

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

ASSEMBLYMEMBER S. JOSEPH SIMITIAN, CHAIR

**TUESDAY, APRIL 29TH, 2003
STATE CAPITOL, ROOM 444
10:00 A.M.**

REGULAR BUSINESS

ITEM	DESCRIPTION	PAGE
	OUTSTANDING COMMITMENTS (HANDOUT GIVEN AT HEARING)	
ITEMS TO BE HEARD		
6360	COMMISSION ON TEACHER CREDENTIALING	
	➤ Issue 1 - Support Budget	2
6870	CALIFORNIA COMMUNITY COLLEGES	
	➤ Issue 1 - Major Budget Adjustments	4
	➤ Issue 2 - Student Fees	9
	➤ Issue 3 - Enrollment Growth	12
	➤ Issue 4 - Concurrent Enrollment	14
	➤ Issue 5 - State Operations	16

ITEMS TO BE HEARD

6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 1: SUPPORT BUDGET

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

BACKGROUND:

The 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 \$67 million for CTC. This is \$8.7 million, or 11 percent, less than CTC's revised current-year budget (with the enactment of SB 18x, Chesboro). Of CTC's proposed 2003-04 budget, \$40 million is from the General Fund (Proposition 98). These funds are designated for four CTC-administered local assistance programs. Three of these programs serve interns, pre-interns, and paraprofessionals and the other program supports teacher assignment monitoring. The Governor's proposed budget proposes de-funding and eliminating the California Mathematics Initiative for Teaching.

Major General Fund Budget Proposals. The table below lists the Governor's major General Fund budget proposals. The budget would reduce total General Fund spending by \$5.6 million, or 12 percent, from the revised current-year level. The intern program would receive a \$1.1 million, or 5 percent, augmentation in the budget year. Funding for the pre-intern program and paraprofessional program, on the other hand, would decline by 35 percent and 9 percent, respectively. As mentioned earlier, the Governor proposes to eliminate the California Mathematics Initiative. This program was intended to provide financial assistance to individuals to encourage them to teach mathematics, but it has been under-subscribed since its inception in 1998. It was to sunset on June 30, 2004.

Commission on Teacher Credentialing General Fund Budget Summary
(Dollars in Millions)

	Revised 2002-03 ^a	Proposed 2003-04	Change From 2002-03 Amount Percent	
Local Assistance—Proposition 98				
Internship Teaching Program	\$21.5 ^b	\$22.5	\$1.1	5%
Preinternship Teaching Program	16.0 ^c	10.4	-5.6	-35
Paraprofessional Teacher Training Program	7.2	6.6	-0.6	-9
Teacher misassignment monitoring	0.4	0.3	—	-12
California Mathematics Initiative for Teaching	0.4	—	-0.4	-100
Totals	\$45.4	\$39.8	-\$5.6	-12%

^a With enactment of SB 18x.

^b Of this amount, \$17.3 million is Proposition 98 (General Fund) and \$4.2 million is re-appropriated from the Proposition 98 Reversion Account.

^c Of this amount, \$11.8 million is Proposition 98 (General Fund) and \$4.2 million is re-appropriated from the Proposition 98 Reversion Account.

COMMENTS:

As part of the Subcommittee's consideration of the CTC support budget, the CTC will present its analysis of consolidation of the CTC with the Department of Education. This information was requested at a prior hearing by Assemblymember Goldberg and was transmitted to the Subcommittee on March 27.

Legislative Analyst's Recommendations. In her review of the Governor's proposed budget, the Legislative Analyst does not raise any issues with the level of funding to the CTC budget. Instead, the Analyst recommends the Legislature enact legislation that would create greater coherence and consistency among the CTC's intern, pre-intern, and paraprofessional programs by equalizing per participant funding rates and establishing a consistent matching requirement. In addition, the Analyst also recommends the Legislature allow CTC maximum flexibility to shift funds among these three programs. The Department of Finance has expressed concern with the Analyst's recommendation to grant the CTC flexibility in its local assistance programs. Lastly, the Analyst recommends the Legislature require CTC to report annually on the effectiveness of its programs in helping districts meet the new federal requirements of having highly qualified teachers in every public school classroom by the end of the 2005-06 school year.

