

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

**Assemblymember Mervyn Dymally, Chair**

**WEDNESDAY, MAY 10, 2006  
STATE CAPITOL, ROOM 126  
4:00 P.M.**

ITEM	DESCRIPTION	PAGE
<b>PRESENTATIONS</b>		
	<b>D-Q UNIVERSITY (CALIFORNIA'S TWO YEAR TRIBAL COLLEGE)</b>	<b>2</b>
<b>6440</b>	<b>UNIVERSITY OF CALIFORNIA (UC)</b>	<b>3</b>
ISSUE 1	CHARLES R. DREW UNIVERSITY	
<b>ITEMS TO BE HEARD</b>		
<b>6610</b>	<b>CALIFORNIA STATE UNIVERSITY (CSU)</b>	<b>6</b>
ISSUE 1	CAPITAL OUTLAY BUDGET (ATTACHMENT 1)	
ISSUE 2	APRIL 1 <sup>ST</sup> DEPARTMENT OF FINANCE LETTER (DOF): AMENDMENTS TO PROJECT AT CSU CHICO	
<b>7980</b>	<b>CALIFORNIA STUDENT AID COMMISSION (CSAC)</b>	<b>8</b>
ISSUE 1	BUREAU OF STATE AUDITOR (BSA): CALIFORNIA STUDENT AID COMMISSION (CSAC): CHANGES IN THE FEDERAL FAMILY EDUCATION LOAN PROGRAM, QUESTIONABLE DECISIONS, AND INADEQUATE OVERSIGHT RAISE DOUBTS ABOUT THE FINANCIAL STABILITY OF THE STUDENT LOAN PROGRAM	
	CSAC'S RESPONSE TO THE BSA AUDIT FINDINGS (ATTACHMENT 2)	

## PRESENTATIONS

### D-Q UNIVERSITY (CALIFORNIA'S TWO YEAR TRIBAL COLLEGE)

D-Q University is a private, independent, non-profit, open access, multi-campus, two-year college, dedicated to the progress of indigenous peoples through education. It is designated as a tribally-controlled community college under the Tribally Controlled Community Colleges Assistance Act. It is also recognized as a 1994 Land Grant college. Governed by an Indian Board of Trustees, D-Q University offers quality instruction and a culturally supportive environment for those wishing to learn. D-Q University has also been approved for the training of veterans and for the education of foreign students. The official name of the institution is D-Q University. The college derives its name from two important figures from Native history. The "D" stands for the name of the Great Peacemaker who inspired the founding of the Iroquois Confederacy; the full name symbolized by the "D" is used only in a religious context. The "Q" represents Quetzalcoatl, an Aztec prophet, who symbolizes the principles of wisdom and self-discipline.

**History.** For thousands of years the region surrounding Davis, where D-Q University is located, was the home of Wintun Peoples (Poowin and Patwin). Later, the area became known as Laguna de Santos Calle under a Mexican Land Grant. In 1868 Davisville was founded and named after a local farmer, Jerome C. Davis. The "ville" was removed in 1907, and the name officially changed in 1917 when the city was incorporated.

D-Q University is located on 643 acres on the site of a former Army communications relay station. Prior to 1951, when the communications station was built, the site was used for agriculture. The Army constructed several buildings in the center of the land. In 1970, the Army vacated the site which then became federal surplus property placed under the jurisdiction of the Department of Health, Education and Welfare. At this time a number of Native Americans and Chicanos established a claim on the site with the intent of forming a school controlled by indigenous peoples. After lengthy negotiations, the federal government awarded D-Q University title to the land in 1971, under provisions of the federal surplus property laws.

Native peoples gained the first and only indigenous-controlled institution of higher learning located outside a reservation in July 1971, when D-Q University opened its doors for the first classes. It also represented the first time that the diverse groups of Native races on the American continent successfully worked together on a project, despite vast language barriers, geographical differences and outside pressures. On November 4, 1978, D-Q University became Indian-controlled. The campus property continued to remain in trust until April 2, 2001 when the property was turned over to the Board of Trustees.

