

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

**ASSEMBLYMEMBER S. JOSEPH SIMITIAN, CHAIR**

**WEDNESDAY, APRIL 28TH, 2004  
STATE CAPITOL, ROOM 126  
4:00 P.M.**

**REGULAR BUSINESS**

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(INFORMATIONAL TESTIMONY ONLY)**

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Issue 1	Capital Outlay Issues (Attachment 2)	

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**ITEMS TO BE HEARD****ITEM 6120 CALIFORNIA STATE LIBRARY**

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**ISSUE 1: SUPPORT BUDGET**

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

**BACKGROUND:**

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

The Governor's proposed budget includes a total of \$74.6 million for the California State Library, a reduction of approximately \$140,000 or .19 percent, under the revised current year (not including the one-time display of local assistance funds for the California Cultural and Historical Endowment). Of these total funds, the Governor proposes \$49.3 million in General Fund support, an increase of \$25,000 or .05 percent, from the revised current-year. The major provisions of the Governor's proposed budget for the California State Library budget include:

**California Historical and Cultural Endowment.** The Governor proposes funding of \$128.4 million total per the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). The Endowment was created by statute within the CSL for the purpose of expanding and improving the preservation and interpretation of California's cultural and historic resources. On May 14, 2003, the Department of Finance issued a Finance Letter providing \$128.4 million (local assistance) to the CSL to carry out the Endowment's required programs. The Finance Letter allowed the CSL to submit an expenditure plan for administering the program, using up to 5 percent of the funds for state operations. The Governor proposes 11.0 positions and \$1.7 million in the current year and \$1.5 million in budget year for state operations. There will be approximately \$122 million available for grants.

**Public Library Foundation.** The Governor proposes funding of \$15.7 million in current and budget year, which reflects no change from the 2003 Budget Act, for local library operational costs and materials.

**California Civil Liberties Public Education Program.** The Governor proposes funding of \$500,000 in current and budget year, which reflects no change from the 2003 Budget Act. This program was primarily designed as a result of a lack of education in public schools regarding the Japanese American internment period. This highly successful program is in its fourth year of funding.

**State Operations.** The Governor proposes \$25 million, a reduction of approximately \$140,000, or .19 percent, under the revised current year.

**PROPOSED CONSENT CALENDAR (INFORMATIONAL TESTIMONY ONLY)****ITEM 6440 UNIVERSITY OF CALIFORNIA**

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

The issue for the Subcommittee to consider is the proposed University of California (UC) Capital Outlay program for 2004-05. None of the funds proposed for expenditures are from the General Fund, but rather come from general obligation bond funding and lease revenue bond funding.

**ITEM 6610 CALIFORNIA STATE UNIVERSITY**

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**ISSUE 1: CAPITAL OUTLAY PROJECTS (ATTACHMENT 2)**

The issue for the Subcommittee to consider is the California State University Capital Outlay program for 2004-05. None of the funds proposed for expenditure are from the General Fund, but rather come from general obligation bond funding.

**ITEM 6870 CALIFORNIA COMMUNITY COLLEGES**

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**ISSUE 1: CAPITAL OUTLAY PROJECTS (ATTACHMENT 3)**

The issue for the Subcommittee to consider is the California Community Colleges (CCC) Capital Outlay program for 2004-05. None of the funds proposed for expenditure are from the General Fund, but rather come from general obligation bond funding.

**ITEMS TO BE HEARD (CONTINUED)****ITEM 6360 COMMISSION ON TEACHER CREDENTIALING****ISSUE 1: SUPPORT BUDGET**

The issue for the Subcommittee to consider is the Commission on Teacher Credentialing support budget.

**BACKGROUND:**

The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues permits and credentials to all classroom teachers, student services specialists, school administrators, and child care instructors and administrators. In total, it issues more than 100 different types of documents.

The Governor's proposed budget includes a total of \$55.7 million for CTC. This is \$11.2 million less than CTC's revised current-year budget. Of CTC's proposed 2004-05 budget, \$31.8 million is from the General Fund (Proposition 98). These funds are designated for three CTC-administered local assistance programs.