The Analyst also recommends the Legislature designate \$3.1 million in federal Title II funds to expand subject matter training programs for emergency permit holders. The Analyst asserts that these programs are a high priority because: (1) many emergency permit holders are likely to need additional support to become highly qualified by 2005-06, as required by the federal accountability provisions; and (2) the funds are not needed for the program for which they were originally designated. Title II funds may be used for a variety of teacher training purposes, but the overriding objective is to encourage states to improve teacher quality by ensuring that all public school teachers are (1) proficient in the subject areas they teach and (2) highly qualified in teaching methodologies. Although California still has not developed its state definition of "highly qualified," emergency permit holders will not be considered highly qualified unless they (1) already are fully credentialed in a different subject, (2) enrolled in a program to obtain a supplemental credential, and (3) have demonstrated subject matter competency in this supplemental area.

6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 1: MAJOR BUDGET ADJUSTMENTS

The issue for the Subcommittee to consider is the Governor's proposed major budget adjustments to the California Community Colleges (CCC) support budget.

BACKGROUND:

CCC provides instruction to about 1.7 million adults at 108 campuses operated by 72 locally governed districts throughout the state. The system offers academic and occupational 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—including basic skills education, citizenship instruction, and vocational and recreational programs. Finally, pursuant to state law, many colleges have established programs intended to promote regional economic development. Community colleges educate the most diverse student population in the state, one reflective of the rich geographic and ethnic diversity of the state's overall population.

Significant Funding Reductions Proposed. The Governor's budget proposes significant reductions to CCC in the budget year. Figure 1 below shows CCC funding from all significant sources for the budget year and the two preceding years. As the figure shows, CCC spending from all sources is proposed to decline by \$404 million, or 6.2 percent, from the revised current-year level. Proposition 98 General Fund expenditures would decline by \$705 million, or 27 percent. Partially offsetting this reduction are significant assumed budget-year increases in funding from student fees (\$150 million) and local property taxes (\$178 million).

Figure 1					
Community College Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2001-02	Estimated 2002-03	Proposed 2003-04	Change	
				Amount	Percent
Community College Proposition 98^a					
General Fund	\$2,693.6	\$2,610.4	\$1,905.7	-\$704.7	-27.0%
Local property tax	1,852.1	1,980.2	2,157.8	177.6	9.0
Subtotals, Proposition 98	(\$4,545.7)	(\$4,590.6)	(\$4,063.5)	(\$527.2)	(-11.5%)
Other Funds					
General Fund					
State operations	\$13.0	\$10.9	\$9.0	-\$1.8	-16.7%
Teachers' retirement	66.3	74.1	39.8	-34.4	-46.4
Bond payments	77.9	80.5	94.1	13.7	17.0
Other state funds	11.9	11.3	7.7	-3.7	-32.5
State lottery funds	138.1	141.2	141.2		
Student fees	164.0	168.9	318.5	149.6	88.5
Federal funds	225.9	228.2	228.2	—	—
Other local	1,214.7	1,227.4	1,227.4		

Subtotals, Other funds	(\$1,911.8)	(\$1,942.5)	(\$2,065.9)	(\$123.4)	(6.4%)
Grand Totals	\$6,457.5	\$6,533.1	\$6,129.4	-\$403.7	-6.2%
Students					
Headcount enrollment	1,686,663	1,779,629	1,678,190	101,439	-5.7%
Full-time equivalent (FTE)	1,103,666	1,136,776	1,072,207	-64,569	-5.7
Budgeted FTE	1,063,088	1,095,114	1,032,912	-62,202	-5.7
Amount Per FTE Student (whole dollars)					
Proposition 98	\$4,012.9	\$3,963.1	\$3,789.8	-\$173.3	-4.4%
All funds	5,964.4	5,887.7	5,934.1	46.4	0.8
^a Expenditures, including Reversion Account funds.					

CCC's Share of Proposition 98. As shown in Figure 1, the Governor's budget includes \$4.1 billion in Proposition 98 funding for the community colleges in 2003-04. This is about 66 percent of total community college funding. Proposition 98 provides funding (approximately \$44 billion in the budget year) in support of K-12 education, CCC, and several other state agencies (such as the Departments of Mental Health and Developmental Services). As proposed by the Governor, CCC would receive 9.2 percent of total Proposition 98 funding, K-12 education would receive 90.6 percent, and the other state agencies would receive the remaining 0.2 percent. This represents a historical low in CCC's share of Proposition 98 funding. The CCC's share in the current year is 10.3 percent.

Major Budget Changes. Figure 2 below shows the changes proposed for community college Proposition 98 spending in the current year and the budget year.

