verification:** Several individual community colleges had significant problems in submitting complete GPA information for students that had applied for Cal Grants last September. This problem came to light when the September 2 Cal Grant deadline (with 11,250 grants set-aside for community college students) passed with several campuses turning in GPAs for only a dozen or so students.

At the time of last year's September deadline, several campuses failed to submit information for thousands of potential Cal Grant recipients because of concerns over federal privacy laws, poor information technology ability, or a general unwillingness to dedicate the resources necessary. As a result, over 65 campuses submitted GPA information for each potential recipient while the remaining submitted less than complete information. In the worst cases, several campuses submitted less than one GPA for every 100 Cal Grant applicants. The Assembly Committee of Higher Education worked with CSAC on an extension for those campuses that realized their shortcoming and were willing to submit data in an expedited manner. As a result, CSAC was able to provide grants to all students that were previously disqualified but would have been able to receive a competitive award under the original cutoff. But, the extension was a one-time fix to an unfortunate situation.

The long-term solution requires that CSAC provide clear legal direction to the Community Colleges with regards to their ability under FERPA to submit GPA

information to the Commission. It is possible that this may be achieved through either a statewide memorandum of understanding between the Community Colleges and the Student Aid Commission or through the addition of specific language within the Cal Grant participation agreements made between schools/systems of higher education and Commission.

In addition, the Chancellor's Office of the Community Colleges should continue to provide full submission of GPAC information from all 108 community colleges in the state. Assembly Budget Committee staff has recently been informed that full GPA submission has been completed by 100 campuses for the March 2nd deadline. The Subcommittee may wish to request information on the specific needs of the remaining campuses to achieve 100% GPA verification transmittal to CSAC.

Need To Revise CSAC/Department of Finance Projections. The Assembly Committee on Higher Education has asserted that the Cal Grant expansion has not met original expectations. This assertion is based on projections provided by CSAC to the Legislature and the Department of Finance in the crafting of SB 1644. While, it is true that the program has not met expectations, CSAC and the Department of Finance have argued that that more students are receiving Cal Grants than ever before. They have asserted that the projections were just projections—and there was no way to completely predict student behavior.

The main reason for providing original projections for the program expansion was in order to budget and plan appropriately. In response to a request by Assemblymember Elaine Alquist made during the Joint Informational Hearing of the Assembly Higher Education Committee and this Subcommittee, the Commission has recently sent the Subcommittee revised Cal Grant Entitlement projections and plans to give an oral presentation of these projections at the hearing. In addition, given the March 2nd deadline for the Cal Grant Entitlement program, the Subcommittee may wish to ask the Student Aid Commission how many qualified Cal Grant Entitlement recipients have been identified and a projection of how many more will be identified based on the recent influx of applications.

Exploring an Alternative Delivery System. The question of an alternative delivery system has been deliberated several times throughout the history of the program. The recent adoption of a historic entitlement model is the impetus for renewed interest in this possibility. The Subcommittee may wish to explore the Federal Pell Grant model whereby the college would determine eligibility using the criteria established by the State and would notify the student of eligibility. Such an alternate delivery system would shift the administrative workload associated with the award process from a central office in Sacramento to the college financial aid office.

The Cal Grant program delivery mechanism was designed in 1955 before the existence of college financial aid offices and before the evolution of the current student aid delivery system. Some have suggested that the current Cal Grant delivery system presents barriers and complications for students and families. College financial aid

offices are already performing most of the administrative functions involved in this process. All major federal programs (Pell Grant, Supplemental Grant, Work Study, Loans) and the other major state programs (UC Grant, State University Grant, CCC BOG Fee Waivers, all EOP/S programs) are awarded at the campus level.

The greatest appeal for examining alternative delivery systems lies in the potential advantages for students and families. There could also be advantages for the state, the high schools, the colleges and for the Student Aid Commission. There are challenges and the transition would require effort, but the perceived benefits appear to be significant and deserving of further exploration. The Student Aid Commission has already received a proposal from their Grant Advisory Committee on this topic. The Subcommittee may wish to request CSAC to inform the members on their progress with this issue.

As a final note, the Subcommittee should be aware that the Assembly Budget Committee staff has been engaged in a bipartisan Legislative staff workgroup made up of policy, budget and leadership staff that is currently exploring many of the issues discussed here.