**ITEM 6440 UNIVERSITY OF CALIFORNIA (UC)****ISSUE 1: CHARLES R. DREW UNIVERSITY**

The Chair of the subcommittee has requested a presentation from the Charles R. Drew University staff and would like to take this opportunity to introduce the new President, Susan Kelly, Ph. D. FAPS.

**BACKGROUND:**

Located in the Watts-Willowbrook section of South Los Angeles, the Charles R. Drew University of Medicine and Science has evolved and grown, shaped by the needs of the community it serves. The institution benefits from its location and the corresponding diversity and complexity of its patient population by creating an academic environment unlike any other. Through innovative basic science, the University conducts education, patient care and research programs including training physicians and allied health professionals to provide care to underserved populations.

Founded in 1966 in response to the lack of adequate medical facilities in the area, the institution later became a University and changed its name in 1987 to reflect its expanded academic role and identity. The University is named in honor of Dr. Charles R. Drew, a brilliant African-American physician, famous for his pioneering work in blood preservation. His dedication to learning and the sharing of knowledge to benefit mankind is the inspiration for the University.

The 11-acre campus includes a day care facility, elementary school, high-school, biomedical library, central administration, educational & learning resources, (basic, clinical and population-based research facilities), and housing for postgraduate students. Based on the concept of the "educational pipeline," a child could conceivably start out in day care, complete all the necessary levels of schooling and graduate as a practicing physician all on one campus.

The University strives to improve the health status of under served communities through innovative biomedical research, and progressive health policies. By maintaining and expanding relationships with local medical schools, research institutions and community-based organizations, Drew is focused on eliminating the health disparities by providing access to and delivery of healthcare services to underserved populations.

**A New President.** On May 1st, 2006, Susan Kelly, Ph.D., FAPS was appointed as the eighth President of Charles R. Drew University of Medicine and Science. In 1998, Dr. Kelly was recruited from Melbourne, Australia to become Dean of the School of Continuing Education (SCE), Associate Provost for Outreach and e-Learning, and a tenured Full Professor at the University of Wisconsin Milwaukee (UWM). As Associate Provost for e-Learning she oversaw the university's strategic investment in online programs and its associated faculty and staff development. Her efforts led to UWM becoming a foundation member of the Global University Alliance whose mission was to develop and deliver quality online degrees with UK, Australian, New Zealand, and Canadian universities, particularly into Asia and the Middle East.

In 2004, Susan accepted the position of inaugural University Provost of Argosy University, a national for-profit university, specializing in graduate programs. There she played a key role in the resolution of serious accreditation problems, established four national colleges, developed a coherent new program strategy, and regularized academic policies across the thirteen campuses in support of the company's aggressive growth plan.

Dr. Kelly has had a varied career and been successful as an executive administrator in public, private and nonprofit institutions. From 1994-1998 she was General Manager at Australia's largest single provider of adult and continuing education The Council of Adult Education with over 65,000 enrolments annually. Prior to that, she was Chief Executive of the nation's leading human services provider, Relationships Australia, and an organizational change management consultant with a large multi-national company. From 1979-1988, Dr. Kelly was tenured faculty at Swinburne University of Technology after 4 years on faculty at Melbourne State College, now within the University of Melbourne. Earlier, she held positions as a secondary school teacher and youth worker with the Australian Red Cross Society.

In 1991, Susan was elected President of the Australian Psychological Society. For the four years prior, she oversaw the accreditation of all undergraduate and graduate psychology programs in Australia. She was elected to Fellowship of the Society in 1993. She has published three successful books, several chapters and numerous articles in the scientific and public press, and been a contracted television, radio and print media commentator and public speaker for over 25 years.