Figure 2	
California Community Colleges Governor's Budget Proposal	
<i>Proposition 98 Spending^a</i>	
<i>(In Millions)</i>	
2002-03 (Enacted)	\$4,861.7
Proposed Mid-Year Reductions	
Inappropriate concurrent enrollment funding	-\$80.0
Apportionments (3.66 percent across-the-board)	-66.6
Categorical programs (10.8 percent across-the-board)	-91.2
Estimated shortfall in local property tax revenues	-33.3
Subtotal	(-\$271.1)
2002-03 (Revised)	\$4,590.6
Reduction due to one-time deferral of apportionment payment from 2001-02 to 2002-03	-\$115.6
Restore one-time reduction in property tax estimate	33.3
2003-04 Base	\$4,508.3
Proposed Budget-Year Reductions	
Apportionments (expected attrition due to proposed fee increase)	-\$215.7
Apportionments (reduction to be backfilled with anticipated increase in student fee revenue)	-149.6
Categorical programs (targeted reductions)	-214.6

Eliminate health fees mandate	-1.5
Subtotal	(-\$581.4)
Proposed Budget-Year Augmentations	
Enrollment growth of 3 percent	\$115.7
Lease-revenue payments	19.3
Other adjustments	1.6
Subtotal	(\$136.6)
2003-04 (Proposed)	\$4,063.5
Change From 2002-03 (Revised)	
Amount	-\$527.2
Percent	-11.5%
^a Includes Reversion Account funds.	

As can be seen in Figure 2, major current-year reduction proposals included:

- **Concurrent Enrollment.** \$80 million from apportionments to reflect the elimination of 20,000 full-time equivalent (FTE) students that were inappropriately claimed for concurrent enrollment of high school students.
- **Across the Board Apportionment Reduction.** \$66.6 million for a 3.66 percent across-the-board reduction in apportionment funding.
- **Across the Board Categorical Reduction.** \$91.2 million for a 10.8 percent across-the-board reduction to categorical programs.

Figure 2 also shows the following major budget adjustments proposed by the Governor for the budget year:

- **Continuation of Mid-year Reductions.** Continuation of the Governor's proposed mid-year reductions related to concurrent enrollment (\$80 million), across the board apportionments reduction (\$66.6 million) and the across the board categorical reduction (\$91.2 million).
- **Reduction due to Student Fee Attrition.** \$216 million reduction in apportionments due to expected attrition in response to proposed fee increases.
- **Student Fee Offset.** \$150 million reduction as an offset to increased student fee revenue.
- **Categorical Program Reduction.** \$215 million in targeted reductions to categorical programs.

Proposition 98 Spending by Major Program. Figure 3 below shows Proposition 98 expenditures for community college programs. "Apportionment" funding (available for the districts to spend on general purposes) accounts for \$3.5 billion in 2003-04, or about 86 percent of total Proposition 98 expenditures. The state General Fund supports about 38 percent of apportionment expenditures, and local property taxes provide the remaining 62 percent.

Figure 3				
Major Community College Programs Funded by Proposition 98^a				
<i>(Dollars in Millions)</i>				
	Estimated 2002-03	Proposed 2003-04	Change	
			Amount	Percent
Apportionments				
State General Fund	\$1,858.9	\$1,339.1	-\$519.8	-28.0%
Local property tax revenue	1,980.2	2,157.8	177.6	9.0
Subtotals	(\$3,839.1)	(\$3,496.9)	(\$342.2)	(-8.9%)
Categorical Programs				
Partnership for Excellence	\$267.5	\$165.1	-\$102.4	-38.3%
Extended Opportunity Programs and Services	85.7	52.9	-32.8	-38.3
Disabled students	74.5	46.0	-28.5	-38.3
Matriculation	48.4	43.3	-5.1	-10.6
Services for CalWORKs recipients	31.2	31.2	—	—
Part-time faculty compensation	50.8	50.8	—	—
Part-time faculty office hours	6.4	3.9	-2.4	-38.3
Part-time faculty health insurance	0.9	0.9	—	-4.6
Maintenance/special repairs	28.3	34.7	6.4	22.7
Instructional equipment/library	28.3	34.7	6.4	22.7
Economic development program	36.0	19.7	-16.2	-45.1
Telecommunications and technology	21.8	21.8	—	—
Basic Skills and Apprenticeships	36.2	36.2	—	—
Financial aid administration/ outreach	7.2	8.1	0.8	11.7
Teacher and Reading Development program	4.5	2.8	-1.7	-38.3
Fund for Student Success	5.6	2.4	-3.1	-56.1
Mandates	1.5	—	-1.5	-100.0
Other programs	16.7	12.3	-4.4	-26.6
Subtotals	(\$751.5)	(\$566.9)	(\$184.6)	(-24.6%)
Lease-revenue bonds ^b	(\$36.7)	(\$55.9)	(\$19.3)	(52.6%)
Totals	\$4,590.6	\$4,063.8	-\$526.8	-11.5%

^a Includes Reversion Account funds.

