# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

### Assembly Member Kevin McCarty, Chair

**TUESDAY, APRIL 23, 2019**
**9:30 AM, STATE CAPITOL, ROOM 447**

***(Note new time change)***

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## CALIFORNIA COMMUNITY COLLEGES

**ITEMS TO BE HEARD**

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# ITEMS TO BE HEARD

## 6870 CALIFORNIA COMMUNITY COLLEGES

The Governor's Budget proposes about $6.1 billion in Proposition 98 General Fund support for the California Community Colleges (CCC) in 2019-20. Overall revenue for CCC in 2019-20 is estimated to be about $15.9 billion. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget. Note the Governor’s Budget includes $233 million one-time General Fund to help support local colleges’ pension costs.

### California Community Colleges Funding by Source

*(Dollars in Millions Except Funding Per Student)*

| | 2017-18 Actual | 2018-19 Revised | 2019-20 Proposed | Change from 2018-19 | |
|---|---|---|---|---|---|
| | | | | Amount | Percent |
| **Proposition 98** | | | | | |
| General Fund | $5,757 | $6,055 | $6,117 | $62 | 1.0% |
| Local property tax | 2,963 | 3,119 | 3,321 | 202 | 6.5 |
| Subtotals | $8,720 | $9,174 | $9,438 | $264 | 2.9% |
| **Other State** | | | | | |
| Other General Fund[a] | $466 | $819 | $683 | -$136 | -16.6% |
| Lottery | 231 | 253 | 253 | —[b] | -0.1 |
| Special funds | 96 | 95 | 93 | -2 | -2.2 |
| Subtotals | $793 | $1,167 | $1,028 | -$138 | -11.9% |
| **Other Local** | | | | | |
| Enrollment fees | $457 | $457 | $459 | $2 | 0.4% |
| Other local revenue[c] | 4,644 | 4,663 | 4,685 | 22 | 0.5 |
| Subtotals | $5,102 | $5,120 | $5,145 | $24 | 0.5% |
| **Federal** | $288 | $288 | $288 | — | — |
| **Totals** | **$14,903** | **$15,749** | **$15,899** | **$150** | **1.0%** |
| **Full-Time Equivalent (FTE) Students** | 1,125,224 | 1,132,757 | 1,136,214 | 3,457 | 0.3% |
| **Proposition 98 Funding Per FTE Student** | $7,749 | $8,099 | $8,306 | $207 | 2.6% |
| **Total Funding Per FTE Student** | $13,244 | $13,903 | $13,993 | $89 | 0.6% |

[a] In 2018-19 and 2019-20, includes the Governor's proposal to provide supplemental payments to the California State Teachers' Retirement System.

[b] Projected to decline by $211,000.

[c] Primarily consists of revenue from student fees (other than enrollment fees), sales and services, and grants and contracts, as well as local debt-service payments.

## ISSUE 1: APPORTIONMENTS/FUNDING FORMULA

The Subcommittee will discuss updated revenue estimates for the community college system and the Governor's Budget proposals for apportionments and the new funding formula.

### PANEL

- Maritza Urquiza, Department of Finance
- Edgar Cabral, Legislative Analyst's Office
- Christian Osmeña, Community Colleges Chancellor's Office

### BACKGROUND

***State Adopted New Credit Apportionment Funding Formula in 2018-19.*** Prior to 2018-19, the state based general purpose apportionment funding for both credit and noncredit instruction almost entirely on FTE enrollment. Last year, the state changed the credit-based apportionment formula to include three main components, described below. For each of the three components, the state set new per-student funding rates. In future years, these underlying rates are to receive a cost-of-living adjustment (COLA). The new formula does not apply to credit enrollment generated from incarcerated students or high school students. It also does not apply to noncredit enrollment. Apportionments for these students remain based entirely on enrollment.

The three components of the new formula are:

- Base Allocation. As with the prior apportionment formula, the base allocation gives each district certain amounts for each of its colleges and state-approved centers. It also gives each district funding for each credit FTE student ($3,727 in 2018-19). Calculating a district's FTE student count involves several somewhat complicated steps, but basically a district is funded based on a three-year rolling average of its FTE student count. The rolling average takes into account a district's current-year FTE count and counts for the prior two years. As discussed later, enrollment growth for the budget year is funded separately.

- Supplemental Allocation. The formula provides an additional $919 for every student who receives a Pell Grant, receives a need-based fee waiver, or is undocumented and qualifies for resident tuition. Student counts are "duplicated," such that districts receive twice as much supplemental funding ($1,838) for a student who is included in two of these categories (for example, receiving both a Pell Grant and a need-based fee waiver). The allocation is based on student counts from the prior year.

- Student Success Allocation. As Figure 3 shows, the formula also provides additional funding for each student achieving specified outcomes—obtaining various degrees and certificates, completing transfer-level math and English within the student's first year, and obtaining a regional living wage within a year of completing community college. Districts receive higher funding rates for the outcomes of students who receive a Pell Grant or need-based fee waiver, with somewhat greater rates for the outcomes of Pell Grant recipients. As with the supplemental allocation, funding is based on outcome data from the prior year.

**Figure 3**

**Student Success Allocation in New CCC Formula**

*2018-19 Amounts by Student Outcome Measure and Student Type*

| | | Additional Funding for Each: | |
|---|---|---|---|
| Outcome Measure | All Students | Pell Grant Recipient | Need-Based Fee Waiver Recipient |
| Associate degree for transfer | $1,760 | $666 | $444 |
| Associate degree | 1,320 | 500 | 333 |
| Credit certificate requiring 18 or more units | 880 | 333 | 222 |
| Transfer-level math and English courses completed within first academic year | 880 | 333 | 222 |
| Transfer to a four-year university | 660 | 250 | 167 |
| Nine or more career technical education units completed | 440 | 167 | 111 |
| Regional living wage obtained within one year of community college completion | 440 | 167 | 111 |

***Over Next Two Years, Base Allocation to Decrease, Student Success Allocation to Increase.*** In 2018-19, roughly 70 percent of the cost of the formula stems from the base allocation, 20 percent from the supplemental allocation, and 10 percent from the student success allocation. The share for the base allocation is scheduled to decrease to roughly 65 percent in 2019-20 and 60 percent in 2020-21, whereas the share for the student success allocation is set to increase to 15 percent in 2019-20 and 20 percent in 2020-21. To achieve these changes in shares, statute specifies changes to the base and student success rates for each of the next two years . Whereas the base rate is set to decrease from $3,727 to $3,046 over the period, the student success rates are set to double.

***New Formula Insulates Districts From Funding Losses During Transition.*** The new formula includes several hold harmless provisions for community college districts that would have received more funding under the former apportionment formula than the new formula. For 2018-19, 2019-20, and 2020-21, these community college districts are to receive their total apportionment in 2017-18, adjusted for COLA each year of the period. Beginning in 2020-21, districts are to receive no less than the per-student rate they generated in 2017-18 under the former apportionment formula multiplied by their current FTE student count. To help districts with declining enrollment, the state also retained its longstanding one-year hold harmless provision that allows districts to receive the greater of their calculated current- or prior-year allotments.

***State Allocates Enrollment Growth Separately From Other Components of the Apportionment Formula.*** Enrollment growth funding is provided on top of the funding derived from all the other components of the apportionment formula. Statute does not specify how the state is to go about determining how much growth funding to provide. Historically, the state considers several factors, including changes in the adult population, the unemployment rate, and prior-year enrollment. When the state funds grow, the Chancellor's Office uses a statutory formula to allocate that funding across community college districts. The allocation formula takes into account local educational attainment, unemployment, and poverty rates, as well as recent local enrollment trends. The formula is designed to direct a larger share of enrollment growth to high-need districts.

***Colleges facing a potential shortfall in 2019-20.*** Both the Governor's Budget released in January and revenue and cost estimates released by the Chancellor's Office in February indicate that local property taxes and Proposition 98 General Fund revenue may not cover costs associated with the new funding formula. The Chancellor's Office estimates a $324 million shortfall, which is about 5% of apportionment funding. This is due to lower-then-expected property taxes on the revenue side, and higher costs due to the student success allocation and hold harmless provisions of the new funding formula.

