

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

Assembly Member Mervyn Dymally, Chair

WEDNESDAY, APRIL 19, 2006

STATE CAPITOL, ROOM 126

4:00 PM

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**ITEMS TO BE HEARD**

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## ITEMS TO BE HEARD

### ITEM 6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

#### ISSUE 1: NURSING ENROLLMENT EXPANSION

The issue for the Subcommittee members to consider is the Governor's budget proposal to continue to provide \$14 million in ongoing Proposition 98 funds for enrollment expansion of nursing education programs.

#### BACKGROUND:

The Governor's proposed budget includes \$10 million in ongoing Proposition 98 funding to continue support enrollment growth of nursing education programs at community colleges. It also includes \$4 million in ongoing funds, an amount which has been appropriated for this purpose pursuant to AB 87 (Jackson), Chapter 514, Statutes of 2001.

Budget bill language directs the community colleges Board of Governors (BOG) to develop a Request for Proposal (RFP) to allocate these funds as competitive grants for qualifying districts based on the following criteria:

1. The districts are committed to expanding enrollment beyond the level of full-time equivalent students (FTES) served in 2004-05.
2. The districts have either adopted, or initiated a plan to adopt model pre-requisites described in the community colleges Registered Nurse (RN) and Licensed Vocational Nurse (LVN) validation studies.
3. Districts are committed to support infrastructure and/or equipment needs with the intent of building capacity and increasing the number of nursing students served.

Budget bill language also requires the CCC Chancellor's Office to submit a report to the Legislature and the Department of Finance (DOF) on the allocation of these funds on or before March 1, 2006. At the time that this agenda was written, Budget staff had only received an "advanced" copy of the report.

The Chancellor's Office reports that, out of the 70 colleges that offer nursing programs, they received 39 applications on March 1, 2006. All of the 39 colleges qualified for the grants, which will be awarded on May 1, 2006. Two-year nursing education grants will be awarded in three types of capacity building grants as follows:

**Grant 1: Capacity Building.** 36 colleges will receive grants of \$179,487 or less each for an estimated total of \$6.3 million.

**Grant 2: Additional Capacity Building.** Eight of the 36 colleges receiving Grant 1 awards have applied and will receive funding under Grant 2 in an amount between \$200,000 and

\$300,000 to provide additional nursing slots beyond the slots created with Grant 1. This amount would total about \$2.2 million.

**Grant 3: LVN to RN Conversion.** 3 colleges will receive grants of \$500,000 each for a total of \$1.5 million for the development of LVN to RN "Step-Up Programs."

All of these projects constitute the first cycle of capacity building.

Grant 1, Capacity Building (36 colleges)	Award Amount	FTEs 2004-05	FTEs Added	Equipment & Infrastructure	Using or Plan to Use Merit Based Admissions?
Antelope Valley College	\$179,487	256	30	\$179,487	Y
Butte College	\$179,487	96	22	\$172,584	Y
Cabrillo College	\$179,487	80	10	\$179,487	
Cerritos College	\$179,487	200	20	\$153,609	Y
Chabot College	\$133,912	80	10	\$81,425	Y
College of Marin	\$179,487	72	12	\$166,284	Y
College of the Canyons	\$179,481	76	10	\$179,487	Y
College of the Desert	\$179,487	120	50	\$179,487	
Compton	\$179,487	60	16	\$95,499	Y
Contra Costa	\$179,487	104	20	\$172,584	
Los Medanos	\$179,280	88	11	\$110,000	Y
El Camino College	\$179,487	192	10	\$84,630	Y
Evergreen Valley College	\$179,487	120	10	\$90,000	Y
Fresno City College	\$179,487	184	47	\$175,606	
Gavilan College	\$179,487	20	10	\$174,487	Y
Glendale	\$179,487	120	10	\$179,487	Y
Grossmont College	\$179,192	100	10	\$172,300	Y
Imperial Valley College	\$179,487	100	20	\$179,487	Y
Mendocino	\$179,400	20	24	\$172,500	Y
Merced College	\$179,487	48	12	\$170,884	Y
Merritt College	\$179,487	80	10	\$91,792	Y
Monterey Peninsula	\$161,158	80	10	\$114,000	Y
Mt. San Antonio College	\$179,487	144	12	\$179,487	Y
Mt. San Jacinto College	\$179,487	96	12	\$172,585	Y
Napa Valley College	\$179,487	100	20	\$172,584	Y
Palomar College	\$179,487	120	20	\$179,487	Y
Pasadena City College	\$104,917	280	10	\$126,882	Y
Rio Hondo College	\$179,487	144	24	\$166,959	Y