**MAJOR BUDGET PROPOSALS:**

- Elimination of 6 positions from the Certification, Assignments and Waivers Division (CAW) and \$600,000 from the Teacher Credentials Fund to reflect anticipated decrease in workload due to the implementation of the Teacher Credentialing Service Improvement Project.
- Eliminate the Pre-Intern Program as it is not NCLB compliant (\$10.4 million)
- Increase funding for the Intern Program to support additional 955 Interns (\$2.4 million)
- Approve on-going costs for the Commission's Teacher Credentialing Service Improvement Project (\$366,000)
- Reappropriation of Federal Funds for the Commission's Troops to Teachers Program (\$147,000)

**COMMENTS:**LAO Recommendations:

- Include the Pre-Intern, Intern and Paraprofessional Teacher Training Program as part of a "Teacher Quality Block Grant" to be administered by the California Department of Education.
- Participating districts should be required to provide teacher-level information using a unique identifier that could be linked with student achievement data for the purposes of state evaluation only, not individual teacher evaluations.

**ITEM 6420 CALIFORNIA POSTSECONDARY EDUCATION COMMISSION****ISSUE 1: SUPPORT BUDGET**

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

**BACKGROUND:**

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. The commission serves as a principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education and analyzing both state policy and programs involving the independent and private proprietary educational sectors. In addition, CPEC administers the federal K-12/University Professional Development Partnerships. The commission has 16 members, representing the public and private university segments, the State Board of Education, students and the general public.

The Governor proposes total General Fund expenditures of \$2 million, which reflects no change from the 2003-04 Budget Act. Over the past 3 years, CPEC's state funding has declined by 45 percent from \$3.6 million to \$2 million and staff positions have dropped by 58 percent from 43.6 positions to 17.8 positions.

**COMMENTS:**

CPEC staff will comment on the Commission's goals and objectives for the budget year and the impact that the budget reductions have had on the Commission's ability to carry out their responsibilities. The following are active bills relevant to CPEC:

**AB 2923 (Liu)** This bill would consolidate the policy responsibilities of the Postsecondary Education Commission into a new state entity, to be known as the California Postsecondary Education Policy and Finance Commission. The bill recasts existing responsibilities of the Postsecondary Education Commission and adds additional specific responsibilities. It also restructures the membership of the commission and requires additional evaluation and strategic planning reports.

This bill was re-referred to the ASM Higher Education Committee on April 12, 2004.

**SB 1331 (Alpert/Scott)** This bill would create the California Postsecondary Accountability Act of 2004 and establish a structure to assess the progress made by the state's system of postsecondary education in meeting the educational needs of Californians. It would require the Postsecondary Education Commission to administer the accountability structure and provide a report including analysis and assessment of the progress the state is making within each of several specified policy areas. The specific policy goals include (a) educational opportunity, (b) participation, (c) student success, and (d) public benefits.

This bill is set to be heard in the Senate Appropriations Committee on May 3, 2004.

**ITEM 6660 HASTINGS COLLEGE OF LAW**

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**ISSUE 1: SUPPORT BUDGET**

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

**BACKGROUND:**

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

The Governor's budget proposes a total of \$33.5 million for Hastings College of Law, representing an overall increase of \$2.7 million of which \$1.5 million is dedicated to additional financial aid to mitigate fee increases. The increase in funding is attributable to the student fee increases the College is implementing for next year. Of the \$33.5 million, \$ 8.1 million is General Fund support, which reflects a decrease of \$3.3 million, or 29 percent, from the revised current year. Over the past two fiscal years, Hastings General Fund support has been reduced by 47 percent.