^b Included as part of General Fund apportionments.

COMMENTS:

Subcommittee's Current Year Actions. The Subcommittee did not agree to the Governor's across the board approach in making reductions to the community colleges in the current year. Instead, the Subcommittee worked with the Community Colleges Chancellor's Office to come up with an alternative plan for reductions that included a mix of more targeted reductions and some across the board reductions. Through SB 18x, the Legislature ultimately eliminated consideration of any across the board reductions in the current year and approved \$161 in current year reductions to the community colleges primarily in targeted areas.

There are several issues that the Subcommittee will want to consider in determining the appropriate level of funding for the CCC for the budget year. Many of these issues are explored further in the agenda. Some of these include:

- **Student Fees.** The Governor proposes that CCC student fees be increased from \$11 per unit to \$24 per unit. This represents an increase of \$13 per unit, or 118 percent. For a student taking the average full-time load of 26 units per year, this would translate into an additional \$338 for the academic year. Total student fees for the average full-time load under the Governor's proposal would be \$624. Budget staff notes that this proposed fee increase is excessive and targets the most disadvantaged students within California's higher education system.
- **Enrollment Growth.** The Governor's Budget proposes to substantially decrease student enrollment by 62,000 full-time equivalent student (-5.7%) at the California Community Colleges. In contrast, the Governor proposes to augment the budgets of the University of California and the California State University by a total of \$268.1 million (\$117.2 million and \$150.9 million respectively) to support approximately 7.0 percent enrollment growth (6.9 percent at UC and 7.1 percent at CSU) for the 2003-04 academic year. Given the tremendous growth at the Community Colleges, the level of funding proposed by the Governor warrants further exploration.
- **Categorical Programs.** "Categorical" programs are programs within the Community Colleges in which funding is earmarked for a specified purpose. These programs support a wide range of activities—from services to disabled students to maintenance and special repairs. The Governor's budget would reduce total funding for categorical programs by about 25 percent from the revised current-year level. Changes to individual categorical programs would range from a 56 percent reduction for the Fund for Student Success to an 11.7 percent increase in financial aid programs. Many of these reductions appear severe and will adversely impact educational opportunities to the most disadvantaged within the Community Colleges, including students with disabilities and educationally disadvantaged students. These students tend to rely more heavily on programs funded partially through such categorical programs as Disabled Student Services (-\$28.5 million), the Extended Opportunity Programs and Services (\$32.8 million) and Matriculation Services (-\$5.1 million) to name a few. Budget staff notes that the proposed reductions in selected categorical programs are in some cases as high as 40%, are severe and will disproportionately impact the most disadvantaged within the Community Colleges.

Alternative Budget Proposal Being Developed. The Chancellor's Office is currently developing an alternative proposal to the Governor's proposals. This process is in its final stages and the staff of the Chancellor's Office plans to share this information with Budget staff once they have completed their internal deliberations.

ISSUE 2: STUDENT FEES

The issue for the Subcommittee to consider is the Governor's proposal to increase student fees at the Community Colleges by an additional \$13 per unit (from \$11 per unit to \$24 per unit) or and increase of 118 percent.

BACKGROUND:

The Governor's 2003-04 budget proposes to increase student fees at the California Community Colleges by 118 percent or \$13 per unit (from \$11 per unit to \$24 per unit). For students taking an average full-time course load of 26 units per year, this increase would translate into an additional \$338 per year (bringing the fee total to \$624 per year).

By means of comparison, fees are proposed to increase at UC and CSU by 35 percent over the amount students paid in the Fall of 2002; ten percent of this increase was already imposed on students beginning this semester/term and the remaining 25 percent will be assessed beginning in the Fall of 2003. Unlike the UC and CSU, whose governing boards have the authority to increase student fees, community college fees are set in statute. The impact of the proposed fee increase on student enrollment is expected to be severe; based on the Governor's Budget, an estimated 62,000 FTE students will drop out or fail to enroll due to the increased cost. Actual headcount of students lost due to the student fee increase are estimated to be in excess of 100,000 students statewide.