## GOVERNOR'S 2019-20 BUDGET PROPOSALS

The Governor's Budget includes $248 million to cover a 3.46% COLA for apportionments. In addition, the budget includes $26 million to cover 0.55% enrollment growth (equating to about 6,000 additional FTE students). The Governor's Budget does not provide enough funding to cover apportionment costs, but the Administration has indicated it will determine how to handle the shortfall in May, once revenue and cost projections are better understood.

The Governor's Budget also proposes to postpone for one year the scheduled changes in the share of apportionment funding linked with the base allocation and the student success allocation. Under the Governor's proposal, the 2019-20 funding formula rates would be the same as in 2018-19, adjusted for COLA. The Administration indicates the proposal is intended to provide additional time for the Chancellor's Office to assess the reliability and quality of the student outcome data used in determining districts' funding allocations. In 2020-21, rates would change as currently scheduled, with base rates decreasing and student success rates doubling.

The Governor also proposes to limit growth in a district's student success allocation such that it can increase no more than 10% each year. This proposal helps to constrain the total costs of the formula and limits the fiscal effects of student outcome data that is of potentially poor quality.

The Governor's Budget also provides the Chancellor's Office with $435,000 one-time General Fund to support costs associated with the Student Centered Funding Formula Oversight Committee, which was created last year and is tasked with addressing unresolved issues with the formula.

## LAO ASSESSMENT AND RECOMMENDATIONS

**Assessment**

***A Few Key Considerations in Deciding Whether to Cover Apportionment Shortfall.*** On the one hand, the Legislature could cover the shortfall, thereby signaling support for the new funding formula, with its emphasis on improving community college student outcomes. On the other hand, the Legislature could choose not to the cover the shortfall. Were the shortfall not to be covered, current practice would result in each district having its apportionment amount prorated downward. Based on the current estimated shortfall, district apportionments would be reduced by about 1%. Some of the 72 community college districts likely would be affected by the reduction more than others. For the 18 "hold harmless" districts—which expected to receive their 2017-18 allotments adjusted by COLA—the shortfall would result in year-over-year growth slightly lower than COLA. These districts could be in a relatively difficult position if they increased employee salaries in 2018-19 based on COLA. For the other 54 districts—which expected to grow at rates higher than COLA—the prorated reduction likely would be less difficult to accommodate, with their annual growth rates still relatively high.

***Enrollment Growth Is in Line With Recent Systemwide Demand.*** The Governor proposes lower enrollment growth than the state has budgeted for CCC the past few years. The lower growth rate, however, is consistent with the growth districts have experienced the past few years. In 2016-17, districts used $38 million of $114 million budgeted for enrollment growth. In 2017-18, districts used $32 million out of $60 million budgeted for growth. For 2018-19, the Administration projects districts will use $33 million of the $60 million provided. Given these trends, we think the $26 million proposed by the Governor for 2019-20 is reasonable.

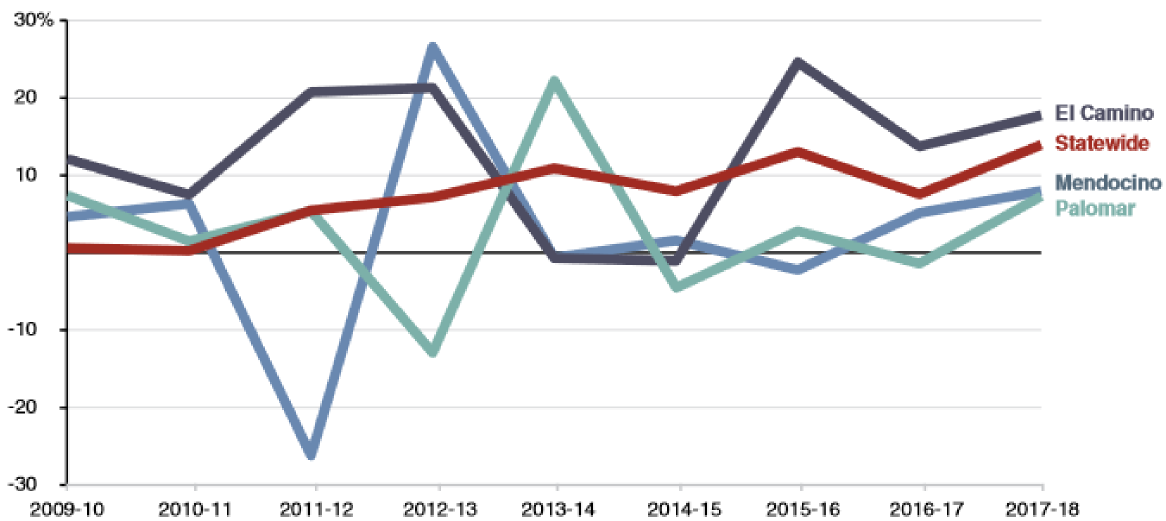
***Student Outcome Data Can Fluctuate Year to Year.*** The Administration has expressed concern with anomalies in the preliminary 2017-18 student outcome data. For example, 2017-18 statewide growth in the number of associate degrees awarded was the highest reported growth rate since 2008-09. An LAO review of historical data, however, shows student outcome data to be prone to significant year-to-year variation. The variability is particularly large when looking at individual districts. Although the number of associate degrees awarded annually has increased statewide by an average of 7 percent per year since 2008-09, almost all districts had at least one year where their awards declined from the previous year. During that same period, 59 districts had at least one year where the number of associate degrees awarded increased more than 20%. Similar variability also exists in historical data for certificates of greater than 18 units. Were these trends to continue, districts could see substantial year-to-year variation in their student success allocations.

The chart below shows degrees awarded statewide and at three different colleges, indicating the year-to-year fluctuation of this outcome.

Figure 4

**Associate Degrees Awarded Vary Significantly Year to Year**

*Annual Change in Degrees Awarded*




Note: Shows change in associate degrees and associate degrees for transfer. The three community college districts selected reflect the variation among small, medium, and large districts.

LAO

***Likely Several Causes of Data Variability.*** Because this data has not traditionally been audited or reviewed by external entities, the data may not be accurate or collected consistently. The degree counts for any particular year also could be affected by administrative decisions or delays in the actual processing or reporting of degrees. (Some students who complete their coursework in May, for example, might not receive their degree until July due to processing issues.) Data also could vary by year because of differences in student cohorts, with larger incoming cohorts producing a larger set of outcomes in subsequent years. Finally, some of the changes could be due to specific local circumstances. For example, a district might see an increase in its number of transfer students if a local CSU campus were to increase its transfer admissions rate that year.

***Cap on Student Success Allocation Is a Crude Approach to Containing Formula Costs.*** In adopting the new funding formula, the Legislature tied a portion of funding to student outcomes to ensure districts had strong financial incentives to focus on student success. Capping the entire student success allocation is a crude approach that could work counter to this purpose. Most notably, the cap could reduce financial incentives for districts that are making genuine improvements in student outcomes.

**Recommendations**

***Use a Three-Year Rolling Average to Distribute Student Success Allocation.*** Given initial concerns with student outcome data, the LAO recommends adopting the Governor's proposal to postpone the scheduled changes in funding formula rates. Although postponing the changes and implementing new audit guidelines likely will help improve data quality and reliability, we are concerned that accurate and reliable data might still be prone to significant year-to-year volatility. To limit volatility in districts' annual funding levels, we recommend the student success allocation be calculated using a three-year rolling average of student outcome data. This approach is similar to the approach used to smooth out enrollment funding in the base allocation. Using a rolling average would mitigate the fluctuations that might occur because of data irregularities while still creating incentives for districts to improve outcomes over the long run.

***Consider Ways to Promote Genuine Improvements Instead of Capping Student Success Allocation.*** Rather than implementing a cap on all outcomes-based funding, the LAO recommends the Legislature explore other cost-containment options that continue to provide strong incentives for districts to make genuine improvements in student outcomes. For example, the Legislature could limit the amount of outcomes-based funding generated by an individual student to the highest award earned in any particular year. Under such an approach, a student who earns an associate degree and a certificate would only generate outcomes-based funding for the associate degree. This would prevent districts from generating additional funding by encouraging associate degree students to obtain unnecessary certificates, yet still reward districts that see improvement in student completion. Targeted modifications of this type would allow the state to reduce formula costs without reducing the incentive for districts to improve outcomes for students.

