

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Mervyn Dymally, Chair

WEDNESDAY, APRIL 6, 2005
STATE CAPITOL, ROOM 126
4:00 P.M.

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ITEMS TO BE HEARD

ITEM 6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

ISSUE 1: SUPPORT BUDGET

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

BACKGROUND

The California Community Colleges (CCC) provides a general education and vocational certificate program at 109 Community Colleges through 72 local districts, which serve approximately 2.5 million students annually. By law, California Community Colleges admit any Californian seeking admission who has graduated from high school anyone who is 18 years of age or older and who is capable of profiting from the instruction offered. The Colleges may also admit any nonresident, possessing a high school diploma or the equivalent thereof, provided the student pays a nonresident fee that fully covers the cost of instruction. This policy of "open access" fulfills the Community College mission to provide all Californians with the opportunity for advanced education and training. The community colleges offer 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 proposal includes an increase of \$361 million, or 7.5 percent, total Proposition 98 funding for CCC. This increase funds a cost-of-living adjustment (COLA) of 3.93 percent and an enrollment growth of 3 percent. The community colleges budget totals \$7.9 billion from all fund sources, which include student fee revenue and federal and local funds.

Community College Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2003-04	Estimated 2004-05	Proposed 2005-06	Change From 2004-05	
				Amount	Percent
Community College Proposition 98					
General Fund	\$2,272.5	\$3,036.3	\$3,320.9	\$284.6	9.4%
Local property tax	2,102.1	1,750.4	1,827.0	76.7	4.4
Subtotals, Proposition 98	(\$4,374.6)	(\$4,786.7)	(\$5,147.9)	(\$361.3)	(7.5%)
Other Funds					
General Fund	(\$132.4)	(\$247.7)	(\$259.9)	(\$12.2)	(4.9%)
Proposition 98 Reversion Account	0.1	5.4	20.0	14.6	271.5
State operations	8.6	8.9	8.8	-0.1	-1.2
Teachers' retirement	40.3	98.3	79.8	-18.5	-18.8
Bond payments	83.3	135.1	151.3	16.2	12.0
State lottery funds	120.8	143.3	139.9	-3.4	-2.4
Other state funds	8.6	8.8	9.1	0.3	2.9
Student fees	243.3	357.5	368.2	10.7	3.0
Federal funds	249.2	277.1	277.1	—	—
Other local funds	1,563.8	1,738.9	1,738.8	-0.1	—
Subtotals, other funds	(\$2,318.1)	(\$2,773.4)	(\$2,793.1)	(\$19.7)	(0.7%)
Grand Totals	\$6,692.7	\$7,560.1	\$7,941.0	\$380.9	5.0%

MAJOR BUDGET PROPOSALS:

Proposition 98. The Governor's proposed budget includes \$7.9 billion for community colleges from all funds. Of this amount, \$5.1 billion are Proposition 98 funds. This amount represents 10.33 percent of the total Proposition 98 funds available for community colleges leaving 89.47 percent, or \$44.7 billion, for K-12 education.

The table on the next page provides information on the Proposition 98 spending for various community college programs. Apportionment funding, which is available to districts to spend on general purposes, accounts for \$4.6 billion in 2005-06, an increase of about \$312 million, or 7.3 percent, from the current year. Apportionment funding in the budget year accounts for about 89 percent of CCC's total Proposition 98 expenditures.

Categorical programs, whose funding is earmarked for specified purposes, support a wide range of activities from services to disabled students to part-time faculty health insurance. The Governor's budget proposes increases of 5.9 percent for the three largest categorical programs to fund a COLA and enrollment growth, but for most other programs he proposes no changes. In addition, the Foster Parent Training Program would be funded entirely from Proposition 98 General Fund support, replacing \$3 million previously provided by the Foster Children and Parents Training Fund.