She earned her PhD in Psychology from the University of Melbourne, her graduate degree in Education from the University of Canberra and her undergraduate degree in Psychology and English Literature from the University of Tasmania.

**Budget.** Since 1973, the State has appropriated funds to the University to support a program of clinical health science education, research, and public service operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science.

State General Funds are provided to Drew under two separate contracts, both administered by the University. One contract relates to State support for medical instruction, including the Postgraduate Medical Education Program and the joint Drew/UCLA Undergraduate Medical Education Program.

The second contract covers a separate public service program operated by Drew to provide funding for a prescribed list of health science educational, research, and clinical public service programs in the Watts-Willowbrook community.

Drew University receives State funds for the training of 24 third-year and 24 fourth-year medical students, and for 170 of its 317 residents. State support for the resident training program is provided through the University of California's budget for Medical Education. The County of Los Angeles pays the salaries of all the residents (State-supported and non-State supported) and contributes to faculty salary support.

The State support provided to Drew in the 2006-07 proposed budget for both the instructional and public service programs is \$8.7 million. Of this amount, \$500,000 is contingent upon the University continuing to provide \$500,000 in matching funds from funds previously available to UC through the State's Medi-Cal Medical Education program, which provided funding from the federal government to help support the cost of providing a medical education. The University also provides cost-of-living adjustments from the General Fund, support from University funds, and medical student professional fee revenue to support the program. The total from all University sources available to Drew in budget year 2006-07 will be \$10.8 million.

Drew also receives additional funding for research program and projects. In 2004, the combined research efforts at Drew were awarded in excess of \$35 million in funding. Of those funds, over \$24 million were from the National Institutes of Health.

**Research.** The Drew Research Enterprises are dedicated to closing the gap in health care disparities among underserved and ethnic minority populations. The important work done by researchers at the University brings attention to health issues and diseases that disproportionately affect minorities and the poor. Diabetes, hypertension, cancer, reproductive health, chronic kidney disease, neuro-psychiatric disorders and HIV/AIDS are just a few of the areas where Drew researchers, faculty and staff members make a difference.

## ITEMS TO BE HEARD

### ITEM 6610 CALIFORNIA STATE UNIVERSITY (CSU)

#### ISSUE 1: CAPITAL OUTLAY PROJECTS (ATTACHMENT 1)

The issue for the Subcommittee to consider is the California State University Capital Outlay program for 2006-07. The Governor's budget includes \$289.3 million for 19 projects throughout the system. None of the funds proposed for expenditure are from the General Fund, but rather come from general obligation bond funding.

#### ISSUE 2: APRIL 1<sup>ST</sup> DEPARTMENT OF FINANCE (DOF) LETTER: AMENDMENTS TO PROJECT AT CSU CHICO

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

Amendment to and Addition of Various Capital Outlay Budget Bill Items as Follows:

<b>California State University</b>	<b>6610-301-6028</b>
	<b>6610-496</b>

Both the University of California (UC) and the California State University (CSU) have been experiencing a volatile construction environment in which a number of construction bids have exceeded available resources for capital outlay projects. The following requests address several such projects by reverting existing appropriations and requesting new appropriations and scope, as appropriate.

#### CALIFORNIA STATE UNIVERSITY

**Chico Campus, Student Services Center—Construction.** Construction bids received in November 2005 are approximately 30 percent over budget and CSU has determined that bids of this magnitude could not be overcome without negatively impacting the building's functionality and the campus' programmatic needs. It is critical to proceed with this project in order to provide expanded facilities for student services and administration, which are currently housed in temporary, and functionally obsolete buildings on campus, and to return space in the library (currently housing student services and administration) back to library use. Consequently, CSU requests to:

1. Add Item 6610-496 to: (a) revert the authority for working drawing and construction funding provided in Item 6610-302-6028, Budget Act of 2003, and (b) revert the authority for equipment funding provided in Item 6610-302-6041, *Budget Act of 2005*.
2. Add Item 6610-301-6028 to provide funding of \$42,252,000 from the Higher Education Capital Outlay Bond Fund of 2002 for the construction phase of the Chico Student Services Center project.