<b>Grant 1, Capacity Building (36 colleges)</b>	<b>Award Amount</b>	<b>FTES 2004-05</b>	<b>FTES Added</b>	<b>Equipment &amp; Infrastructure</b>	<b>Using or Plan to Use Merit Based Admissions?</b>
Riverside	\$179,790	200	50	\$178,406	Y
San Joaquin Delta College	\$179,487	200	15	\$152,200	Y
Santa Rosa Junior College	\$179,487	120	30	\$160,942	Y
Shasta College	\$179,137	240	12	\$179,137	Y
Sierra College	\$179,487	40	10	\$157,584	Y
Southwestern	\$179,294	140	20	\$158,717	Y
Victor Valley College	\$179,487	144	10	\$74,499	Y
Yuba College	\$179,487	80	10	\$169,534	Y
<b>Subtotal</b>	<b>\$6,322,223</b>	<b>4,344</b>	<b>639</b>	<b>\$5,504,109</b>	
<b>Grant 2, Additional Capacity Building (8 colleges)</b>					
Cabrillo	\$300,000	same	20	\$300,000	SAME
College of the Canyons	\$299,982	same	30	\$299,982	SAME
El Camino	\$299,981	same	26	\$245,130	SAME
Glendale	\$300,000	same	26	\$300,000	SAME
Merritt	\$300,000	same	40	\$245,000	SAME
Mt. San Antonio	\$261,846	same	30	\$241,775	SAME
Riverside	\$299,406	same	50	\$299,406	SAME
San Joaquin Delta	\$204,271	same	15	\$179,500	SAME
<b>Subtotal</b>	<b>\$2,265,486</b>		<b>237</b>	<b>\$2,110,793</b>	
<b>Grant 3, LVN to RN Step Up (3 colleges)</b>					
College of the Siskiyous*	\$499,775		24*	\$405,512	
Mira Costa*	\$499,036		24*	\$206,842	Y
Mission*	\$413,480		24*	\$409,443	Y
<b>Subtotal</b>	<b>\$1,412,291</b>		<b>72*</b>	<b>\$1,021,797</b>	
<b>Totals</b>	<b>\$10,000,000</b>	<b>4,344</b>	<b>948**</b>	<b>\$8,636,699**</b>	

\*Enrollment slots come on line in 2007-08.

\*\*Of this total, 876 FTES come on line in 2006-07 under Grant 1 and Grant 2.

**Number of Additional Nursing Slots Added?**

The 36 colleges receiving nursing grants (Grant 1) had 4,344 nursing FTES in 2004-05. As a condition of receiving the grant, the colleges are committed to adding the following number of slots:

- *Year 1 (2005-06)*. No additional nursing slots will be generated in the current-year since most of the funds will be used to either build or expand the colleges' infrastructure.
- *Year 2 (2006-07)*. Nursing slots are expected to increase by 876.
- *Year 3 (2007-08)*. Nursing slots are expected to double to 1,752, students with a second cohort of students at additional colleges in the second grant round and a first cohort of students at additional colleges that apply and qualify for the grants. In addition, each of the three colleges receiving the LVN to RN conversion grants are committed to adding 24 new nursing slots each in 2007-08.