Major Community College Programs Funded by Proposition 98				
<i>(Dollars in Millions)</i>				
	Estimated 2004-05	Proposed 2005-06	Change	
			Amount	Percent
Apportionments				
State General Fund	\$2,507.8	\$2,742.8	\$235.0	9.4%
Local property tax revenue	1,750.4	1,827.0	76.7	4.4
Subtotals	(\$4,258.1)	(4,569.8)	(\$311.7)	(7.3%)
Categorical Programs				
Extended Opportunity Programs and Services	\$98.8	\$104.6	\$5.8	5.9%
Disabled students	86.0	91.0	5.1	5.9
Matriculation	62.5	66.2	3.7	5.9
Services for CalWORKs ^a 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	—	—
Physical plant and instructional support	27.3	27.3	—	—
Economic development program ^b	35.8	35.8	—	—
Telecommunications and technology services	23.4	23.4	—	—
Basic skills and apprenticeships	41.7	43.4	1.7	4.1
Financial aid/outreach	47.3	46.2	-1.1	-2.4
Foster Parent Training Program	1.8	4.8	3.0 ^c	171.0
Fund for Student Success	6.2	6.2	—	—
Other programs	4.2	4.2	—	—
Subtotals	(\$528.6)	(\$546.7)	(\$18.2)	(3.4%)
Other Appropriations				
Set-aside for possible veto restoration	—	\$31.4	—	—
Totals	\$4,786.7	\$5,147.9	\$361.3	7.5%
<p>^a California Work Opportunity and Responsibility to Kids.</p> <p>^b For 2005-06, the Governor's budget also includes \$20 million from the Proposition 98 Reversion Account to align career-technical education curricula between K-12 and California Community Colleges.</p> <p>^c Replaces \$3 million previously provided by the Foster Children and Parents Training Fund.</p>				

Enrollment Growth. The Governor's budget proposes a \$136.5 million increase to fund a 3 percent growth. This funding would provide access for an additional 34,000 full-time equivalent students (FTES).

Cost-of-Living Adjustment (COLA). The Governor's proposed budget includes \$195.5 million, or 3.93 percent, for cost-of-living adjustment for general apportionments (\$184.5 million) and some categorical funds (\$11.1 million). By law, the community college COLA rate has to be the same as the K-12 rate.

Potential Restoration of Partnership for Excellence Funds (PFE). The Governor's budget proposes a "set-aside" of \$31.4 million, which is the amount of PFE funds vetoed in the *2004-05 Budget Act*. Restoration of this funding is contingent upon the approval of district-specific accountability recommendations.

Career Technical Education Reform. The proposed budget includes a \$20 million one-time funding increase from the Proposition 98 Reversion Account for the Community College Economic Development Program.

CalSTRS Reform. The funding increases for community colleges proposed in the Governor's budget would significantly be offset by the Governor's proposal to terminate the state's 2 percent contribution into STRS transferring the responsibility for these payments to school and community college districts. The Chancellor's Office estimates that this proposal would impose close to \$40 million of new costs on community colleges statewide.

ISSUE 2: ENROLLMENT GROWTH

The issue for the Subcommittee to consider is the Governor's proposal to increase the community colleges enrollment by \$136.5 million, or 3 percent, funding an additional 34,000 FTES.

BACKGROUND:

The CCC is the nation's largest system of higher education. Enrollment in fall 2004 was 1.6 million students. Enrollment has gradually increased over the past two decades by about 420,000 students, although it has fluctuated on a year-to-year basis. These fluctuations respond to changes in a variety of factors, including the size and age distribution of the underlying population, cost factors such as fees and the availability of financial aid and the convenience of course schedules.

In their analysis, the LAO raises two issues for subcommittee members to consider:

1. What has happened in community college enrollment in the last few years?
2. What is the level of growth that community colleges are expected to absorb?

The LAO suggests that the following changes may account for the enrollment decline:

Concurrent Enrollment Changes. According to the LAO, some of the decline in enrollment was an intended result of statutory and budget changes to address the concurrent enrollment issue. Beginning in 2002, the Legislature and Governor both became concerned that a number of districts were inappropriately claiming state funding for a rapidly increasing number of high school students who were "concurrently enrolled" in CCC. While statute does make provision for some such enrollment, it was generally found that this provision was being abused. In response, the Chancellor called on districts to rein in these practices, and for 2003-04 the Legislature reduced funding for concurrent enrollment by \$25 million and tightened related statutory provisions. As a result, high school students concurrently enrolled in community college courses dropped from a peak of about 94,000 in fall 2001 to about 80,000 in fall 2002 and 49,000 in fall 2003.