**MAJOR BUDGET PROPOSALS:**

The Governor's budget for Hastings include the following proposals:

- Reduce total General Fund support for Hastings by 25 percent (\$2.8 million). This proposal assumes that student fee revenue will be available to offset the reductions in state support. Hastings is increasing student fees by \$5,000 for resident students from \$13,735 to \$18,750. Of this amount, 45 percent (\$2,275) offsets the General Fund reduction and the balance is for increased financial aid (\$1,200) and core cost increases.
- A 20 percent increase in nonresident tuition (\$188,000). Total nonresident tuition for 2004-05 would be \$32,710, which is comparable to the student fees charged at private institutions such as USC at \$32,144 and Stanford at \$32,424.
- A 7.5 percent reduction in Academic and Institutional support (\$402,000).
- An increase of \$170,000 in annuitant health and benefit costs.

**COMMENTS:**LAO Recommendation:

Approve the Governor's proposed 25% GF subsidy reduction. The Governor's budget assumes that Hastings would increase resident and nonresident student fees to offset this General Fund reduction. According to the LAO, the fee increase would be comparable to the Governor's proposed 40% increase and their recommended 30% increase for graduate students at the UC and CSU.

HastingsConcerns:

- As fees increase, prospective students may choose to pursue their legal education at private institutions or institutions out-of-state.
- Student debt will increase. For those students eligible for financial aid, the average law school debt will increase from \$63,000 to \$78,000 for resident students.
- To the extent that enrollment levels decline as nonresident students make other choices, Hastings revenues generated from these students will decline. Nonresident students pay in excess of their average cost of instruction.

- Cost reductions and deferrals over the past three years have been implemented in efforts to manage reduced levels of state support funding. This trend cannot be continued indefinitely.

## **ITEM 6870 CALIFORNIA COMMUNITY COLLEGES**

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### **ISSUE 1: MAJOR BUDGET ADJUSTMENTS**

The issue for the Subcommittee to consider is the California Community Colleges (CCC) major budget adjustments.

#### **BACKGROUND:**

The California Community Colleges (CCC) provide instruction to about 1.7 million students at 109 campuses operated by 72 locally governed districts throughout the state. The system offers academic, occupational, and recreational programs at the lower-division (freshman and sophomore) level. Based on agreements with local school districts, some college districts offer a variety of adult education programs. In addition, pursuant to state law, many colleges have established programs intended to promote regional economic development.

The Governor's budget includes significant increases in Proposition 98 funding and student fee revenue increasing total funding for CCC by 8 percent. In regards to the CCC share in Proposition 98 funding, the Governor's budget includes \$4.7 billion in Proposition 98 funding for the community colleges in 2004-05. As proposed by the Governor, CCC would receive 10 percent of total Proposition 98 funding, K-12 education would receive 89.8 percent, and the other state agencies would receive the remaining 0.2 percent.

State law calls for CCC to receive approximately 10.9 percent of total Proposition 98 appropriations. However, in recent years, this provision has been suspended in the annual budget act and CCC's share of Proposition 98 has been lower than 10.9 percent. The Governor's budget proposal would again suspend this provision.

<b>Community College Budget Summary</b>					
<i>(Dollars in Millions)</i>					
	Actual 2002-03	Estimated 2003-04	Proposed 2004-05	Change	
				Amount	Percent
Community College Proposition 98					
General Fund	\$2,642.1	\$2,244.1	\$2,414.4	\$170.3	7.6%
Local property tax	1,981.0	2,114.8	2,264.4	149.7	7.1
Subtotals, Proposition 98	(\$4,623.1)	(\$4,358.9)	(\$4,678.8)	(\$319.9)	(7.3%)
<i>Other Funds</i>					
General Fund	\$237.4	\$125.7	\$221.7	\$96.1	76.4%
Proposition 98 Reversion Account	85.4	0.1	—	-0.1	-100.0
State operations	10.9	8.6	8.6	—	—
Teachers' retirement	74.1	40.3	90.5	50.2	124.6
Bond payments	66.9	76.6	122.6	46.0	60.0
State lottery funds	141.2	140.9	140.9	—	—
Other state funds	11.3	11.0	10.9	-0.1	-0.5
Student fees	169.2	265.1	356.1	91.0	34.3
Federal funds	228.2	228.2	228.2	—	—
Other local funds	1230.2	1230.2	1230.2	—	—
Subtotals, other funds	(\$2017.6)	(\$2001.1)	(\$2188.0)	(\$187.0)	(9.3%)
<b>Grand Totals</b>	<b>\$6,640.7</b>	<b>\$6,360.0</b>	<b>\$6,866.9</b>	<b>\$506.9</b>	<b>8.0%</b>
Deferrals <sup>a</sup>	-\$115.6	\$200.0	— <sup>b</sup>	-\$200.0	-100.0%
Programmatic spending levels	6,525.1	6,560.0	\$6,866.9	306.9	4.7
<sup>a</sup> Adjustments to reflect when funds are spent on programs as opposed to when funds are appropriated. <sup>b</sup> Net effect of zero because \$200 million payment of 2003-04 costs is backfilled with a new deferral of \$200 million in 2004-05 costs to 2005-06.					