In Year 2, participating colleges will receive \$5,555 per nursing FTES in addition to the funds received for these students through apportionment for each additional student above the 2005-06 baseline. Combined, the State will fund \$9,555 per CCC nursing FTES. Any unallocated funds in year two will be used for the development of additional LVN to RN Step-Up Programs and for infrastructure needs for those colleges qualifying for grants after year one. In the out years, or beginning year four, annual grant awards for nursing enrollment will be allocated based on prior performance.

**Equipment and Infrastructure Purchases**

In year one, grantees plan to use about \$8.6 million for equipment and infrastructure needs. The rest of the \$10 million appropriated in the current year, or about \$1.4 million, will be used for faculty recruitment and orientation, skills lab coordination, technical support for simulation labs, faculty training in use of equipment, curriculum development, counseling, merit based selection validation process, support staff salaries instructional salaries and grant management.

**Adoption of Merit Based Criteria?**

Out of the 39 colleges receiving grants (Grant 1 and Grant 3), 30 have indicated that they use or are planning to conduct studies to use some form of merit-based selection criteria for program admission. The rest of the colleges indicate that they use some other form of admission.

**How are the \$4 million in ongoing funds pursuant to AB 87 allocated?**

The *Budget Act of 2005-06* allocated the AB 87 \$4 million ongoing funds one-time funds for equipment "start-up" matching costs associated with nursing expansion funded through reimbursements from the federal Workforce Investment Act (WIA). For 2006-07, these funds would continue to support enrollment growth in nursing programs as they were intended.

The Chancellor's Office is proposing to allocate these two-year grants in the same way they were allocated in 2002-03 and 2004-05. The funds are divided among the 70 community colleges that offer Associate Degree Nursing (ADN) programs leading to licensure as a registered nurse. Each college will receive \$57,143 to add an additional cohort of 10 students or to maintain the students added in 2002-03 and 2004-05. Any unused funds from colleges that choose not to participate will be distributed on a FTES basis to those colleges committed to enrolling more than the required minimum of 10 additional students.

**COMMENTS:**

In addition to the \$14 million for nursing expansion in the current year, the Governor's Nursing Education Initiative last year included the following funding for the same purpose:

- \$6 million in redirected WIA funds
- \$6 million matching funds from community colleges
- \$6 million from private partnerships

The Governor's \$90 million initiative called for a total of \$18 million annually for 5 years. Budget staff has requested the Chancellor's Office to also report on how these funds are being allocated to the colleges.

**Number of Students Enrolling and Graduating from CCC Nursing Programs?**

According to the Chancellor's Office, it is most likely that the colleges not using merit-based criteria to admit students into the ADN programs do so based on a lottery or waiting lists. Critics of this admissions strategy question whether this is the best way to identify those students that are most qualified and therefore more likely to succeed in these programs. Using the lottery, whether the names are picked out of a computer-generated random list or simply picked out of a hat, may result in qualified students having to wait for years for admission or never be admitted because they were not lucky. Waiting lists may be viewed more favorably than the lottery method because the longer the applicant's name is on the list, the greater the chances are that all qualified applicants be admitted. However, during the waiting period, these applicants may opt out and choose another career. These non-selective admissions strategies make the process more complicated when used in combination. For example, choosing a certain percentage of applicants from the prior year's waiting list and the rest from recent applicants through a lottery or on a first-come basis.

Although some believe that selective admissions is in conflict with the open access mission of the community colleges, it is important to recognize that if colleges are enrolling applicants with minimum qualifications, these students are more likely to fail their courses and drop out of the program.

The California Board of Registered Nursing (BRN) 2004-05 Annual School Report released last month cites the following statistics for the ADN program:

- The percentage of student completing the program between August 1, 2004 and July 31, 2005 was 70.6 percent.
- The percentage of students that either dropped or were disqualified was 24.4 percent. *(These are students who left the program prior to their scheduled completion date occurring between August 1, 2004 and July 31, 2005)*
- The percentage of students behind schedule that are still enrolled in the program is 8.5 percent. *(These are students who were scheduled to complete program between August 1, 2004 and July 31, 2005)*

Although high attrition rates can be attributed to several factors including maintaining a full-time job and meeting family obligations while enrolled in the program, BRN data indicates that

academic failure ranks second, after personal reasons (home, job, health, family), among the top five attrition factors.