COMMENTS:

Community Colleges an Important Access Point for Higher Education. Community colleges are obligated under the Master Plan for Higher Education to provide open access to higher education for all adults "who can benefit from instruction". Consistent with this goal, Community Colleges are the gateway to higher educational opportunities for all Californians, weather rich or poor. Likewise, California's Community Colleges educate the most diverse student population in the state, one reflective of the rich geographic and ethnic diversity of the state's overall population. Staff notes that the Governor's proposal dramatically increases fees at a time when more and more people are choosing to go to the Community Colleges for retraining and continued educational opportunities.

Impact of Student Fee Increase on Various Student Populations Unknown. At a recent hearing of the Assembly Budget Committee on the Governor's proposed budget, Assembly Member Cindy Montañez requested additional information regarding the student profile of those who would be most impacted by the proposed student fee increase and the associated attrition. No one has been able to provide a good answer to this question, except to say that those most impacted would likely be people who are similar to those students that are currently paying fees or receiving the BOG fee waiver and other forms of financial aid.

Can Financial Aid Meet All Needs. Budget staff notes that is unclear weather all needy students would be covered by financial aid programs. How need is determined is very important in determining weather all needy students are covered or not. Likewise, without a good financial aid outreach effort to educate students on the availability of financial aid or in providing the assistance and guidance often needed in completing financial aid documents, students may be deterred from getting the financial help they need to pursue their educational goals. Currently

financial aid outreach efforts on the Community Colleges are vastly under-funded and may suffer additional reductions if the Governor's proposed reductions are approved. Moreover, the majority of Community College students are part-time. While there are some grants available for part-time financially needy students, these grants appear to be few. Finally, budget staff notes that if it were true that financial aid programs could take care of all financially needy students, it is unclear why over 100,000 students would be expected to drop out of the community college system. The Department of Finance attrition calculations are based on fee payer attrition and a shift to the Board of Governor's (BOG) Fee Waivers and do not take into account students who may drop-out due to the lack of course availability.

Potential Approaches to Community Colleges Student Fees. Budget staff notes that there are several student fee alternatives, which the Subcommittee may wish to consider in lieu of the Governor's proposal in the context of the state's budget crisis. Specifically, staff notes the following options:

- **Increase Fees by Same Percentage as UC and CSU.** Under the Governor's proposal, UC and CSU intend to increase student fees by 25 percent, in addition to the 10 percent fee increase, which was assessed on students this spring. If fees were increased at the California Community Colleges by a like-amount, first by 10 percent then 25 percent, the new fee level for 2003-04 would be \$15.13 per unit.
- **Increase Fees Based on Rate of Change in California Per Capita Personal Income (CPCI).** Another fee option includes adjusting community college student fees upward, based on the change in CPCI. Using 1997-98 as the base year (this is the last year student fees were \$13 per unit. In 1998-99 fees were reduced to \$12 per unit, and in 1999-2000 fees were reduced to the current \$11 per unit level), the fee level would have increased to a projected level of \$17.69 per unit. Using 1993-94 as a base year (the last year that fees were increased), the per unit fee would increase to \$20.54 (based on projection of current year and budget year changes in CPCI).
- **LAO Proposal.** Given that the Governor proposes to increase fees to \$24 per unit, the LAO suggests raising fees an additional \$2 beyond that amount – for a total of \$26 per unit. The LAO believes that the Governor's fee proposal is reasonable, given that the price to students (\$24 per unit) is reflective of students paying an appropriate share of their educational costs. Further, the LAO notes that the cost of attending a community college will still be affordable for modest-income students, who are otherwise not exempted from paying fees. The Analyst asserts that financially needy students will have the fee increase covered by their fee waiver. Further, the LAO notes that the additional \$2 increase will enable financially needy students to receive up to an additional \$337 in federal Pell Grant aid.
- **No Fee Increase—Adopt Supplemental Report Language In Lieu of Any Fee Increases.** Given that Community Colleges are the access point for educational opportunity to the broadest cross-section of California's population, and the fact that there are many unanswered questions regarding who would be most impacted by a student fee increase, the Legislature may wish not to impose a student fee increase at this time until the issue is studied further. Instead, the Legislature may wish to request that the California Postsecondary Education Commission (CPEC) develop recommendations (with the input of various constituency groups) regarding a long-term policy for setting and adjusting student fee charges at the community colleges. Budget staff notes that this recommendation makes sense whether or not the Legislature chooses to increase student fees, particularly

given that the Administration's budget proposal continues the "boom and bust" cycle of student fees. This "boom and bust" approach, which holds stable or decreases student fees in good economic times and dramatically increases fees when the economy is struggling, makes it harder for California's families to prepare for increases in student fees and makes access to educational opportunities more challenging during times when many need and want to pursue a higher education for advancement.