### MAJOR BUDGET PROPOSALS:

The Governor's budget includes the following proposals:

- An increase of student fees from \$18 per unit to \$26 per unit. For students already holding a bachelor's degree, the fee would increase to \$50 per unit. The budget assumes that the proposed fee increases will generate about \$91 million in revenue facilitating General Fund savings in the same amount.
- \$121.1 million or 3 percent, increase in enrollment growth funding to serve an additional 33,120 full-time equivalent (FTE) students

- \$81.3 million for COLA general apportionment (\$76.4 million) and selected categorical programs (\$4.9 million)
- \$59.8 million for equalization of credit FTE students
- \$4.8 million for growth for selected categorical programs
- \$4 million to serve an additional 1,900 FTE students in noncredit courses. This additional noncredit funding would be available only to districts that did not receive any of the \$59.8 million in equalization funding.

<b>California Community Colleges Governor's Budget Proposal</b>	
<i>Proposition 98 Spending (In Millions)</i>	
<b>2003-04 (Enacted)</b>	<b>\$4,365.5</b>
Property tax shortfall (not backfilled)	-\$6.6
<b>2003-04 (Revised)</b>	<b>\$4,358.9</b>
2003-04 costs deferred to 2004-05	\$200.0
<b>2003-04 Base</b>	<b>\$4,558.9</b>
<b>Proposed Budget-Year Augmentations</b>	
Enrollment growth of 3 percent	\$121.1
Equalization	59.8
Additional enrollment growth in noncredit programs	4.0
Increase lease purchase payments	2.3
Additional BOG <sup>a</sup> fee waiver administrative costs	1.8
Other adjustments	5.7
Subtotal	(\$214.9)
<b>Proposed Budget-Year Reductions</b>	
Apportionments (reduction to be backfilled with anticipated increase in student fee revenue)	-\$91.0
Eliminate Teacher and Reading Development program and Fund for Instructional Improvement	-4.0
Subtotal	(-\$95.0)
<b>2004-05 (Proposed)</b>	<b>\$4,678.8</b>
<b>Change From 2003-04 (Revised)</b>	
Amount	\$319.9
Percent	7.3%
<sup>a</sup> Board of Governors.	

**Clarification of budget for CCC COLA.** The January 9<sup>th</sup>, 2004 budget did not include an estimated \$81 million needed for COLA that would normally be provided to the CCC. The administration indicated that this omission was unintended and later clarified that the CTA agreement had requested that COLA be provided for both K-12 and CCC. The administration submitted a Budget Change Proposal (BCP) to amend this proposal. The April 1<sup>st</sup> letter reduced the CCC equalization funding to \$59.8 million.

**Proposition 98 Spending by Major Program.** The table below shows the Proposition 98 expenditures for various community college programs. The Governor's proposal seeks to consolidate and reorganize funding for some CCC programs. These programs support a wide range of activities—from services to disabled students to part-time faculty health insurance. Apportionment funding (available to districts to spend on general purposes) accounts for \$3.9 billion in 2004-05, or about 84 percent of total Proposition 98 expenditures. Total Proposition 98 funds available for general purposes would increase to about \$4.3 billion, or 92 percent of Proposition 98 funding, under the Governor's categorical reform proposal.