**COMMENTS:**

The subcommittee members approved the capital outlay amendments to the UC Berkeley and UC Santa Barbara campuses but left open the amendments to the project at CSU Chico consistent with last week's request to leave attachment 1 included on this agenda open as well. The Chair directed Budget Staff to include attachment 1 and the CSU Chico capital outlay project on the consent agenda for this hearing.

**ITEM 7980 CALIFORNIA STUDENT AID COMMISSION (CSAC)****ISSUE 1: BUREAU OF STATE AUDIT (BSA): CALIFORNIA STUDENT AID COMMISSION: CHANGES IN THE FEDERAL FAMILY EDUCATION LOAN PROGRAM, QUESTIONABLE DECISIONS, AND INADEQUATE OVERSIGHT RAISE DOUBTS ABOUT THE FINANCIAL STABILITY OF THE STUDENT LOAN PROGRAM**

This issue was heard in subcommittee on May 3, 2006. The members directed staff to find out if a special closed session of the subcommittee could be held in order to receive and discuss information involving CSAC and its non-profit auxiliary, Ed Fund. At the last hearing, BSA staff stated that they could not provide members with specific examples or details from their audit because these were considered proprietary business information by Ed Fund's legal counsel.

**Response to Members' Request.** Legislative Counsel is of the opinion that there is no legal authority to conduct a closed session of the Budget subcommittee for the Federal Family Education Loan (FFEL) program.

**Assemblymember Goldberg's Request.** During the hearing, Assemblywoman Goldberg requested that Ed Fund provide her with information regarding their Incentive Compensation Program, specifically, she requested details on the amounts of the bonuses that have been awarded and which employees received them. Ed Fund staff is expected to provide this information to subcommittee members at this hearing.

**BACKGROUND:**

AB 3133 (Firestone, Chapter 961, Statutes of 1996), gave the Commission the authority to establish an auxiliary organization for purposes of administrating the FFEL program. Toward this end, the Commission created EdFund, which, consistent with statute, functions as a nonprofit public benefit corporation. Colleges and universities that are interested in participating in the FFEL program may choose to work with EdFund or one of several other independent guaranty agencies. Alternatively, colleges and universities may participate in the Federal Direct Student Loan program, in which case their student loans are guaranteed and administered directly by the federal government.

**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.

### RESULTS IN BRIEF

The Commission administers state and federal financial aid programs for students attending universities, colleges, and vocational schools in California and throughout the nation. In fiscal year 2004-05, it awarded \$720 million in state grants to more than 240,000 students. During federal fiscal year 2005, it guaranteed new loans totaling more than \$6.5 billion under the FFEL Program. EdFUND, a nonprofit entity incorporated in 1997 as the Commission's auxiliary organization, provides operation and administrative services to the Commission for its participation in the FFEL Program. One of the Commission's major responsibilities is to oversee EdFUND's operation of the FFEL Program.

The Commission's FFEL Program lost about \$8.3 million in federal fiscal year 2005, and it may barely break even in federal fiscal year 2006. It is presented with a number of challenges that could severely impair its operations and put the State's FFEL Program and its ability to supplement the Commission's other services and programs at risk.

First, changes in federal laws governing the FFEL Program raise doubts that the State will be able to sustain the program. The Commission must begin charging borrowers a fee in October 2006. This fee could make it less competitive and reduce the revenues it earns under the FFEL Program because other guaranty agencies will not be charging the fee. EdFUND officials indicated that, had the Legislature not appropriated \$197.5 million from the Student Loan Operating Fund (Operating Fund) to support the Cal Grant program, there would have been more funds available to postpone charging the default fee beyond October 1, 2006. Additionally, EdFUND has relied too heavily on defaulted loan consolidations as its main source of revenue, placing the State in a possible position to be affected more severely by federal changes than other guaranty agencies.