Given that the colleges are expected to produce a certain number of nursing graduates per year, Budget staff is recommending Budget Bill language that requires *all* grantees to conduct studies to use some form of merit based criteria. Budget staff, DOF, LAO and Chancellor's staff is working on a draft of the language to bring before members at a later hearing.

As the Legislature continues to seek effective solutions to address the nursing shortage in California, Budget staff further recommends that students in nursing programs at the CCC be tracked by the California Partnership for Achieving Student Success (Cal PASS) including tracking the student for program completion, program delays, attrition rates, number of graduates passing the nursing licensing examination and number of graduates entering and remaining in the workforce in California.

Budget staff also recommends that nursing enrollment expansion allocations are consolidated into a single schedule in the Budget Bill for better tracking of spending in this area.

**ISSUE 2: CAREER TECHNICAL EDUCATION**

The issue for the Subcommittee members to consider is the Governor's \$50 million proposal to continue to support career technical education programs.

**BACKGROUND:**

Last year, the Legislature approved in Conference Committee \$20 million in one-time funds from the Proposition 98 Reversion Account for local assistance grants to implement the Governor's Career Technical Education Initiative pursuant to legislation.

Consequently, SB 70 (Scott), Chapter 353, Statutes of 2005, requires the BOG to improve career technical education pathways between high schools, community colleges and regional occupational centers (ROCPs). The bill also appropriated the \$20 million in one-time Proposition 98 Reversion Account for implementation of these programs.

According to the Administration, these funds are provided to support what are known as "Tech Prep" or "2+2" programs in which students take two years of high school vocational courses that lead into a two-year CCC vocational credential or diploma program. These funds can be used for a wide variety of local activities, including curriculum development and equipment purchases.

**Status of the \$20 million Grant Allocations**

The Chancellor's Office staff state that there has been a delay in allocating these grants due to the language veto last year that linked career technical education funding to funding of the same amount for English Language Learners instructional materials. SB 70 was approved by the Governor on September 27, 2005.

The \$20 million for the current year included in the Career Technical Education Funding Plan is to be awarded as follows:

- \$10.8 million in what are called "Quick Start" projects which align career pathways in Advanced Transportation Technologies (\$1.8 million), Applied Competitive Technologies (\$1.8 million), Biotechnologies (\$1.8 million), Environmental Technologies (\$1.8 million), Global Logistics (GIS/GPS) (\$1.3 million), Health Occupations (\$900,000) and Multimedia and Entertainment (\$1.3 million).
- \$6.7 million will be granted for regional secondary/postsecondary curriculum alignment articulation (\$4 million), career exploration and model program development 6<sup>th</sup> and 7<sup>th</sup> grade (\$1.5 million), building career pathways and work-based curriculum as well as the development of the Career Technical Education Fact Book (\$500,000) and faculty and counselor in-service where high school and college faculty work with industry and professional organizations to gain knowledge regarding education and program needs (\$700,000).
- \$2.5 million will be used to identify industry sectors and strengthen existing Career Technical Education sectors including Agricultural and Natural Resources; Arts, Media and Entertainment; Building Trades and Construction; Energy and Utilities' Engineering and Design; Fashion and Interiors; Finance and Business; Health and Human Services;

Hospitality, Tourism and Recreation; Information Technology; Manufacturing and Product Development; Public and Private Education Services; Public Services; Retail and Wholesale Trade; Transportation.

Out of the \$20 million, only the \$10.8 million amount for "quick start" projects is expected to be awarded in the current-year. The RFP deadline for these grants is April 20, 2006. The Chancellor's Office expects to have all the "quick start" grants out by July of this year.

In the 2006-07 budget, the Governor is proposing a continuation of the \$20 million for career technical education projects and is augmenting this amount by \$30 million for a total of \$50 million in ongoing funds for this purpose.