<b>Major Community College Programs Funded by Proposition 98<sup>a</sup></b>				
<i>(Dollars in Millions)</i>				
	Estimated 2003-04	Proposed 2004-05	Change	
			Amount	Percent
<b>Apportionments</b>				
State General Fund	\$1,702.1	\$1,671.7	-\$30.4	-1.8%
Local property tax revenue	2,114.8	2,264.4	149.7	7.1
Subtotals	(\$3,816.9)	(\$3,936.1)	(\$119.2)	(3.1%)
<b>Categorical Programs<sup>b</sup></b>				
Partnership for Excellence	\$225.0	\$225.0	—	—
Extended Opportunity Programs and Services	94.9	94.9	—	—
Disabled students	82.6	82.6	—	—
Matriculation	54.3	54.3	—	—
Services for CalWORKs <sup>c</sup> recipients	34.6	34.6	—	—
Part-time faculty compensation	50.8	50.8	—	—
Part-time faculty office hours	7.2	7.2	—	—
Part-time faculty health insurance	1.0	1.0	—	—
Maintenance, repairs, instructional equipment, and library materials	24.9	24.9	—	—
Economic development program	35.8	35.8	—	—
Telecommunications and technology	22.1	22.1	—	—
Basic skills and apprenticeships	40.6	40.6	—	—
Financial aid/outreach	46.4	47.3	\$0.8	1.8%
Teacher and Reading Development	3.7	—	-3.7	-100.0
Growth in noncredit full-time equivalent student	—	4.0	4.0	—
Fund for Student Success	6.2	6.2	—	—
Other programs	12.0	11.6	-0.4	-3.4
Subtotals	(\$742.0)	(\$742.7)	(\$0.7)	(0.1%)
Lease-revenue bonds <sup>d</sup>	(\$55.0)	(\$57.4)	(\$2.3)	(4.3%)
<b>Totals</b>	<b>\$4,558.9</b>	<b>\$4,678.8</b>	<b>\$119.9</b>	<b>2.6%</b>
<p><sup>a</sup> Includes costs deferred to later fiscal years. Thus, costs are expressed on a programmatic spending basis.</p> <p><sup>b</sup> Governor's budget proposes to consolidate and reorganize some of these programs. See Figure 4 and associated discussion later in this section.</p> <p><sup>c</sup> California Work Opportunity and Responsibility to Kids.</p> <p><sup>d</sup> Included as part of General Fund apportionments.</p>				

<b>COMMENTS:</b>
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**STUDENT FEES**LAO Recommendations:

- Approve the \$8 per unit increase (from \$18 to \$26 per unit) since the current fee is the lowest in the nation.
- Approve the \$50 per unit for students that already hold a bachelor's degree. When resources are limited, it is best to target higher education subsidies where they are needed the most.

Budget staff notes that many of these students may be enrolled in CCC due to changing careers, training to advance in their current jobs or training for a new career after being unemployed for a period of time.

CCC's concern:

The state increased the enrollment fee for all students by 64 percent in Fall 2003 from \$11 per unit to \$26 per unit. According to CCC staff, the Department of Finance estimates that the latest proposed fee increase would cause a decline in enrollment of about 37,000 full-time equivalent (FTE) students.

The CCC note that an identical \$50 per unit fee was established in 1992, but was rescinded by the Legislature in 1996. The \$50 differential fee was difficult for campuses to implement and had a punitive effect on access, particularly for adults in need of mid-career training (including public safety and emergency personnel) and retraining for second careers.

**ENROLLMENT FUNDING**

Although the Governor's budget proposes to increase CCC enrollment funding by 3 percent, there are concerns about whether these funds will be enough to address the enrollment growth demands of traditional CCC students as well as the needs of the redirected UC and CSU students.