**STAFF COMMENT/QUESTIONS**

Staff notes that the Assembly rejected the proposed funding formula last year. There were significant concerns about the unintended consequences of the student success allocation, as well as making a major change to college funding at a time when districts faced significant operational cost increases. The final budget included a compromise formula that improved on the proposal, but implementation is off to a rocky start. The Subcommittee could consider the following issues as it reviews apportionment funding and the new funding formula:

***The funding formula is causing some of the shortfall.*** Lower-than-expected property taxes mean colleges could face a revenue shortfall, but the problem is compounded by the new funding formula. Many colleges reported significantly greater outcomes than anticipated: data reported by the LAO indicates 2017-18 – the baseline year for outcomes under the new formula – saw the most degrees awarded by colleges in almost ten years. This issue, and the hold harmless provision, are driving costs upward. Colleges would still face difficulty balancing budgets had the new formula not been adopted, but the state apportionment issue would likely not be as significant.

Staff notes that both the Department of Finance and the LAO believe that property tax revenue is likely to increase by the May Revise, which could narrow the shortfall.

***The student success allocation is complex, prioritizes some outcomes over others, and concerns over unintended consequences remain valid.*** The student success allocation provides 21 different rates for different outcomes, depending on the type of student achieving the outcome. This complexity has a purpose, as it is intended to reward and incentivize colleges to support successful outcomes for all kinds of students. But it also adds complexity to the formula, making it difficult to administer and forecast. In addition, some colleges have complained that differing amounts for differing outcomes may undervalue some outcomes. For example, a student who successfully transfers to the University of California, which often does not accept the Associate's Degree for Transfer (ADT), could be worth only about one-fourth the outcomes funding of a student who receives an ADT and transfers to a California State University.

Finally, concerns remain about whether colleges will pursue the creation of short-term certificates or other outcomes that may not be valuable to students but will generate revenue under the new formula. In a February letter to the Subcommittee, the Academic Senate for California Community Colleges noted the following proposals or actions already underway at some colleges:

1. Auto-awarding of certificates and degrees, which may in some cases negatively impact students' financial aid or be undesirable to students for other reasons if appropriate precautions are not in place.

2. Pressure to increase certificates that are less than 16 units to be a minimum of 16 units, which may in some cases encourage students to complete unnecessary coursework.

3. Re-instituting "GE-compilation" degrees that basically award a degree for completing both the local general education pattern and a transferable general education pattern, which are in most cases redundant awards with existing discipline-specific or area of emphasis degrees.

***Multiple efforts underway to review formula and implementation.*** Among the reviews are:

- The Student Success Funding Formula Oversight Committee, which was charged to continuously evaluate and review the implementation of the funding formula. The 12 members of the committee are appointed equally by the Administration, Senate and Assembly. The committee is charged to make recommendations by January 1, 2020, regarding the inclusion of first-generation college students, whether the definition of low-income students should be adjusted to regions of the state, and incoming students' level of academic proficiency. By June 30, 2021, the committee must provide recommendations on whether the formula should include noncredit instruction and instructional service agreements and how districts allocations would be adjusted in a recession.

- The Chancellor's Office has convened an advisory workgroup to review other components of the funding formula. The workgroup will make recommendations in late April or early May to the Legislature. The workgroup is reviewing several issues, including how the formula should count Pell Grant recipients who attend multiple colleges within the same district, how the formula should account for students who reach more than one of these outcomes in a given year, and whether there are other types of outcomes related to workforce mission of the California Community Colleges (such as "journeyperson status" or other outcomes related to apprenticeship) that might be considered as part of the student success allocation.

- The Chancellor's Office has contracted with the Fiscal Crisis and Management Assistance Team (FCMAT) to review the data collection and reporting processes of a random sample of 12 districts across the state. The goal of this review is to identify ways to improve the consistency and quality of data reported by districts. The review is expected to be completed by early May, such that its findings and recommendations could be incorporated into the final 2019-20 budget.

***Stakeholders advocating for changes.*** The Subcommittee has received multiple requests for changes to the funding formula.

The Academic Senate proposes three changes: (1) Leveling the point system for associate degree awards so that all educational goals and achievements of comparable unit values are counted equally; (2) awarding colleges only once per year per student for the highest award achieved as a means of prioritizing per-student success, as opposed to incentivizing maximizing awards more generally; and (3) keeping the performance metric portion set at 10% of the total allocation to ensure funding stability and to support college exploration of how best to serve students.

A coalition of large districts – Los Angeles Community College District, Foothill-De Anza Community College District, Kern Community College District, San Diego Community College District, City College of San Francisco and Peralta Community College District - and faculty organizations – Los Angeles College Faculty Guild, California Federation of Teachers and the Faculty Association of California Community Colleges - suggest distributing the supplemental allocation by college, instead of district, to ensure all colleges receive funding for students served, and changing the way some noncredit courses are funded, moving from a daily attendance model to a census model.

The Community College League of California is advocating for several changes, including using 2018-19 Total Computational Revenue (TCR) plus the 2019-20 COLA as the new base for all districts, extending the hold-harmless provisions to fiscal year 2021-22, incorporating a provision stating that no district would lose more than a certain percentage of base funding year-over-year if cuts are required, leveling the point system so that all associate degrees, state-approved certificates, and transfer to four-year accredited institutions have the same point value, recognizing only the highest award achieved by the same student in a given fiscal year, keeping outcomes funding at 10% of the total allocation, ensuring that programs supporting special-admit students, incarcerated individuals, Career Development College Prep (CDCP) noncredit students, and Instructional Service Agreements (ISAs) receive full FTES funding per the existing 100% FTES formula, counting outcomes in as many districts as necessary as long as the student took 12 or more units in the district in the year prior to transfer, utilizing a two-year average of prior year and prior-prior year in the Supplemental and Success grant portions of formula, determining Pell Grant points based on eligibility rather than award status, and establishing and funding an intentional strategy that blends technical assistance to colleges and local professional development support throughout the implementation of the formula.

Suggested Questions

- What are suggestions for handling an appropriations shortfall if there is one once the May Revision is released?

- How does the Administration and Chancellor's Office feel about suggestions to limit outcomes funding to 10% of the formula?

- How will Chancellor's Office monitor new degree and certificate programs, or degree and certification awarding practices, to ensure that colleges are not just producing more awards to receive more revenue?

- Why were outcomes so much higher than expected?

- Could the outcomes funding be simplified? Shouldn't transfer, CTE or other outcomes have more equal value?

## ISSUE 2: PROMISE PROGRAM

The Subcommittee will review the California College Promise program and discuss the Governor's Budget proposal to expand the program.

### PANEL 1

- Maritza Urquiza, Department of Finance
- Edgar Cabral, Legislative Analyst's Office
- Christian Osmeña, Community Colleges Chancellor's Office

### PANEL 2

- Francisco Rodriguez, Chancellor, Los Angeles Community College District
- Geoff Green, Chief Executive Officer, Santa Barbara City College Foundation
- Jeff DeFranco, Superintendent/President, Lake Tahoe Community College District

### BACKGROUND

***Longstanding Program Provides Fee Waivers for CCC Students With Financial Need.*** When the Legislature introduced a CCC enrollment fee in 1984, it created the BOG fee waiver program. This program waives enrollment fees—currently $46 per unit—for students who have some financial need. (Financial need is defined as the difference between the total cost of attendance and the amount a student's family can contribute toward that cost, as calculated by a federal formula.) Students apply for a fee waiver by completing either the Free Application for Federal Student Aid (FAFSA) or a shorter form developed by the Chancellor's Office. Students may receive this fee waiver for any number of units taken. In 2017-18, 41% of CCC students—representing almost two-thirds of units taken—had their enrollment fees fully waived through this program.