Treatment of Student Fee Revenue. Under current law, for each additional dollar of revenue from student fees or property taxes that a college receives, the state takes back a like-amount of General Fund dollars. In the case of student fees, the state reduces the amount of General Fund a district receives by 98 cents on the dollar (Education Code Section 76300(c)). This essentially means that the approximately \$150 million in student fee revenue that is expected to result from the \$13 per unit fee increase, does not directly benefit the campuses but rather provides a mechanism for the state to reduce the amount of General Fund (Proposition 98) support it provides to the community colleges.

The Department of Finance (DOF) contends that this is not the case, but rather fees are proposed to be increased in order for the community colleges to "recoup" part of the \$704 million in General Fund reductions proposed by the Governor. Thus treating fee revenues at the community colleges in a fashion similar to UC and CSU. But a careful review of the Education Code appears to contradict DOF's assertions. Under current law, the state would be required to provide General Fund if student fees were not increased. This is not the case at UC or CSU where the campuses retain the revenues and the state is not automatically required to reduce a like-amount of General Fund. While the Administration and the Legislature may make budgetary decisions based on the amount of revenue a student fee increase at UC and CSU would generate, unlike community colleges, the legal commitment to reduce the General Fund does not exist.

- ***Budget Staff Recommendation on Treatment of Student Fee Revenue.*** Budget Staff recommends that the Legislature further examine and consider if student fees are to be raised at all, should community colleges be allowed to retain a portion of their mandatory student fee revenue, without an accompanying General Fund offset.
- ***CPEC Recommendations on Student Fees.*** The California Postsecondary Education Commission (CPEC) has recently recommended that local community college campuses be allowed to assess a "campus-based fee", not to exceed 10 percent of the statewide enrollment fee, and that those revenues be retained on the campus without being defined as "local revenues" and hence serving as a General Fund offset.

ISSUE 3: ENROLLMENT GROWTH

The issue for the Subcommittee to consider is enrollment growth funding and policies at the Community Colleges.

BACKGROUND:

The Governor's Budget proposes to substantially decrease student enrollment by 62,000 full-time equivalent student (-5.7%) at the California Community Colleges. In contrast, the Governor proposes to augment the budgets of the University of California and the California State University by a total of \$268.1 million (\$117.2 million and \$150.9 million respectively) to support approximately 7.0 percent enrollment growth (6.9 percent at UC and 7.1 percent at CSU) for the 2003-04 academic year.

Specifically, the Governor's Budget expects that 5.7 percent fewer students will enroll statewide as a result of the proposed student fee increases (from \$11 per unit to \$24). The Governor further reduces student enrollment by another 2.0 percent for alleged abuses of concurrent enrollment funding. In addition, the Administration estimates that 1.0 percent of the students will drop out or fail to enroll as a result of the proposed cuts to college budgets. This anticipated enrollment decline totals 8.7 percent. To partially offset this reduction, the Governor provides additional funding for 3.0 percent growth (to support new students entering the higher education system); for a net enrollment decrease of 5.7 percent.

COMMENTS:**Colleges Provide Open Access—What happens if enrollment growth isn't funded?**

Community colleges are obligated under the Master Plan for Higher Education to provide open access to higher education for all adults "who can benefit from instruction". Consistent with this goal, campuses do not generally impose admissions requirements, and as such, have no means to deny admission or otherwise turn students away. If student enrollment exceeds the amount for which they are budgeted, campuses will be forced to accommodate students without the financial support to do so.

While "unfunded enrollment" is nothing new (statewide, the community colleges are "overenrolled" by approximately 42,000 FTE), Budget staff notes that -- coupled with the budgetary reductions -- class sections will be cancelled, instructors will be laid-off and students will be unable to get the courses they need to earn a degree, transfer to a four-year institution or otherwise meet their educational objectives. In most cases, how individual campuses implement these cuts will determine how many students drop out (or fail to attend all together); these locally made actions will ultimately serve as a mechanism to "manage" enrollments.