CCC concern:

Due to the Governor's proposed Dual Admissions Program, the UC and CSU campuses are aggressively managing their enrollment for Fall 2004. These enrollment funds will shift enrollment demand to the CCC in various ways beyond the redirection of first time freshmen. For example, the CSU plans to reduce overall enrollment by 16,700 full-time equivalent (FTE) students. Most of this reduction will create enrollment pressures in the CCC. Students already in the transfer "pipeline" will have to stay in community colleges longer before CSU will allow them to transfer. In addition, as more CSU students experience difficulty obtaining needed courses at their campus, many will try to enroll in CCC courses at their community colleges.

**ISSUE 2: EQUALIZATION FUNDING**

The issue for the Subcommittee to consider is Governor's proposed funding for equalization.

**BACKGROUND:**

The Governor's revised budget proposal (April 1<sup>st</sup> letter) includes \$59.8 million to help equalize the amount of apportionment funding each community college district receives to serve an FTE student. Currently, this amount varies from about \$3,550 to \$8,150 per FTE student, with a statewide average of about \$3,800.

**Efforts to Equalize Funding Have a Long History.** According to the Legislative Analyst, the Governor's proposal is the latest in a number of efforts to equalize community college funding. In fact, current law already contains funding allocation mechanisms that are in part intended to gradually equalize district funding. For example, the allocation of the California Community College's cost-of-living adjustment funding involves a number of calculations that in theory should gradually move funding for low-revenue districts closer to the statewide average. In addition, funding for new enrollment growth is allocated relatively equally on a per-student basis, and thus would have the effect of equalizing funding at the margin. Finally, the state has made special additional appropriations for equalization. For example, the 1996-97 Budget Act appropriated \$14 million for this purpose, and the 1997-98 Budget Act appropriated an additional \$8.6 million for this purpose.

**COMMENTS:**LAO recommendations:

Given the state's current fiscal situation, funding for new programs such as the Governor's equalization plan should instead be directed to existing fiscal obligations.

Budget staff notes that, although the Governor is supportive of CCC in his budget proposals, the main issue for the community colleges districts now is how to distribute the equalization funds. The CCC will speak on the allocation methodology currently being considered.

**ISSUE 3: CATEGORICAL REFORM**

The issue for the Subcommittee to consider is Governor's proposed categorical reform.

**BACKGROUND:**

The Governor's budget proposal would restructure the funding for a number of categorical programs.

<b>Governor's Categorical Reform Proposal</b>		
<i>General Fund (In Millions)<sup>a</sup></i>		
<b>Program Consolidations</b>	<b>2003-04</b>	<b>2004-05</b>
General Apportionments		
Base general apportionments	\$1,589.1	\$1,589.1
Partnership for Excellence	225.0	
Matriculation	54.3	
Part-time faculty compensation	50.8	350.8
Part-time faculty office hours	7.2	
Part-time faculty health insurance	1.0	
TTIP <sup>b</sup>	12.5	
<b>Totals</b>	<b>\$1,939.9</b>	<b>\$1,939.9</b>
Telecommunication and Technology Services		
TTIP <sup>b</sup>	\$9.6	10.9
California Virtual University	1.3	
<b>Totals</b>	<b>\$10.9</b>	<b>\$10.9</b>
Targeted Student Services		
Extended Opportunity Programs and Services	\$94.9	101.1
Fund for Student Success	6.2	
<b>Totals</b>	<b>\$101.1</b>	<b>\$101.1</b>
Physical Plant and Institutional Support		
Maintenance, repairs, equipment, and library materials	\$24.9	29.3
Hazardous substances	4.4	
<b>Totals</b>	<b>\$29.3</b>	<b>\$29.3</b>
<b>Program Deletions</b>		
Teacher and Reading Development Program	\$3.7	—
Fund for Instructional Improvement	0.3	—
<b>Program Additions</b>		
Special growth allocation for noncredit instruction	—	\$4
<p><sup>a</sup> Includes costs whose payments are deferred to subsequent fiscal year.</p> <p><sup>b</sup> Telecommunications and Technology Infrastructure Program.. Current-year funding of \$22.1 million is split in budget year between general apportionments and new Telecommunication and Technology Services category.</p>		

The categorical proposal consists of the following:

- 1) Shifting the funding of five and a half categorical programs into base apportionment. These programs include the Partnership for Excellence, Matriculation, and the Part-Time Faculty Health Insurance, Compensation and Office Hours.
- 2) Grouping of five and a half other categorical programs into three larger items in the budget display. These programs include the Extended Opportunity Program and Services, Fund for Students, California Virtual University, Maintenance, repairs, equipment and library materials and Hazardous substances.