***State Recently Created New Program With Multiple Objectives.*** AB 19 (Santiago, Chapter 735, Statutes of 2017) created the California College Promise program. This program was inspired by tuition-free college programs in other states (as explained in the box on page 10), but it had broader goals beyond affordability. The Legislature's stated intent in creating the program was to support CCC in increasing college readiness, improving student outcomes, and reducing achievement gaps. The state provided $46 million for the program in 2018-19, the first year it was funded. Colleges are permitted—but not required—to use these funds to provide fee waivers to first-time, full-time students without financial need during their first year of college. To be eligible for these waivers, students must have no prior postsecondary coursework, enroll in 12 or more units per semester, and submit a FAFSA. Under the program, colleges also are permitted to use their College Promise funds for a broad range of other purposes, such as providing supplemental services to students.

***Statute Requires Colleges to Meet Six Requirements to Receive College Promise Funds.*** Figure 5 shows these requirements. The requirements are intended to incentivize colleges to adopt certain promising student support practices. In 2018-19, 105 colleges have indicated they are meeting all six requirements and are, in turn, receiving College Promise funds. Nine colleges have opted out of the program, primarily out of concern that the sixth requirement—offering federal student loans—will increase their cohort default rates. (Colleges must maintain cohort default rates below a certain threshold to remain eligible for federal financial aid, including the Pell Grant program.)

**Figure 5**

**Colleges Must Meet Six Requirements to Receive College Promise Funds**

**Participating Community Colleges Must:**

- ✓ Partner with school districts on college outreach efforts.
- ✓ Partner with school districts to support practices that improve college readiness and reduce the need for remediation.
- ✓ Use evidence-based practices for the assessment and placement of incoming students.
- ✓ Implement Guided Pathways to help students enter and stay on a defined academic path.
- ✓ Ensure students complete the Free Application for Federal Student Aid or California Dream Act Application.
- ✓ Participate in federal student loan program.

## GOVERNOR'S 2019-20 BUDGET PROPOSALS

The Governor's Budget proposes to augment funding for the program based on the estimated cost of waiving enrollment fees for first-time, full-time CCC students in their first two years of college who do not have financial need under the BOG fee waiver program. Under the Governor's proposal, total ongoing funding for the program would be $80 million Proposition 98 General Fund. (Though the 2018-19 Budget Act included $46 million for the College Promise program, the Administration now estimates that first-year fee waivers cost only $40 million—the same as its estimated cost for second-year fee waivers.) Consistent with the existing design of the program, colleges could use their additional College Promise funds to waive enrollment fees for qualifying students or for other purposes, such as student support services. The proposal does not change the six requirements colleges must meet to receive funds under this program.

The Governor's Budget also provides the Chancellor's Office with $5 million one-time General Fund to expand outreach around College Promise. Budget bill language requires the creation of a Student Success Awareness Team to support colleges in communicating with students information about the California College Promise, college costs, and career and transfer pathways. The Student Success Awareness Team will be responsible for identifying information needs, developing resources that can be used locally, and providing professional development to practitioners.

## LAO ASSESSMENT AND RECOMMENDATION

The LAO states that it is difficult to assess the outcomes of this program, as it is in its first year of state funding. The LAO also states that because the students qualifying for fee waivers under this program are not considered financially needy, the Legislature may have higher priorities for these funds.

The LAO recommends rejecting the Governor's proposal because (1) it is too soon for the Legislature to evaluate the current College Promise program, (2) the program primarily benefits students without financial need, and (3) colleges now have stronger incentives to provide student support and improve student outcomes. Rejecting the proposal would free up $40 million for other Proposition 98 priorities.

## STAFF COMMENT/QUESTIONS

This program has been an Assembly priority. The Governor's proposal expands the existing program, allowing students to complete two years of tuition-free full-time community college attendance. The Subcommittee can consider the following issues as it discusses this program:

***Colleges using funding for fee waivers, but also for several other purposes.***
According to a survey conducted by the Chancellor's Office, most colleges are using AB 19 funding to waive fees for students who previously did not receive a fee waiver. However, colleges are also using the funds for many other purposes, including covering some non-tuition costs for low-income students (30 colleges) and programs in high school to increase college preparedness and attendance (21 colleges). Many colleges have used local fund-raising efforts to braid state and local revenue together to support a stronger college-going culture in communities. Charts on the following pages indicate how colleges are using this funding.

***Benefits include better alliances between high schools, colleges and their communities, more full-time enrollment, more FAFSA completion.*** According to some feedback from colleges, the program has strengthened ties between colleges and their local high schools, as well as other community organizations and local governments. Anecdotal evidence from some colleges indicate an increase in the number of full-time students, which typically improves completion rates. Emphasizing FAFSA and Dream Act completion is another significant benefit.

***More colleges expected to participate in 2019-20.*** As noted earlier, non-participating colleges are mostly opposed to the requirement that they participate in the federal loan program. The Chancellor’s Office has reached out to all 9 colleges and offered support, through the loan default prevention and financial wellness programs manage by the Chancellor’s Office. Four colleges have expressed interest in reentering the loan program and taking advantage of the Chancellor’s Office program resources.

***Could consider expanding the program.*** The Subcommittee could consider going beyond the Governor’s proposal and providing fee waivers to all full-time students, instead of just first-time students. This would allow former students who did not complete a program to return tuition-free and finish a certificate or degree. The Chancellor’s Office estimates that there were about 143,000 returning, full-time students not already receiving a fee waiver in Spring 2018, for example.

<u>Suggested Questions</u>

- How many colleges/districts have local Promise programs in conjunction with the state program?
- Are colleges interested in expanding the program beyond first-time students?
- What are outcomes so far?

| DISTRICT | SCHOOL | Fee Waivers | High school programs to promote college going | Non-tuition aid to low-income students | Opted Out Not participating in loan programs |
|---|---|---|---|---|---|
| ALLAN HANCOCK | ALLAN HANCOCK | y | | | |
| ANTELOPE VALLEY | ANTELOPE VALLEY | | y | | |
| BARSTOW | BARSTOW | | | | y |
| BUTTE | BUTTE | y | | | |
| CABRILLO | CABRILLO | y | | | |
| CERRITOS | CERRITOS | y | | | |
| CHABOT-LAS POSITAS | CHABOT | | | y | |
| CHABOT-LAS POSITAS | LAS POSITAS | | | y | |
| CHAFFEY | CHAFFEY | y | | y | |
| CITRUS | CITRUS | | | y | |
| COAST | COASTLINE | y | | | |
| COAST | GOLDEN WEST | y | | | |
| COAST | ORANGE COAST | y | | | |
| COMPTON | COMPTON | | | y | |
| CONTRA COSTA | CONTRA COSTA | y | | | |
| CONTRA COSTA | DIABLO VALLEY | y | | | |
| CONTRA COSTA | LOS MEDANOS | y | | | |
| COPPER MOUNTAIN | COPPER MOUNTAIN | y | | | |
| DESERT | DESERT | | | | y |
| EL CAMINO | EL CAMINO | y | | | |
| FEATHER RIVER | FEATHER RIVER | y | | | |
| FOOTHILL-DEANZA | DE ANZA | y | | | |
| FOOTHILL-DEANZA | FOOTHILL | y | | | |
| GAVILAN | GAVILAN | y | | | |
| GLENDALE | GLENDALE | y | | | |
| GROSSMONT-CUYAMACA | CUYAMACA | y | | | |
| GROSSMONT-CUYAMACA | GROSSMONT | y | | | |
| HARTNELL | HARTNELL | y | | | |
| IMPERIAL | IMPERIAL VALLEY | | | | y |
| KERN | BAKERSFIELD | y | | y | |
| KERN | CERRO COSO | y | | | |
| KERN | PORTERVILLE | y | | | |
| LAKE TAHOE | LAKE TAHOE | y | | y | |
| LASSEN | LASSEN | y | | | |
| LONG BEACH | LONG BEACH CITY | | | y | |
| LOS ANGELES | EAST L.A. | y | | | |
| LOS ANGELES | L.A. CITY | y | | | |
| LOS ANGELES | L.A. HARBOR | y | | | |
| LOS ANGELES | L.A. MISSION | y | | | |
| LOS ANGELES | L.A. PIERCE | y | | | |
| LOS ANGELES | L.A. TRADE-TECH | y | | | |
| LOS ANGELES | L.A. VALLEY | y | | | |
| LOS ANGELES | SOUTHWEST L.A. | y | | | |
| LOS ANGELES | WEST L.A. | y | | | |