Second, ongoing tensions between the Commission and EdFUND have been costly. The general lack of cooperation, as well as turnover in EdFUND leadership, has hampered the Commission's ability to renegotiate a revenue agreement with the U.S. Department of Education (Education). At least \$24 million more may have been generated in federal fiscal year 2005 if the agreement had been finalized. This same lack of cooperation has delayed attempts to expand and diversify EdFUND's financial services and possibly generate additional revenue that could have been used for California students. Ultimately, if the two entities are unable to resolve their fundamental differences and if EdFUND is unable to demonstrate that it can generate an operating surplus that is sufficient to sustain the FFEL Program and support the Commission's other services and programs, in the BSA's opinion, there is little reason to believe that the State benefits from having an auxiliary to assist in the administration of the FFEL Program.

The Commission has maintained poor oversight over EdFUND as well. It approved sizable bonuses for EdFUND executive staff even when the FFEL Program had an operating deficit, and its policy for setting executive salaries is inconsistent with federal

regulations. It also has not ensured that EdFUND travel and business expense policies are fiscally conservative, which results in less funding available for the Commission to fulfill its mission. EdFUND has in some cases paid more for meals and lodging than its own policies allowed, and it has sponsored costly events for employees and their families. Finally, the Commission does not independently verify reports received from EdFUND that are used to make policy decisions.

### **RECOMMENDATIONS**

BSA states that the Legislature should take the following recommendations under consideration:

- Closely monitor the Commission and EDFUND to ensure that they are able to remain competitive with other FFEL Program guaranty agencies.
- Closely monitor the Operating Fund to ensure that the FFEL Program is generating a sufficient operating surplus so it can supplement funding for other Commission programs and services. If it is unable to generate a sufficient operating surplus, the Legislature should require the Commission to dissolve EdFUND and contract with another guaranty agency to administer the FFEL Program. The contract should include, among other things, a provision that allows the Commission to receive a share of the revenues generated by the guaranty agency, which then could be used to supplement funding for the Commission's other financial aid programs. In addition, the contract should include a provision for the Commission to hire external auditors to ensure that the guaranty agency is complying with federal laws and regulations. Alternatively, the Legislature could reconsider the need for a state-designated guaranty agency.
- Closely monitor the Commission's progress toward completing critical tasks, including the renegotiation of its revenue agreement with Education and the development of a business diversification plan.

To ensure that it maximizes the amount of funds available to fulfill its mission and to administer the FFEL Program effectively, the Commission should:

- Continually reassess the financial impact on the FFEL Program caused by federal changes and the recent announcements by some large guaranty agencies that they will not charge borrowers the fee.
- Ensure that critical tasks, including the renegotiation of its revenue agreement with Education and the development of a diversification plan, are completed.
- Modify its policy to ensure that EdFUND's executive staff does not receive bonuses if the FFEL Program has an operating deficit.
- Ensure that EdFUND complies fully with federal regulations governing salary setting for its executives.
- Ensure that EdFUND establishes travel and business policies that are consistent with the State's more fiscally conservative policies and that its employees adhere to those travel policies.

- Closely monitor EdFUND expenses for conferences, workshops, all-staff events, travel, and the like.
- Require staff to independently verify the accuracy of the reports submitted by EdFUND.

**AGENCY COMMENTS**

The Commission generally agrees with BSA recommendations and some of their conclusions. However, it does not agree with other conclusions. For example, the Commission disagrees with BSA's conclusion that its ability to generate sufficient revenues to justify its continued status as a guaranty agency may be in jeopardy because of federal changes governing the FFEL Program. The Commission also disagrees with BSA's conclusion that it cannot determine what, if any, impact its tactics for minimizing the effect of the federal changes will have on its ability to remain competitive in the student loan guaranty market.