- 3) Eliminating two small programs, the Teacher and Reading Development Partnership and the Fund For Instructional Improvement.

<b>COMMENTS:</b>
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LAO recommendations:

- Delete provisional language specifying funding levels for the combined categorical programs since it defeats the purpose of consolidating them.
- Include accountability measures to ensure that districts address specific priorities.

CCC's concern:

The CCC budget request for 2004-05 proposed consolidating the Partnership for Excellence funds into the general apportionment. This statute was based on the fact that the statute for the program is scheduled to sunset in 2004-05 and that these funds are general purpose funds already. This proposal is also justified as a way of simplifying local district reporting requirements.

The Governor's proposal to consolidate Matriculation, the Part-Time Faculty Compensation, Office Hours and Health Insurance and a portion of the Telecommunications Technology Infrastructure Program (TTIF) raise potential concerns that do not exist in the case of the Partnership for Excellence funds. The main concern is how the CCC system would continue to assure that the program objectives, desired by the Legislature and the system, are met if the funding is consolidated into general apportionment.

Budget staff notes that although these programs would give districts greater fiscal and program flexibility, the subcommittee may want to consider whether districts would continue to use state funds to address the Legislature's priorities and whether the Governor's proposed accountability measures are adequate provisions.

The LAO notes in their analysis that although categorical programs are designed to address situations where local incentives lead districts to under-invest in a particular input that the state views as critical to the educational process, the drawback to this approach can be a lack of local flexibility. There can be situations where districts identify ways to provide more or better services for their students, but categorical restrictions prevent districts from implementing them. In regards to the accountability provisions, language in the Governor's budget proposal would require that districts receiving these consolidated funds agree to two conditions: (1) that they will "assure that courses related to student needs for transfer, basic skills, and vocational and workforce training are provided to the maximum extent possible within budgeted funds" and (2) that they will "make annual increases in the number of transfer ready and transfer students, the number of degrees and certificates awarded, rates of successful course completion, and workforce development and basic skills improvement."

In addition, proposed trailer bill language would prohibit districts that accept the consolidated funds from using them to fund the concurrent enrollment of K-12 students in physical education, dance, recreation, study skills, and personal development courses.

**ISSUE 4: NON-CREDIT FUNDING**

The issue for the Subcommittee to consider is Governor's proposed \$4 million in additional funding for noncredit students.

**BACKGROUND:**

In addition to the 3 percent enrollment growth funding, the budget proposal includes an additional \$4 million to serve an additional 1,900 FTE students specifically in noncredit courses. This additional noncredit funding would be available only to districts that do not receive any of the \$59.8 million in equalization funding that the budget provides for CCC.

When the two growth funding amounts are combined, the Governor's budget provides for overall growth of 3.2 percent. Because \$4 million is earmarked for noncredit instruction, noncredit enrollment is projected to grow by at least 5 percent from the current-year level.

**COMMENTS:**LAO recommendations:

Reject the \$4 million augmentation for the following reasons:

- 1) By creating a categorical program for the entire noncredit programs administered by districts, the administration appears to work against its proposal to remove categorical boundaries in order to provide greater flexibility for districts in allocating their funding across programs.
- 2) The Governor's proposal states that the special noncredit funding would be available only to districts that did not benefit from equalization. Since equalization funding goes to districts whose level of funding per credit FTE student is lower than a specified target, the districts that would be eligible for the special noncredit growth allocation would be those whose funding per FTE student is above that level.