| DISTRICT | SCHOOL | Fee Waivers | High school programs to promote college going | Non-tuition aid to low-income students | Opted Out Not participating in loan programs |
|---|---|---|---|---|---|
| LOS RIOS | AMERICAN RIVER | y | | | |
| LOS RIOS | COSUMNES RIVER | | y | | |
| LOS RIOS | FOLSOM LAKE | y | | | |
| LOS RIOS | SACRAMENTO CITY | | | y | |
| MARIN | MARIN | | y | | |
| MENDOCINO-LAKE | MENDOCINO | y | | | |
| MERCED | MERCED | y | | | |
| MIRA COSTA | MIRA COSTA | y | | | |
| MONTEREY | MONTEREY | y | y | y | |
| MT. SAN ANTONIO | MT. SAN ANTONIO | | | y | |
| MT. SAN JACINTO | MT. SAN JACINTO | | | | y |
| NAPA VALLEY | NAPA VALLEY | y | | | |
| NORTH ORANGE | CYPRESS | y | | | |
| NORTH ORANGE | FULLERTON | y | | | |
| OHLONE | OHLONE | y | | y | |
| PALO VERDE | PALO VERDE | | y | | y |
| PALOMAR | PALOMAR | y | | | |
| PASADENA | PASADENA CITY | y | | | |
| PERALTA | ALAMEDA | y | y | y | |
| PERALTA | BERKELEY CITY | y | y | y | |
| PERALTA | LANEY | y | y | y | |
| PERALTA | MERRITT | y | y | y | |
| RANCHO SANTIAGO | SANTA ANA | | | y | |
| RANCHO SANTIAGO | SANTIAGO CANYON | y | | y | |
| REDWOODS | REDWOODS | y | | | |
| RIO HONDO | RIO HONDO | y | | | |
| RIVERSIDE | MORENO VALLEY | y | | y | |
| RIVERSIDE | NORCO | y | | y | |
| RIVERSIDE | RIVERSIDE | y | | | |
| SAN BERNARDINO | CRAFTON HILLS | | | | y |
| SAN BERNARDINO | SAN BERNARDINO | | | | y |
| SAN DIEGO | SAN DIEGO CITY | | y | | |
| SAN DIEGO | SAN DIEGO MESA | | y | | |
| SAN DIEGO | SAN DIEGO MIRAMAR | | y | | |
| SAN FRANCISCO | SAN FRANCISCO CITY | | y | y | |
| SAN JOAQUIN DELTA | SAN JOAQUIN DELTA | y | | | |
| SAN JOSE-EVERGREEN | EVERGREEN VALLEY | y | | | |
| SAN JOSE-EVERGREEN | SAN JOSE CITY | y | | | |
| SAN LUIS OBISPO | CUESTA | y | | | |
| SAN MATEO | CANADA | | y | | |
| SAN MATEO | SAN MATEO | | y | | |
| SAN MATEO | SKYLINE | | y | | |
| SANTA BARBARA | SANTA BARBARA CITY | | | y | |
| SANTA CLARITA | CANYONS | y | | y | |
| SANTA MONICA | SANTA MONICA CITY | y | | y | |

| DISTRICT | SCHOOL | Fee Waivers | High school programs to promote college going | Non-tuition aid to low-income students | Opted Out Not participating in loan programs |
|---|---|---|---|---|---|
| SEQUOIAS | SEQUOIAS | y | | | |
| SHASTA-TEHAMA-TRINIT | SHASTA | y | | | |
| SIERRA | SIERRA | y | | y | |
| SISKIYOUS | SISKIYOUS | | y | | |
| SOLANO | SOLANO | y | | | |
| SONOMA | SANTA ROSA | y | | y | |
| SOUTH ORANGE | IRVINE VALLEY | y | | | |
| SOUTH ORANGE | SADDLEBACK | | | y | |
| SOUTHWESTERN | SOUTHWESTERN | y | | | |
| STATE CENTER | CLOVIS | y | | | |
| STATE CENTER | FRESNO CITY | y | | | |
| STATE CENTER | REEDLEY | y | | | |
| VENTURA | MOORPARK | y | | y | |
| VENTURA | OXNARD | y | | y | |
| VENTURA | VENTURA | y | | y | |
| VICTOR VALLEY | VICTOR VALLEY | | | | y |
| WEST HILLS | COALINGA | y | y | | |
| WEST HILLS | LEMOORE | y | y | | |
| WEST KERN | TAFT | | | | y |
| WEST VALLEY-MISSION | MISSION | | y | | |
| WEST VALLEY-MISSION | WEST VALLEY | | y | | |
| YOSEMITE | COLUMBIA | y | | | |
| YOSEMITE | MODESTO | y | | | |
| YUBA | WOODLAND | y | | | |
| YUBA | YUBA | y | | | |
| Totals | | 82 | 21 | 30 | 9 |

## ISSUE 3: PROPOSITION 51/CAPITAL OUTLAY

The Subcommittee will discuss Proposition 51 bond funding, including the Governor's Budget and April proposals to support 15 new and 15 continuing capital outlay proposals.

### PANEL

- Randall Katz, Department of Finance
- Edgar Cabral, Legislative Analyst's Office
- Christian Osmeña, Community Colleges Chancellor's Office

### BACKGROUND

Voters approved Proposition 51 in November 2016. It authorizes the state to sell $2 billion in general obligation bonds for community college projects (in addition to $7 billion for K-12 school facilities projects). The funds may be used for any community college facility project, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment.

***Chancellor's Office reviews projects based on five criteria.*** To receive state bond funding, community college districts must submit project proposals to the Chancellor's Office. The Chancellor's Office ranks all submitted facility projects using the following five criteria adopted by the Board of Governors (in order of priority):

- Life-safety projects, projects to address seismic deficiencies or risks, and infrastructure projects (such as utility systems) at risk of failure.
- Projects to increase instructional capacity.
- Projects to modernize instructional space.
- Projects to complete campus build-outs.
- Projects that house institutional support services.

In addition, projects with a local contribution receive greater consideration (districts raise their local contributions mainly through local general obligation bonds). Based on these criteria, the Chancellor submits capital outlay project proposals to the Legislature and Governor for approval and funding as part of the annual state budget process.

***Department of Finance uses different criteria.*** The Department of Finance has developed criteria for capital outlay projects for all state buildings, including community colleges. The Administration reviews every project approved by the Chancellor's Office and prioritizes those that appear to be addressing life safety issues, even if life safety is not the primary reason for the project. In contrast, the Chancellor's Office may deem a project higher priority because it addresses a lack of instructional capacity, even if no life safety issues are involved. Inconsistency in how the two agencies are reviewing projects is resulting in confusion for districts, as their projects are effectively being subjected to two competing standards. The Administration's capital outlay policy has not changed between the Brown and Newsom administrations.

***21 projects approved so far.*** To date, the state has approved 21 Proposition 51-funded community college projects. The total state cost for all phases of these projects is estimated to be $587 million. For 2019-20, the Chancellor's Office is recommending 39 additional projects. Of the 39 projects, 6 projects were proposed last year but not funded. The remaining 34 projects were newly approved by the Chancellor's Office in Fall 2018. Of the projects, the Chancellor's Office ranked 3 in the highest-priority category, 15 in the second highest-priority category, 15 in the third category, and 6 in the fourth category. The projects are estimated to have total state costs of $689 million.

## GOVERNOR'S 2019-20 BUDGET PROPOSALS

The Administration proposes to fund 15 of the 39 projects submitted by the Chancellor's Office. As the chart below shows, the Governor's Budget included 12 projects and $18 million in Proposition 51 funds for these projects. April Finance letters added three more projects and $21 million in Proposition 51 funding. The funding would cover the cost of preliminary plans and working drawings. Total state costs for all phases of the projects, including construction, are estimated to be $290.4 million.