ISSUE 2: SUPPORT BUDGET

The issue for the Subcommittee to consider is the California Student Aid Commission's support budget.

BACKGROUND:

The California Student Aid Commission's (CSAC) mission is making education beyond high school financially accessible to all Californians. 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 intersegmental financial aid. In addition, the Commission administers the Federal Guaranteed Student Loan Program.

The Governor's proposed budget includes a total of \$1.3 billion for CSAC, \$162 million or 14.1 percent over the current year. Of these total funds, the Governor proposes \$734 million in General Fund support, an increase of \$162 million or 28.4 percent. The proposed budget specifically provides for \$694.3 million for all types of Cal Grants, an increase of \$155 million, or 28.8 percent, over the \$539.3 million budgeted in the current year. The \$155 million augmentation in funding will allow CSAC to provide approximately 87,500 new financial aid awards (65,000 entitlement and 22,500 competitive awards) to needy students, consistent with Chapter 403, Statutes of 2000. The Table below reflects the Governor's proposed budget for CSAC from selected program funds:

CALIFORNIA STUDENT AID COMMISSION BUDGET SUMMARY (Dollars in Millions)				
Sources of Funds	2001-02	2002-03	Change	Percent Change
General Fund	\$571	\$734	\$163	28.4%
Federal Trust Funds	9.5	9.5	0	0.0
Federal Student Loan Operating Fund	91	91	0	0.0
Federal Student Loan Reserve Fund	468	468	0	0.0
Reimbursements	7.5	7.2	-0.3	-4.0
Total	\$1,147	\$1,309	\$162	14.1%

This table includes only a few selected public program funds.

The major budget adjustments proposed in the 2002-03 budget include:

- **Cal Grant Entitlement Program Adjustments.** The Governor proposes a \$57.2 million decrease in the current year for the Cal Grant program due to a series of adjustments in the Cal Grant Entitlement Program.
- **All Cal Grants.** The budget includes a proposed increase of \$227.4 million to fund both Entitlement and Competitive Award programs (new and continuing recipients). The increase is partially offset by a \$130.2 million decrease primarily due to the phasing out of the old Cal Grant A and B programs, resulting in a net increase of \$97.2 million (\$94.2 General Fund and \$3.0 million in Federal Funds).
- **Assumption Program of Loans for Education (APLE).** The Governor proposes an increase of \$10.6 million in the budget year to make loan assumption payments due to the growth in the APLE program.
- **State Operations.** The Governor proposes a \$483,000 reduction (\$225,000 in current year and \$258,000 in budget year) for State Operations in accordance with the Governor's budget reduction plan. There is also a one-time reduction of \$120,000 in the current year budget for operating expenses and equipment.
- **Other Fund Reductions.** The budget includes a \$300,000 reduction in reimbursement authority for the Child Development Teacher and Supervisor Grant Program which sunsets on June 30, 2002.

COMMENTS:

Most issues related to the Student Aid Commission's budget are related the administration of the Cal Grant Entitlement and Competitive Award programs and have been covered in the previous item. In analyzing the Governor's proposed budget for CSAC, the Legislative Analyst recommends that the Commission provide an update on the second-year implementation of the entitlement program given the continuing uncertainty about growth in the entitlement program.

The LAO points out that after the upcoming March 2 application deadline for the entitlement program, the Commission will have additional information on the number of awards it is likely to issue in 2002-03. Although the 2002-03 Governor's budget assumes much less growth in the entitlement program between the current year and the budget year (compared to the assumptions used during the last budget cycle), the budget still assumes that the number of entitlement awards will increase by 34 percent. Additionally, the Governor's budget assumes a 20 percent attrition rate (that is, it assumes that one in five original entitlement recipients will not renew their award). Because these initial assumptions might be unreliable, the LAO contends that the Commission should provide updated information during budget hearings on the number of new entitlement awards and renewal awards granted for 2002-03.

Given the uncertainty in projecting future participation, there remains considerable uncertainty in estimating costs—both in the budget year and in the out-years. The LAO recommends the Legislature ask the commission to provide updated out-year cost projections (based upon the assumptions used in the Governor's budget as well as actual participation as reflected in the March 2002 reward cycle).