#### COMMENTS:

**LAO Concerns:** In evaluating the Governor's Career-Technical proposal, the LAO raised the following concerns:

- the proposal does not include a broad vision for revitalizing career technical education across the state
- it does not have a proposal on how it would spend the additional funding
- the proposed augmentation is premature given that the initial grants have not yet been awarded

The LAO recommends that the Legislature does not expand funding for this program until the CCC has evaluated the progress of the initial efforts and prepares a proposal for the new funds. The LAO further recommends that the Legislature score this \$50 million as savings.

Budget staff is also concerned with the proposed augmentation since the approved \$20 million amount has not been awarded yet. In addition, only \$10.8 million is expected to be awarded in the current year. If the augmentation is approved, the CCC will have \$59 million to award in grants in the budget year. Given the late start in the current year and the time it takes to process the RFPs from the time these are evaluated until the awards are made, it is questionable whether the Chancellor's Office will be able to award the proposed funding in the budget year.

Furthermore, Budget staff notes that DOF included an augmentation of \$17.4 million in the May Revise last year. The Legislature rejected the proposed augmentation in Conference Committee and approved the \$20 million as initially proposed pursuant to legislation. DOF states that the initial \$20 million one-time funds was what they thought was available to them for this purpose. The \$17.4 million augmentation came about as more funds were available.

Although Budget staff recognizes the need to invest in career technical education programs by linking career pathways between high schools and community colleges and providing them with the infrastructure necessary to support these programs, an area which has gone neglected for a long time, it is still unclear what specific outcomes are expected from investing in the different areas in which these grants are to be awarded. Also, it is still unclear how these projects will be evaluated and how and when they will be reported to the Legislature.

In addition to the need for clarification on the specific outcomes expected and the evaluation reporting requirement for these projects, Budget staff is also unclear as to how career technical education projects differ with Economic Workforce Development programs and programs funded from the federal Carl D. Perkins Vocational and Technical Education Act of 1998.

The proposed budget includes \$35.79 million for Economic and Workforce Development programs. According to the Chancellor's Office, the community colleges work with employers, advisory committees and agency partners to identify workforce education and training needs including the needs of small business on a regional basis. The 2006-07 BOG approved expenditure plan will fund about 200 projects statewide including 100 Regional Initiative Centers, 16 Leadership grants, approximately 36 short-term grants and approximately 76 grants through the Career Technical Pathways proposal. This budgeted amount includes the \$4 million in funding for nursing enrollment expansion.

The Carl D. Perkins Vocational and Technical Education Act of 1998 is a primary mechanism for supporting program improvements for vocational and technical education courses and programs. The Act authorized an estimated \$1.2 billion each year for five years, starting with the fiscal year 1999. Both the CCC and the California Department of Education (CDE) submitted a State Plan to the United States Department of Education (USDE) on April 1, 2000. The plan was approved on October 2, 2000. These funds are allocated by federal law into an 85 percent share for local assistance projects, up to 10 percent for State Leadership and no more than 5 percent for state administration. The split of funds between the CDE and the CCC involves many considerations such as the distribution between secondary and postsecondary institutions and the distribution between the CDE and the CCC relative to state administration and Leadership funds. Due to a delay in the reauthorization of this Act, the funding for it has been automatically extended for another year. The 2006-07 BOG approved expenditure plan includes \$57.6 million for CCC in anticipated Perkins Act funding.

**ISSUE 3: NONCREDIT RATE FUNDING**

The issue for the Subcommittee members to consider is CCC BOG budget request of \$30 million for increasing the funding rate of noncredit students, which was rejected by DOF.

**BACKGROUND:**

**Noncredit Funding.** This funding is based upon a formula which sets the current level for noncredit students at \$2,164 per FTES. This amount is less than half the amount provided for credit FTES, which averages about \$3,700.