**Governor Proposes to Fund 15 New CCC Capital Outlay Projects**

*(In Thousands)*

| College | Project | 2019-20 State Cost | All Years State Cost | All Years Total Cost[a] |
|---|---|---|---|---|
| **Proposed in January** | | | | |
| San Bernardino | Technology replacement building | $2,313 | $34,411 | $75,647 |
| Redwoods | Physical education replacement building | 5,379 | 60,648 | 60,648 |
| American River | Technology replacement building | 1,258 | 29,959 | 57,966 |
| Saddleback | New Gateway Building | 1,719 | 26,080 | 52,338 |
| Alameda | Auto and diesel technologies replacement building | 1,278 | 17,044 | 33,650 |
| Los Angeles City | Theater arts replacement building | 1,112 | 15,140 | 30,095 |
| Merced | New agricultural science and industrial technologies complex | 431 | 12,974 | 25,629 |
| Santa Monica | Art replacement complex | 793 | 10,901 | 21,526 |
| Rio Hondo | Music/Wray theater renovation | 979 | 11,519 | 23,777 |
| Sequoias | Basic skills replacement center | 1,365 | 15,635 | 17,350 |
| Fresno | Child development replacement center | 1,036 | 13,520 | 16,850 |
| Butte | Technology building renovation | 518 | 8,088 | 10,722 |
| Subtotals | | ($18,181) | ($255,919) | ($426,198) |
| **Added in April** | | | | |
| Skyline | Workforce and Economic Development Prosperity Center renovation | $1,197 | $19,908 | $39,323 |
| Cañada | Building 13 Multiple Program Instructional Center renovation | 815 | 9,700 | 26,955 |
| Canyons | Boykin Hall renovation | 397 | 4,879 | 9,494 |
| Subtotals | | ($2,409) | ($34,487) | ($75,772) |
| **Totals** | | **$20,590** | **$290,406** | **$501,970** |

[a] Community college districts typically issue local general obligation bonds to pay for a share of project costs.

The Governor's Budget also includes $340.7 million in Proposition 51 funds for the construction phase of 15 projects that were initially approved in 2017-18 or 2018-19.

**State Would Support 15 Continuing CCC Capital Outlay Projects**
*(In Thousands)*

| College | Project | 2019-20 State Cost | All Years State Cost | All Years Total Cost[a] |
|---|---|---|---|---|
| Santa Monica | Science and mathematics building addition | $37,031 | $39,615 | $78,102 |
| Laney | Learning resource replacement center | 22,812[b] | 24,417 | 75,686 |
| Mount San Antonio | New physical education complex | 53,993 | 57,541 | 72,238 |
| Santa Rosa | Science and mathematics replacement building | 30,882 | 33,076 | 65,589 |
| Orange Coast | Language arts and social sciences replacement building | 28,305 | 30,353 | 59,803 |
| Allan Hancock | Fine arts replacement complex | 22,873 | 24,526 | 48,318 |
| Golden West | Language arts replacement complex | 21,925 | 23,540 | 46,478 |
| West Hills (North District Center) | New library and instructional facility | 40,275 | 42,403 | 43,285 |
| Santa Ana | Russell Hall replacement | 19,192 | 20,729 | 40,948 |
| Solano | Library replacement building | 17,396 | 20,148 | 39,739 |
| Compton | Instructional replacement building | 14,891 | 16,167 | 24,995 |
| Mission | Portables replacement | 10,073 | 10,814 | 21,500 |
| Merritt | New child development center | 5,692[b] | 6,128 | 20,013 |
| Imperial | Academic buildings renovation | 8,647 | 9,043 | 17,741 |
| Long Beach (Pacific Coast Campus) | Construction trades building renovation, phase 1 | 6,712 | 7,304 | 13,107 |
| **Totals** | | **$340,699** | **$365,804** | **$667,542** |

[a] Community college districts typically issue local general obligation bonds to pay for a share of project costs.
[b] In an April letter request, the administration proposes to reappropriate funding provided in 2018-19 for working drawings.

The Governor's Budget does not include funding for five projects that previously received funding for preliminary plans and working drawings. For these projects, the Administration proposes postponing construction funding. The chart below lists these projects, the year they were initially approved, and their estimated construction cost. Most of these projects have encountered delays with earlier project phases and, in three cases, the administration is concerned districts still are contributing little or no local match toward the project.

**Five Previously Approved Projects Not Receiving Construction Funding in 2019-20**
*(In Thousands)*

| College | Project | Year Initially Approved | Estimated Construction Cost State | Estimated Construction Cost Total |
|---|---|---|---|---|
| San Francisco (Ocean Campus) | Utility infrastructure replacement[a] | 2017-18 | $76,257 | $76,257 |
| Pasadena City | Armen Sarafian building seismic replacement[b] | 2017-18 | 53,458 | 55,523 |
| Redwoods | Arts building replacement[c] | 2018-19 | 22,191 | 22,191 |
| Fullerton | Business 300 and Humanities 500 Renovation[c] | 2017-18 | 15,714 | 30,115 |
| San Francisco (Alemany Center) | Seismic and code renovations[a] | 2017-18 | 14,398 | 14,398 |

[a] Both project delays and insufficient local match.
[b] Insufficient local match.
[c] Project delays. For Redwoods project, district demonstrated financial hardship and no local match is expected.

## LAO ASSESSMENT AND RECOMMENDATION

The LAO notes that the Newsom administration shows a greater commitment to allocating Proposition 51 bond funding than the previous administration. Compared to the 12 projects Governor Newsom is proposing, the Brown administration proposed only five projects each of the past two years. Despite proposing more projects, however, the state still would be on a somewhat slow track to expend all Proposition 51 bond funds. Accounting for all phases of all projects to date (including the 12 proposed projects), the state would have committed $668 million of the $2 billion authorized by Proposition 51. (This amount excludes construction funding for the postponed projects.) At this pace, the state would be on track to exhaust Proposition 51 bond funding in about nine years (by 2025-26). Given the amount of projects approved by the Chancellor's Office, this somewhat slow pace is driven by state-level decisions, not lack of demand from community colleges.

Although the Chancellor's Office has a specific process for addressing life safety issues, the Administration has its own approach. The Administration reviews every project approved by the Chancellor's Office and prioritizes those that appear to be addressing life safety issues, even if life safety is not the primary reason for the project. In contrast, the Chancellor's Office may deem a project higher priority because it addresses a lack of instructional capacity, even if no life safety issues are involved. Inconsistency in how the two agencies are reviewing projects is resulting in confusion for districts, as their projects are effectively being subjected to two competing standards.

The Administration's approach to prioritizing community college projects is consistent with the approach generally used for state-owned buildings, where the state is directly responsible for safety. This approach, however, might not be the right approach within the context of community college facilities. Community college districts are the ones directly responsible for any life safety issues related to their facilities. Additionally, the Administration's approach can reward districts that have done a poor job maintaining their facilities. For example, if two districts submit requests to modernize buildings that are of the same age, the administration's approach prioritizes the project that has a life safety issue. The life safety issue, however, could be the result of poor district maintenance practices. The Chancellor's Office approach, which requires third-party review and limits the scope of life safety projects, does not create these poor incentives to the same degree.

The LAO states that given the somewhat slow pace of project approvals and their concerns with the administration's rationale for which projects it has included in its budget, the Legislature may want to consider approving more projects than the Governor. In choosing which projects to fund, the Legislature could evaluate the projects based on the Chancellor's Office priority categories or work with the Chancellor's Office and administration to develop another set of clear, agreed-upon criteria. The chart below lists the projects approved by the Chancellor's Office but not funded in the Governor's budget.