Reduced Course Offerings. Another reason for the enrollment decline may be that CCC districts reduced course offerings in spring 2003 in anticipation of possible budget reductions that had been included in the Governor's budget proposal for 2003-04. Although these proposed reductions were largely excluded from the enacted budget, the Chancellor's Office suggests that districts had already prepared for the reductions by hiring fewer part-time faculty and taking other steps to reduce costs. With fewer course offerings, some potential students found there was no space in courses they needed and thus did not enroll.

Increased Fees. Student fees at CCC increased from \$11 per unit to \$18 per unit starting in fall 2003. Some students likely chose not to enroll at CCC at this higher cost. Fees were again increased in 2004-05 from \$18 to \$26 per unit.

COMMENTS:**LAO:**

The Governor's enrollment growth proposal is one-half times the projected amount of growth due to underlying population increases. The LAO is recommending that the Legislature fund community college enrollment growth at 1.9 percent.

CCC:

There are other variables than the underlying population growth to consider when making projections for community college enrollment growth such as the number of high school graduates. Also, there is a "rebound" effect from the downturn that has occurred in the last couple of years. The demand is still out there.

Although community college districts have had different experiences in dealing with budget reductions, there are two main reasons that could explain the enrollment changes. Students have suffered a "price shock" for two years. Student fees increased from \$11 to \$18 per unit in 2003-04 and from \$18 to \$26 per unit in 2004-05. And, with the most recent budget reductions, community colleges have had to cut student services and/or academic courses.

Due to increases in funding for enrollment and equalization in the current year, the community colleges are beginning to recover. FTES is growing in spite of the \$8 per unit fee increase. With budget increases, availability of course offering increases and so do the number of students that enroll.

DOF:

Access is a priority. A 3 percent enrollment growth is a reasonable amount.

On March 11, 2004, the DOF' Demographic Unit made public its California Public Postsecondary Enrollment Projections-2004 Series. In this report, the Demographic Unit is projecting a 3.7 percent increase in community college enrollment for fall 2005.

CPEC:

Agrees with the 3 percent enrollment growth funding.

Staff notes that are three enrollment reports still pending from the Chancellor's Office:

1. A report comparing enrollment from fall 2002 to fall 2003 due September 1, 2004.
2. A preliminary report on the impact of the 2004-05 student fee increase due November 15, 2004.
3. A report on Financial Aid Outreach funding due April 1, 2005.

ISSUE 3: EQUALIZATION FUNDING

The issue for the Subcommittee to consider is the LAO's recommendation to continue to support equalization funding for community colleges in the budget year.

BACKGROUND:

As a result of tax base differences that predate Proposition 13 in 1978, coupled with somewhat complex district allocation formulas, community college districts receive different amounts of funding for their students. In 2003-04, the average funding per FTES ranged from about \$3,500 to about \$8,200, although most districts have levels within a few hundred dollars of the state median of about \$4,000. Small funding differences may be acceptable or even desirable, if they reflect real cost differences encountered by different districts. However, the funding differences currently experienced by community college districts have little correlation to underlying costs.

Numerous reports and hearings in recent years have recognized this disparity and have called for efforts to "equalize" funding among districts. In their analysis, the LAO has listed the following elements that equalization can foster:

Increased Fairness. Providing all districts with similar levels of funding per FTES helps to ensure that students in different parts of the state have access to similar levels of educational support, which can translate into similar levels of educational quality and student services.

Accountability. The *Master Plan for Higher Education* and state law assign to community colleges a number of educational missions. The state has also called on the community colleges to meet performance expectations in a number of areas, including preparing students to transfer to a four-year institution, awarding degrees and certificates, and improving course completion rates. It is difficult to hold all districts accountable for these standards when the amount of funding provided per student varies from district to district.