**Courses.** Noncredit funding supports courses that do not provide students with credit towards postsecondary degrees and include the following:

- Basic skills or remedial courses in reading, math, and language arts.
- English as a Second Language (ESL).
- Citizenship
- Parenting classes in child growth and development
- Short-term vocational programs
- Education programs for older adults
- Education programs for persons with disabilities

**Who are noncredit students?** The majority of noncredit students are among the least academically prepared and come from disadvantaged backgrounds. These are students that were unsuccessful in high school, who need more training for job advancement, who want to have a vocational trade and who need to develop their basic skills to complete collegiate level work.

**Colleges Offering Noncredit Courses.** Out of 109 community colleges, 105 offer some noncredit education. Some have very small programs, while a few are quite large. In terms of total noncredit enrollments, the eight largest community college districts with their percentage of total FTES noncredit enrollment are: San Diego Community College District (25%), North Orange CCD (20%), Rancho Santiago CCD (32%), San Francisco CCD (35%), Mt. San Antonio CCD (22%), Santa Barbara CCD (15%), Glendale CCD (21%) and Sonoma CCD (17%). Together, their programs constitute approximately 63 percent of noncredit enrollments.

Recent enrollment trends in the CCC reflect the fact that districts are increasingly unable to afford to meet current levels of noncredit demand and are dropping programs. Noncredit FTES peaked at 105,996 in the 2001-02 fiscal year but had fallen to 92,000 in 2004-05.

At their September 2005 meeting, the BOG approved a \$30 million budget request for noncredit funding but was not included in the 2006-07 Governor's budget.

**COMMENTS:**

Since funding for noncredit courses has been and continues to be a priority for the Legislature, Budget staff recommends that this budget request be considered when the subcommittee is ready to take action on this item.

At their March 2006 meeting, the BOG approved a funding plan for the redirection of funds resulting from unused enrollment growth. This plan included the redirection of \$30 million for noncredit students. If approved by the subcommittee members, this would be an augmentation of ongoing Proposition 98 funds.

In addition, given that there is an expected number of students that will not pass the California High School Exit Exam (CAHSEE), it is believed that, eventually, a majority of these students will turn to community colleges either for remedial courses or to enroll in a High School Equivalency Program. Either way, they will have to enroll in noncredit basic skills courses. As it is, the colleges are not able to offer as many courses as needed in this area due to the lack of resources. Any additional funding to increase the noncredit per FTES rate will allow the colleges to expand these courses and to enhance their quality by providing students with the range of services needed to support them.

**ISSUE 4: EQUALIZATION FUNDING**

The issue for the Subcommittee members to consider is the proposed \$130 million for equalization.

**BACKGROUND:**

Prior to the passage of Proposition 13 in 1978, community colleges received about 55 percent of their revenues from local property taxes. Districts were authorized to adopt property tax rates in their areas allowing them to raise the revenue necessary to run the colleges consistent with local preferences. The colleges received a minimum guarantee of basic state aid, which was augmented by supplemental state funding if local property taxes were insufficient to fund the programs at the minimum level. Over time, the tax rates being set among college districts varied across the State. With the passage of Proposition 13, the funding available for colleges was locked into place, consequently, creating disparities in the existing amounts of per student spending among districts. These disparities have remained in place as college districts continue to receive different amounts of funding per student.

**Multi-Year Equalization Effort: Budget Act 2004-05**

Governor Schwarzenegger's 2004-05 budget proposed \$80 million to help equalize the amount of apportionment funding each community college district receives to serve an FTES. Currently, this amount varies from about \$3,550 to \$8,150 per FTES, with a statewide average of about \$3,800. The Legislature approved the Governor's proposal and also adopted legislation setting as an equalization standard goal having at least 90 percent of the credit FTES in the system eventually receiving the same dollar amount per FTES. This legislation also specified how the \$80 million should be allocated toward that goal.