**Projects Approved by Chancellor's Office but Not Included in Governor's Budget**
*(In Thousands)*

| College | Project | Priority Category[a] | 2019-20 State Cost[b] | All Years State Cost | All Years Total Cost |
|---|---|---|---|---|---|
| Folsom Lake | Instructional buildings phase 2 | 2 | $1,280 | $31,374 | $58,488 |
| Mount San Jacinto | Math and Sciences building | 2 | 1,560 | 26,816 | 50,673 |
| Clovis | Applied Technology building | 2 | 1,794 | 26,091 | 49,893 |
| Irvine Valley | Fine arts building | 2 | 1,624 | 23,202 | 45,072 |
| Long Beach City | Music/theatre complex | 2 | 1,681 | 23,212 | 44,606 |
| Mount San Jacinto | Science and Technology building | 2 | 1,854 | 23,203 | 44,071 |
| Santa Barbara City | Physical education replacement | 1 | 3,189 | 41,103 | 41,928 |
| West Valley | Learning resource center renovation | 3 | 1,623 | 19,993 | 40,132 |
| Los Rios (Natomas Education Center) | Natomas Center phases 2 and 3 | 2 | 886 | 27,805 | 39,386 |
| Woodland | Performing arts facility | 4 | 1,427 | 19,426 | 37,659 |
| West Hills Lemoore | Instructional Center phase 1 | 2 | 1,634 | 23,413 | 31,726 |
| Kern (Delano Center) | LRC multipurpose building | 2 | 1,191 | 16,106 | 31,242 |
| Laney | Theater buildings renovation | 3 | 709 | 8,213 | 26,454 |
| Chaffey | Instructional Building 1 | 2 | 951 | 12,990 | 26,132 |
| Cerritos | Health Sciences Building 26 renovation | 3 | 1,054 | 12,665 | 24,712 |
| Merritt | Horticulture building replacement | 3 | 755 | 10,065 | 24,506 |
| Lake Tahoe | RFE and Science renovation | 3 | 1,447 | 11,056 | 21,564 |
| Porterville | Allied health building | 2 | 835 | 10,919 | 20,827 |
| Monterey Peninsula | Public safety center phase 1 | 4 | 714 | 9,223 | 19,058 |
| Los Rios (Elk Grove Center) | Elk Grove Center phase 2 | 2 | 410 | 8,946 | 17,013 |
| Reedley | New child development center | 4 | 818 | 10,388 | 14,366 |
| Cabrillo | Buildings 500, 600 and 1600 renovation | 3 | 252 | 3,622 | 7,268 |
| Monterey Peninsula | Music facilities phase 1 renovation | 3 | 222 | 2,454 | 6,347 |
| San Mateo | Water supply tank replacement | 1 | 505 | 5,669 | 6,298 |
| **Totals** | | | **$28,415** | **$407,954** | **$729,421** |

[a] Reflects Chancellor's Office priority categories.
[b] Reflects cost of preliminary plans and working drawings.

## STAFF COMMENT

The Subcommittee could consider the following issues as it reviews this item:

***Narrow Finance criteria does not address system, legislative and voters' goals.*** Staff concurs with the LAO's assessment: community colleges continue to be stymied in accessing Proposition 51 bond funds due to differing project criteria between the Board of Governors and the Department of Finance. While the Department of Finance uses a narrow criteria for all state capital outlay projects that focuses on life/safety issues, the Board of Governors considers other criteria that address statewide educational priorities, such as increasing capacity of campuses or modernizing classrooms to improve student learning. Staff notes that the Board of Governors' criteria is more in line with legislative priorities for community colleges, such as increasing access and student success. Additionally, local voters also should have a say in this: many districts have successfully pushed for local bond funding by telling their communities that local and state funds would be used to increase colleges' usefulness to their communities. In short, the Administration's treatment of community college capital outlay as the same as other state agencies' capital outlay is not in line with legislative, college or local voters' priorities.

***Delays increase costs and frustration.*** Voters approved $2 billion worth of state bond funding three years ago to aid colleges. Many colleges report local frustration with the slow pace of the Proposition 51 rollout, as billions in local bonds are approved and waiting to be spent. Many others note that delays typically increase construction costs. Staff concurs with LAO that more projects seem warranted.

The Board of Governors has approved about $1.5 billion worth of projects, when considering all phases of each project.

***Previously-approved projects warrant attention.*** As noted earlier, the Governor's Budget does not provide construction funding for five projects that were previously approved for preliminary plans and working drawings phases. The Administration states that they did not support the project due to delays or failure to provide a local match. Staff notes that the state already approved preliminary phase of these projects without a local match; thus now requiring a local match seems unfair. San Francisco City College, for example, notes it currently faces a budget deficit and its two projects are critical life/safety projects. The college notes that it had intended to award a construction bid on both projects within the next 12 months; a one-year delay may drive up costs. Similar concerns exist for the other three projects.

**Staff Recommendation: Approve the preliminary plans and working drawings phases of the 15 new projects approved by the Administration. Approve the construction phase of the five projects previously approved by the Governor and Legislature. Approve the preliminary plans and working drawings phases of the other projects approved by the Board of Governors.**

## ISSUE 4: ONLINE COLLEGE

The Subcommittee will discuss the California Online Community College, which was created in the 2018 Budget Act.

### PANEL

- Heather Hiles, President and CEO, California Online Community College
- Julian Roberts, Chief Financial Officer, Foundation for California Community Colleges

### BACKGROUND

The 2018 Budget Act created a new online community college to be administered by the CCC Board of Governors. The Board of Governors is to choose the chief executive of the college. The chief executive is required to establish an advisory council consisting of local trustees from other community colleges as well as employees of the online college.

The Budget Act provided $20 million ongoing and $100 million Proposition 98 General Fund to launch the college. The startup funding may be spread over a seven-year period and used for technology, building space, and business plan development, among other things. The funding for ongoing operations is intended for the salaries and benefits of staff, staff training, and technology licensing and maintenance. When the college begins enrolling students, it is to receive apportionment funding similar to all other community college districts, with the apportionment funding coming on top of the college's base $20 million ongoing allocation.

***College Intended to Focus on Short-Term Pathways.*** Initially, the online college is intended to focus on short-term programs for working adults who have no postsecondary credentials. Over the next three years, the college is required to develop at least three short-term program pathways linked with industry needs. These pathways may not be duplicative of programs offered at existing community colleges. In addition, for every 10 pathways offered by the online college, at least one pathway must be developed in collaboration with an existing community college. The online college also is to use existing industry certifications, competency-based learning, and prior learning assessments to reduce the amount of additional courses students need to complete their pathway.

***Several Milestones and Reporting Requirements for College.*** The new college is required to meet certain program, administrative, and accreditation milestones within the first seven years. Most notably, the online community college must begin enrolling students by the last quarter of calendar year 2019; design and validate at least 13 program pathways by July 1, 2023; and obtain full accreditation by April 1, 2025.

***College Exempt From a Few Requirements Applying to Other Colleges.*** Most notably, the new online college has flexibility with regard to setting its academic calendar and establishing its student fee structure, although fees must be in line with those at existing community colleges. The new college, however, is subject to most other rules and regulations that apply to existing community colleges. The college, for example, is required to spend at least 50 percent of its general operating budget on salaries and benefits of faculty and instructional aides engaged in direct instruction. As with other colleges, it also is required to have its programs and courses reviewed and approved by the Chancellor's Office.

***Provides Competitive Grants for Existing Colleges to Develop New Online Programs.*** The Budget Act also provided $35 million one time for existing community college districts to develop online programs and courses that (1) lead to short-term industry-valued credentials or (2) enable a student who completed a program at the new online community college to continue his or her education at an existing community college. The Online Education Initiative, administered by Foothill-De Anza Community College District, is to award these grants.

***Requires Chancellor's Office to Make Recommendations for Providing Existing Colleges More Flexibility.*** Chapter 33 requires the Chancellor's Office, by January 1, 2019, to recommend to the Board of Governors ways of making online and competency-based programs easier and more attractive for colleges to develop and operate. The Chancellor's Office recommendations must include ways to streamline the processes for (1) funding noncredit competency-based programs and (2) offering online courses under a flexible calendar.

***College has hired a CEO, contracted to find other executives, conducted research on student needs.*** The college has conducted numerous activities since the Budget Act was passed. Trustees hired Heather Hiles, an entrepreneur who has led companies that support technology and access initiatives at higher education institutions, as its first CEO, in February. An executive search firm has been hired to help hire seven more executives. The college also has conducted extensive research on working adults and their educational and workforce needs.