The *2004-05 Budget Act* included \$80 million toward the goal of equalizing community college district funding. The Legislature also enacted Chapter 216, Statutes of 2004 (AB 1108, Committee on Budget and Fiscal Review), which describes the goal of having at least 90 percent of statewide CCC enrollment eventually receive the same level of funding per FTE student, and specifies how the \$80 million should be allocated toward that goal. The LAO estimates that the \$80 million moves the state about one-third of the way towards its equalization goal.

The Governor's proposed budget does not include any funding for equalization. The LAO believes it is important to continue the state's commitment toward equalizing community college funding and is recommending that the Legislature consider allocating additional Proposition 98 funding to equalization, to be allocated in a manner consistent with Chapter 216. The LAO advises that after funding workload increases such as enrollment growth and cost-of-living increases, that the next priority for additional ongoing Proposition 98 funding go to equalization. The LAO thinks that a target of \$80 million—

matching the current-year commitment—would make sense, to the extent that funding is available.

COMMENTS:

LAO:

The Analyst's Office encourages the Legislature to continue to move forwards to equalization. There is a policy choice to make. Do you want to provide more funds to enroll more students? Or, do you want to provide more funds per student?

CCC:

The system included equalization funding as a budget request to DOF. If there is additional funding available, the CCC would like to see an augmentation. Equalization should not be funded at the expense of enrollment. As it is, based on the latest attendance reports, the CCC has identified 11 districts that have more than 100 unfunded FTES for 2004-05. Listed among the districts with the largest number of unfunded students are Los Angeles (2,634), Riverside (748) and Pasadena area (730). See Appendix A.

DOF:

The Administration is committed to equalization, but it is not a high enough priority for the budget year.

ISSUE 4: POTENTIAL RESTORATION OF PARTNERSHIP FOR EXCELLENCE (PFE) FUNDS

The issue for the Subcommittee to consider is the potential restoration of \$31.4 million PFE funding to the CCC pending approval of district-specific accountability recommendations.

BACKGROUND:

In 1998, the Legislature and the Governor established the PFE program through SB 1654 (Schiff, Chapter 330, Statutes of 1998). The program provided supplementary funding to community colleges in exchange for their commitment to improve student outcomes in specified areas such as student transfer, number of degrees and certificates awarded and successful course completions. Anticipating the sunset of the program on January 1, 2005, the Governor proposed and the Legislature approved that the annual funding level of \$225 million for PFE provided in the fiscal year 2004-05 budget be folded into the general apportionments. Out of this amount, the Governor vetoed \$31.4 million to backfill General Fund restorations that exceeded his May Revision total of proposed spending for the community colleges.

In his veto message, the Governor indicated that he was willing to restore this funding, which originally had been used to fund PFE-related improvements, if "district-level goals and performance evaluations are incorporated into the accountability structure" called for in the *2004-05 Budget Act* and AB 1417 (Pacheco, Chapter 581, Statutes of 2004).

Last year, the Legislature and the Governor enacted Chapter 581 as part of the *2004-05 Budget Act*. This legislation required the Board of Governors (BOG) to develop "a workable structure for the annual evaluation of district-level performance in meeting statewide educational outcome priorities," including transfer, basic skills, and vocational education. The BOG is to provide its recommended evaluation structure to the Legislature and Governor by March 25, 2005.

The BOG acted and endorsed the district-specific recommendations at their meeting last month. The CCC is finalizing the document for the Legislature and the Governor and should have the final report out this week.

COMMENTS:

The LAO and DOF both agree that developing the accountability recommendations was a "good process" and both are waiting for the final report to review it.

The CCC states that if the Legislature approves it, the accountability recommendations need to be implemented through a bill. CCC staff is concerned that they would not be able to implement these recommendations with existing staff. DOF will be evaluating staffing needs for May Revision and will consider staff appropriations as needed.