According to the Chancellor's Office fiscal staff, a compromise on the 90th percentile goal was reached because choosing the 100th percentile at \$8,186 per credit FTES (West Kern) would cost the State billions of dollars. The Chancellor's Office calculated the 90th percentile funding rate for large districts to be \$4,037 per credit FTE student. The target for medium-sized districts was 3 percent above this amount, or \$4,158. The target for small districts was 10 percent above the large districts' target, or \$4,441. For the colleges to achieve the 90th percentile (\$4,037 per credit FTES), as set in statute, the State would have to make an investment of \$240 million over a period of three years. The Governor's 2005-06 January 10th budget did not include any funding for equalization. However, in his May Revise, the Governor allocated \$40 million for this purpose and the Legislature approved \$30 million out of that amount.

**Where are we now?**

In his 2006-07, the Governor included \$130 million for equalization to "complete" the \$240 million commitment of equalizing the districts to the 90th percentile.

**COMMENTS:**

The issues for members to consider before taking any action on this item are the following:

**\$80 million v. \$130 million.** The BOG approved \$80 million for equalization in the budget year to be allocated pursuant to SB 361. According to the Chancellor's Office, this action is consistent with the initial commitment made by the Governor and supported by the Legislature.

**Allocate Equalization Funding Under Current Law or SB 361?** The Chancellor's Office claims that the current formula ignores the fixed costs that many college districts incur in operating multiple campuses. For example, Long Beach Community College District only has one campus, Long Beach City College. However, the Ventura Community College Districts has three campuses: Ventura College, Moorpark College and Oxnard College. Each of these colleges needs a president, faculty, staff, etc. Their functions are replicated and so are their costs. The current equalization allocation formula does not take this into account. The formula proposed in SB 361 would correct this "flaw".

**Which Should be the Base Year When Allocating Equalization Funds?** Equalizing under the existing statutory methodology requires the use of 2002-03 revenue levels and numbers of FTES since that was the "prior year" used in 2004 and then again last year. The problem in continuing to use 2002-03 as the prior year is that we would not be taking into account funding and enrollment changes that have taken place in the last two years including the \$110 million in equalization "payments" that have already been made. Also, while enrollment for some colleges has increased, others are experiencing a decline in enrollment. To the extent enrollment has increased in equalization districts, it now costs more than it did two years ago to equalize the enrollment in those districts. The LAO estimates that to bring these districts to the 90<sup>th</sup> percentile would cost an additional \$20 million above the Governor's proposed \$130 million.

**Program-Based Funding Works Against Equalization Goal.** While the Legislature provided funds to equalize districts, it left in place a complex method of allocating apportionment funding to districts for enrollment growth and COLAs based on a program-based funding formula. This formula attempts to account for the different costs that different districts experience. Under program-based funding, districts do not receive equal funding rates on a per-FTE student basis. Instead, district allocations are influenced by headcount enrollment, total square footage of district facilities, and other factors. As such, program-based funding works at cross purposes from the goal of funding statutory equalization targets. Having both allocation methods operating at the same time is contrary to the Legislature's most recent intent to equalize per-student funding.

**The Future of SB 361.** The bill is currently in the Assembly Appropriations Committee in the Suspense File. The Chancellor's Office has informed Budget staff, that there is a willingness on the part of the author and Chancellor Drummond to resume negotiations with the Administration on this bill. Meetings are planned to take place sometime before the May Revise.

**LAO's Recommendations:**

- **Use Latest CCC Data to Measure Equalization.** The Legislature chose the 90th percentile as a reasonable point where disparities in revenues limits would be reduced to acceptable levels. The LAO believes updated CCC data should be used to measure the 90th percentile target.
- **Link Equalization Funding to Allocation Formula.** If the Legislature provides funding for equalization, the LAO recommends to do so contingent on the enactment of legislation replacing program-based funding with an allocation method more consistent with its equalization goal. Program-based funding allocates new apportionment funding to districts in a way that is inconsistent with the Legislature's equalization goal. To maintain equalization levels, the LAO recommends that the Legislature amend statute to allocate new apportionment funding at the same amount per credit FTE student for all districts in similar size groupings. This way, as student enrollment increases, districts' level of funding per student would keep pace with other districts of similar size. This method would ensure future allocations of growth funding are applied consistently with the Legislature's equalization goals