What's the appropriate level of enrollment growth at the Community Colleges? In its *Analysis of the Budget Bill*, the Legislative Analyst notes that the Governor's proposal does not take into account the likely shift of some enrollment demand from the UC and CSU to the community colleges, as a result of the significant student fee hikes proposed at those institutions. While students are indeed effected by the "price" of attending college, they are also dramatically effected by whether or not the courses they're interested in are offered at a time and location that fit into their schedules. In addition, it is difficult to measure the impact of the CSU remediation policies which requires students who do not successfully complete required

remedial courses within the first year of attendance at CSU to go to a local community college before continuing their education at the CSU. As such, while it is difficult to accurately predict how many students will enroll in public colleges in the coming fiscal year, it is clear that Community Colleges will continue to receive a significant number of students that will flow back from the other two higher education segments. All of these factors are issues for consideration that are not taken into account in current enrollment projections or in enrollment funding decisions.

- **Legislative Analyst Recommendation.** In order to err on the side of caution, the Analyst suggests providing the community colleges with an additional \$100 million to fund enrollment growth of another 2.6 percent (25,000 FTES). This increase would serve to further offset the Governor's proposed enrollment decline, for a total decrease of 3.1 percent in 2003-04. In addition, the Analyst asserts that to the extent that the Legislature wishes to fund enrollment growth with the limited resources available to it, it makes sense to focus that enrollment at the lower-cost colleges. Even if the Legislature agrees to this recommendation, there will continue to be a significant number of unfunded FTES.

How should funds be expended by districts? The Governor's Budget includes provisional language (Item 6870-101-0001, Provision 5) which specifies that funds appropriated specifically for growth (in Schedule 3) shall not be used for FTES in concurrent enrollment physical education courses, study skills, and personal development courses. Further, the provision states that the Board of Governor's shall adopt criteria for the allocation of funds for both enrollment growth and the general apportionments (funds that go out to all districts), in order to ensure that certain types of courses are given priority in a year of constricted budgets. Specifically, the language states that highest priority shall be granted to courses related to student needs for transfer, basic skills and vocational/workforce training.

- **Budget Staff/Legislative Analyst Comments.** The Legislative Analyst recommends the adoption of the Department of Finance's proposed language with some minor modification. Budget staff notes that given the availability of limited state funds and the desire of the Legislature to have students achieve specific educational goals in the areas of basic skills, transfer and vocational/workforce training, it may make sense to prioritize enrollment funding as a means of setting state priorities. This is one way to ensure that the Community Colleges do not accommodate budget reductions by eliminating high cost, but high priority courses and instructional programs.

Under proposed provision of the budget act, the Chancellor's Office would be required to report to the Legislature by February 1, 2004 on the adopted criteria for dispersing enrollment growth and general apportionment funds.

ISSUE 4: CONCURRENT ENROLLMENT

The issue for the Subcommittee to consider is the Governor's proposal for concurrent enrollment funding (-\$80 million) and policies at the Community Colleges.

BACKGROUND:

As part of the December Revision, the Governor proposed to permanently reduce funding for the California Community Colleges by \$80 million due to perceived inconsistencies related to students enrolled concurrently at public high school and community college campuses. While it was familiar with the anecdotal evidence of inappropriate activity, the Legislature rejected the Governor's proposal due to a lack of concrete information and proof related to the scope and depth of the problem.

For the budget year, the Governor again proposes the \$80 million reduction, along with budget bill language specifying that this is to reflect a permanent reduction of 20,000 FTE students that were improperly claimed as concurrent enrollment. The budget bill language does not mention an audit, but requires the Chancellor to allocate the reduction to districts in proportion to the level of improperly claimed concurrent enrollment. The Governor also proposes legislation to strengthen statutory requirements for the claiming of concurrent enrollment funding. Specifically, the Governor proposes that concurrent enrollment be explicitly limited to academic and vocational courses which are not offered at the pupil's school district; that these may not include recreational, physical education, or personal development classes; that eligible classes must be "designed for and ... advertised as open to the general public in the college course catalog"; and that eligible classes may not be offered on high school campuses during regular school hours.