In their analysis, the LAO also raises a concern in regards to provisional language in the Governor's proposal, which purports to express the *Legislature's* intent that DOF solely judge the adequacy of CCC's proposed accountability program and, by extension, decide

whether to restore the \$31.4 million. The LAO recommends that this language be deleted, as outlined on the next page:

4. As a condition of receiving funds appropriated in Schedule (1), the Board of Governors shall continue to assess and report to the Legislature, on or before April 15, data measures required by the current Partnership for Excellence program, scheduled to sunset January 1, 2005. It is the intent of the Legislature that these measures be replaced for reporting and assessment purposes, by district-specific outcome measures being developed by an accountability workgroup established by Chapter 581, Statutes of 2004. ~~It is also the intent of the Legislature that the final accountability measures produced by the workgroup, as approved by Department of Finance, result in the restoration of \$31,409,000 to community college apportionments.~~

ISSUE 5: CAREER TECHNICAL EDUCATION REFORM

The issue for the Subcommittee to consider is the Governor's Career Technical Education Reform as proposed in his 2005-06 Budget.

BACKGROUND:

The 2005-06 Governor's Budget proposes to strengthen vocational education in high schools to ensure "that all students have educational opportunities that lead to successful employment." According to the administration, the proposal builds on successful programs that are currently in place to create a "renewed emphasis" on vocational education in high schools.

The administration's reform package includes the following elements:

1. The proposal would dedicate \$20 million in one-time Proposition 98 Reversion Account funds to encourage high schools to work with local California Community Colleges (CCC) to expand and improve vocational courses available to high school students. The plan seeks to build on successful "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. Funds could be used for a wide variety of local activities, including curriculum development and equipment purchases.
2. The plan calls for all middle school students to take a new vocational awareness class. The administration proposes to mandate middle school introductory vocational courses to (1) help students consider their long-term career goals and (2) provide information about available vocational options. According to the administration, the new course would replace an existing elective course.
3. The proposal would add to the existing School Accountability Report Card (SARC) new indicators that measure the success of schools in offering vocational courses and in helping students who take vocational education courses.
4. The reform proposal also would (1) revise K-12 and teacher credential requirements to help schools and colleges hire teachers who are familiar with the current skill needs of business and (2) allow CCC to increase the proportion of part-time faculty, above the existing 25 percent target, as needed to meet demand for vocational education courses.

COMMENTS:**LAO:**

Although not fully developed, the Governor's reform identifies an important problem. A strong secondary vocational educational system can mitigate several major problems in high schools.

May Help Reduce Dropouts. By giving students a greater range of choices in high school, improving vocational education could help address the state's high dropout rates.

About 30 percent of students who begin ninth grade drop out before finishing high school. Low academic achievement is a major factor in dropping out. A range of academic and vocational choices could help keep students in school by giving them greater control over what they study and help them use high school to achieve their post-graduation goals.

Increase Financial Returns to Students. Successfully restructuring vocational programs into sequences of high-level courses would increase the value of these courses to students. Research suggests that most existing high school vocational courses deliver students few benefits such as higher wages or higher rates of employment. This is because the courses taken by students do not build on each other. Research shows that sequences of high-level secondary or community college courses lead to higher-level occupational skills, which in turn can generate significant payoffs for students.

Create Better Alternatives to a College Diploma. Vocational sequences that prepare students for high-level jobs may encourage students to pursue more realistic post-graduation goals. Surveys show that 56 percent of California's tenth graders want to attend a four-year university and 22 percent plan on attending a two-year college after graduating from high school. Only about 10 percent of students plan on going directly into the workforce.

When students fail to complete a rigorous academic or vocational program in high school or college, they enter the labor market with fewer saleable occupational skills. Strong secondary vocational programs expand the number of attractive options available to high school students. This can help students enter the labor market as adults with skills that improve their long-term job prospects.

LAO Concerns:

From the information available at the time their analysis was completed, the LAO believes that this plan addresses several critical issues and it is headed in the right direction. However, the LAO has also raised several concerns for the Legislature to consider:

The Eighth Grade Career Exploratory Course Would Create a Reimbursable State-Mandated Local Program. The Governor's plan would require districts to provide a middle school vocational course, which likely would result in a new state-mandated local program. In addition, the Governor's proposal does not include an estimate of the likely costs of the new middle school course. An existing mandate that accomplished a similar goal—altering the courses needed to graduate from high school—costs about \$13.5 million annually. There also may be additional one-time district costs to create a syllabus for the new exploratory course, obtain needed materials or textbooks, and train teachers.