***Enrollment expected to begin in August.*** The college plans to begin enrolling students in its first programs in August, with classes beginning in October. The first three programs the college will offer are:

- Medical Coding
- Information Technology Support/Cybersecurity
- First Line Supervision

The college has several faculty on contract, who are working with industry to develop the medical coding and cybersecurity programs. (The direct supervision program will begin in 2020.)

***College has spent almost none of the public funding provided.*** As of March, the college reported having spent just $721,068 of the $20 million in ongoing funding for 2018-19 – about 4%. The college has spent none of the $100 million one-time funding. Instead, the college has relied on funding from the Foundation for California Community Colleges, a non-profit organization, to support initial activities. The Foundation reports having raised about $4.2 million from philanthropic organizations to support the planning and research phases of the new college. Activities included coalition building, stakeholder engagement, employer partnership development, and initial planning and research. Most activities have concluded, with most philanthropic support ending in May 2019. The college is preparing a financial plan right now.

***Applications for other online funding due May 1.*** The 2018 Budget Act also provided $35 million one-time funding to allow existing colleges to create or expand online programs or courses. Grants of up to $500,000 per college or district will be awarded. According to the Chancellor's Office, 100 colleges or districts submitted a letter of intent by the March 15th deadline; final applications are due May 1, with awards expected to be announced by the end of May.

## GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget continues support for the online college with $20 million ongoing Proposition 98 General Fund.

## STAFF COMMENT/QUESTIONS

Staff notes that the Assembly rejected this proposal in its budget plan last year, amid concern that launching a new college was unnecessary, duplicative of programs and courses offered by existing colleges, and raised issues regarding accreditation, collective bargaining, and whether students would succeed in an online environment. The final budget included the college, however, with language requiring the college to contract with another district to conduct collective bargaining, and to create new programs that are not duplicative of programs offered at other colleges. The final budget also included funding for the expansion of online programs at existing colleges.

***Need for these type of programs is clear.*** Providing short-term certificates that allow under-employed or unemployed adults the chance at higher-paying jobs is a legitimate activity. There are about 2.5 million 25- to 34-year-old California high school graduates without a college degree; data indicates quite clearly that these Californians would benefit from a certificate or degree, as would the state's economy. The new college's intent to provide flexible courses that allow students to progress at their own pace is likely a significant piece of the future of higher education. Working hand-in-hand with industry to develop new programs also seems beneficial.

***What remains unclear is why a new college is needed.*** A provision of the trailer bill language creating the college last year clearly states that the new college "shall create new programs that are not duplicative of programs offered at other local community colleges." However, all three programs underway at the new college do exist as somewhat similar programs at other colleges: community colleges do produce certificates every year in medical coding, information technology support, and supervision. All of the existing programs are very small, but an infusion of funding could have expanded the programs without requiring significant new spending on administration and other start-up costs. Redundant programs remain a concern.

***Expenses have brought some criticism.*** The new CEO will earn $385,000 annually in base salary, a $10,000 annual car allowance, performance bonuses of as much as $40,000 annually by the fourth year, and other benefits. This base salary appears to be the second highest in the state for the leader of a community college district, and the total compensation appears to be the second or third highest in the state. Additionally, the board's decision to award a no-bid contract to a human resources group has raised some concern. The Leadership Group was originally hired to help locate six executives to work for the college. The contract called for payments of as much as $92,000 per hire, or as much as $552,000 total. Amid concerns, this contract was amended earlier this month, such that the total contract is now worth no more than $376,000.

***What is appropriate level of funding?*** The Administration and Chancellor's Office insisted in last year's budget deliberations that $20 million ongoing and $100 million one-time was the appropriate funding plan for the new college. Clearly this wasn't needed for year one; and the college is expected to announce a revised spending plan soon. The Subcommittee may wish to review this new plan before setting the 2019-20 budget for the college.

***Private spending has benefits and concerns.*** Staff notes pros and cons with the college's approach of using private Foundation money to support almost all of the college's activities to date. Using some private dollars is common in higher education and helps stretch scarce public funding. It is not surprising that some private funds were needed as the college launched and developed processes and procedures needed to spend public dollars. However, an over-reliance on private funding can cloud transparency and reduce adherence to state laws and regulations.

Suggested Questions

- What is the college's rationale for pursuing programs that are similar to programs offered at other colleges? Isn't the new college in competition with other colleges' offerings?

- Has the college settled on a fee structure for the first two programs?

- What is the anticipated student demand for the first two programs? Has the college settled on the number of students it will enroll in these programs?

- Why didn't the college switch to public funding last July?

- Why is the college using a no-bid contract to help it find executives?

- How will the college provide support services for students?

- What are the appropriate metrics to use to evaluate the first programs?

- Who will teach the first programs? When will full-time faculty be hired?

- Is $20 million ongoing and $100 million one-time the right amount of funding, particularly as the college anticipates apportionment funding?

## ISSUE 5: BASIC NEEDS

The Subcommittee will discuss food and housing insecurity among community college students, and the system's use of $10 million one-time Proposition 98 General Fund to address this issue provided in the 2018 Budget Act.

### PANEL

- Colleen Ganley, Community Colleges Chancellor's Office

### BACKGROUND

A survey of California community college students released in March indicated significant food and housing insecurity. The survey – conducted by the Hope Center - received responses from almost 40,000 students at 57 colleges, and found the following:

- 50% of respondents were food insecure in the prior 30 days.
- 60% of respondents were housing insecure in the previous year.
- 19% of respondents were homeless in the previous year.
- Only 22% of food insecure students are enrolled in the federal CalFresh program.

The Assembly has sought to address this issue in recent years. The 2017 Budget Act created the Hunger Free Campus program, which provided funding to all three public segments to encourage campus activities aimed at addressing student food insecurity issues. The budget provided the community colleges with $2.5 million one-time Proposition 98 General Fund to support this program. Trailer bill language called on campuses to conduct the following activities to be eligible for funding:

- Designate an employee to help ensure that students have the information that they need to enroll in the CalFresh program;
- Operate an on-campus food pantry or regular food distributions on campus.

The 2018 Budget Act provided $10 million one-time Proposition 98 General Fund to community colleges to support campus-based activities related to student hunger and basic needs. The Budget Act also included language requiring community colleges to provide a report to the Legislature on activities to address student basic needs.

The report was issued this month. Based on a survey of colleges by the Chancellor's Office, the report includes the following information:

- 109 community college campuses (95%) have a food pantry or food distribution system on campus.
- 70 colleges (60%) report having staff assigned to assist students with CalFresh applications.
- 60 colleges (52%) have established partnerships with county CalFresh staff and/or community food banks.

The report notes that the Chancellor's Office is currently conducting another survey of colleges to collect information regarding the number of students served with food pantry services or CalFresh enrollment, the number of colleges allowing CalFresh Electronic Benefit Transfer options and Restaurant Meal Program services and other activities and outcomes.

## GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget does not include basic needs funding for community colleges.

### STAFF COMMENT/QUESTIONS

Staff notes that there is ample evidence – most notably the recent survey referenced above – that community college students face significant food and housing insecurity issues. Most data indicate, in fact, that community college students have higher financial need than students in California's other higher education segments.

It is disappointing, then, that the Governor's Budget provides funding for basic needs initiatives at UC and CSU, but not the community colleges. It should be noted that growth in Proposition 98 funding appears to be very limited this year, which may make it difficult to provide new resources to colleges. Staff also notes that the Chancellor's Office and Board of Governors have chosen to advocate for significant increases in financial aid for community college students. While increased aid would address this issue, colleges also could use resources to support basic needs infrastructure, such as food pantries, staff to help students connect to federal, state and local services, and housing resources.

The Subcommittee may wish to revisit this issue after the May Revision, when it will have a better understanding of Proposition 98 revenues for 2019-20.

Suggested Questions

- How can colleges increase the percentage of students enrolled in CalFresh and other federal programs?
- Do colleges have resources to continue food pantries and other activities absent new state funding? Do colleges use categorical funding for any of these activities?
- What do recent surveys show regarding student needs and college activities by region?