COMMENTS:

Audit Might Not Be Complete Until Next Budget Cycle. Although the Governor called for an audit of concurrent enrollment practices in the December revision, he has not offered details about who would conduct the audit, how it would be structured, or when it would be completed. Neither is it clear whether the \$80 million estimate of the problem would in fact be validated by the audit. The Chancellor's office indicated during mid-year budget hearings that an audit would be a somewhat complicated endeavor that could take a year to complete. At the time of the mid-year reduction deliberations, the Chancellor's office and the administration were still negotiating over the terms of the audit. It was agreed that they would jointly develop a survey that would be sent to the campuses and collected by the Chancellor's Office prior to conducting a full-fledged audit. The results of that survey are expected to be in at the end of this month in time for the Governor's consideration in the May Revision. But the question of an audit still remains.

Legislative Analyst Recommendation. The Analyst recommends that the Legislature approve the \$80 million reduction for concurrent enrollment. This represents about 35 percent of the amount CCC received for concurrently enrolled students in 2001-02. It is also about equal to the amount CCC receives for students concurrently enrolled in physical education classes on high school campuses. The Analyst believes that this represents a conservative estimate of concurrent enrollment that likely does not meet legislative intent. In making her recommendations, the Analyst makes the following observations:

- ***Reduction Is Justified as a Policy Decision.*** During mid-year budget hearings, the Legislature considered whether it was reasonable to "take back" \$80 million in current-year funding for concurrent enrollment prior to the completion of an audit that justified this amount. While there was a general consensus that any funding that was clearly proved to be illegal should be recaptured, there was a similar consensus that this was a high burden of proof that could not be met in a matter of weeks or months.

The Analyst asserts that the Legislature now faces the question of how much concurrent enrollment to fund in the budget year. Because this funding decision is prospective and districts are able to accommodate it as they plan for the 2003-04 years, they believe that time is of the essence and the Legislature can simply reduce the amount as a policy decision. Specifically, the Legislature could choose to reduce funding for concurrent enrollment as a way to implement its stated intent that concurrent enrollment be restricted to "a limited number of pupils." The Analyst recommends that the budget bill language proposed by the Governor be modified to reflect this approach.

- ***Statute Should Be Clarified.*** Some community college districts argue that the statute governing concurrent enrollment is too vague. The Chancellor's office has tried to suggest to districts how they should interpret the statute, but this has not resulted in consistent practices among districts. The Analyst, therefore, recommends that the Legislature clearly define in statute the circumstances under which concurrent enrollment is appropriate. They believe that the legislation suggested by the Governor provides a good starting place for discussion. In addition, the Legislature may wish to impose further restrictions. For example, it may wish to impose a limit on the percentage of budgeted FTE students that could be claimed as concurrent enrollment. Alternatively, it may wish to limit the percentage of students in any one course that are concurrently enrolled. The Analyst believes these discussions would be appropriate both in budget subcommittee and policy committee hearings.

At the hearing, the Subcommittee will hear an update from the Community Colleges Chancellor's Office and the Department of Finance on their survey efforts and on the status of the proposed audit, which was suppose to be initiated to investigate the allegations of enrollment misconduct.

ISSUE 5: STATE OPERATIONS

The issue for the Subcommittee to consider is the Governor's proposed reductions to the Chancellor's Office of the California Community Colleges.

BACKGROUND/COMMENTS:

The Governor's Budget proposes to substantially reduce the ongoing operations of the Community Colleges Chancellor's Office, which includes reducing programmatic oversight and local college support. Specifically, the Governor's Budget proposes to reduce the number of personnel years by 45.9 (from the beginning of 2002-03 to 2003-04), bringing the total number of positions down to 168.9 from 214.8. The combination of eliminating positions and reducing operating expenses and equipment, will total \$3.5 million (from the beginning of the current year through the budget year). This equates to a total support budget of \$17.2 million in 2003-04 (\$9 million General Fund).

The level of funding proposed by the Governor represents a 20 percent reduction in the Chancellor's Office operations (including the mid-year reductions already adopted by the Legislature). Due in part to the mid-year cuts, as well as the proposed reductions for 2003-04, the Chancellor's Office has begun initiating employee layoffs. In order to avoid further layoffs, the Chancellor's Office is requesting that its support budget be reduced by 14 percent rather than the proposed 20 percent. The difference between 14 percent and 20 percent is \$657,000. This augmentation would allow the Chancellor's Office to initiate workload reductions and urge additional retirements rather than dismissing employees.

The Chancellor's Office asserts that the reductions that they have already carried out "have compromised their ability to deliver on the state's expectations for accountability on its multi-billion dollar annual investment in the colleges."