The Legislature needs additional information on why the administration proposes to implement the middle school exploratory course through a state-mandated local program. In addition, the Legislature needs better information on the projected costs—one-time and ongoing—of the new course requirement.

Uses for CCC Funding Should Be Specified. While recognizing the need for better alignment between vocational offerings in K-12 and community colleges, the LAO cannot determine the extent to which this funding would advance that goal. The administration could not provide the specifics about what kinds of activities would be funded with this money, on what basis it would be distributed, and what accountability provisions, if any, would be implemented. As a result, the administration could not explain why \$20 million is the correct amount of funding to provide at this time.

Regional Occupational Programs and Centers (ROC/Ps) Have No Explicit Role in the Reform Program. About 40 percent of vocational courses taken by high school students are provided through ROC/Ps. These agencies provide regional support for vocational education. Most ROC/Ps are operated by county offices of education.

The Governor's proposal makes no mention of the role of ROC/Ps. From the LAO's perspective, ROC/Ps would contribute significantly to a strengthened system of secondary vocational education. However, several changes to the mission of these agencies may be necessary. For example, switching the focus of ROC/Ps from administering individual low-level training classes to participating in sequences that result in two- and four-year skill certificates would align the goals of these regional agencies with the proposed reforms.

The Legislature needs more information on the role of ROC/Ps in the Governor's reform plan.

Students Need Better Information about the Likelihood of Success in College. Research shows many high school graduates enroll in CCC without the academic skills needed to do college-level work. These students assume they are ready for college because they received reasonably good grades in high school. When they arrive at college, however, many students are required to retake courses they took in high school.

These findings indicate that students need early and ongoing information about whether they are "on track" for gaining the academic skills needed for college. Students and parents need data other than grades with which to evaluate a student's likelihood of success in an academic college or university program. In addition, the information would help students and parents assess the academic requirements of the different vocational choices available at a high school.

LAO Recommendation:

The Governor's proposal addresses a significant problem, but lacks the level of detail necessary for the Legislature to fully evaluate it.

CCC:

As a result of discussions between the Chancellor's Office, DOF, Department of Education and the Secretary for Education's offices, the CCC staff will be submitting a "concept" paper that provides more details on the Governor's proposal for improving career technical education pathways between K-12 and community colleges. See Appendix B.

ISSUE 6: CAL-PASS

The issue for the Subcommittee to consider is the LAO's recommendation to allocate \$1 million to the California Partnership for Achieving Student Success (Cal PASS) from the \$31.4 million that is set aside for potential restoration

BACKGROUND:

In February 2003, Cal-PASS was launched by Grossmont-Cuyamaca community college district using a grant from the Chancellor's Office. The Cal-PASS is a data-sharing system aimed at improving the movement of students from high schools to community colleges to universities.

Student transitions are critical to the success of the educational system. The success of students at community colleges depends in part on how well the K-12 curriculum is aligned with community college courses. In addition, the success of community college students wishing to eventually earn a four-year degree depends to a large extent on how well CCC's curriculum is aligned with that of the universities and colleges to which students transfer. The Cal-PASS collects information on students throughout the state regarding their performance and movement through these various segments. The data is used by faculty consortia, institutions, and researchers to identify potential obstacles to the successful and efficient movement of students between segments. For example, high remediation rates of students who take English at a particular high school and enroll at a particular college could point to a need to better align the English curriculum or standards between these two institutions. Similarly, data concerning course standards and content can help reduce the incidence of students taking unnecessary or inappropriate courses for transfer.

Participation in Cal-PASS by individual institutions is voluntary. Since its inception, the Cal-PASS network has grown from several colleges, universities, and high schools in the San Diego area to more than 700 institutions statewide. The LAO's review of the program has found numerous examples of improved outcomes, increased efficiencies, and cost savings as a result of the Cal-PASS program.

COMMENTS:

The LAO believes that Cal-PASS promotes district-level and system accountability in two ways.

Identifies Problems. The Cal-PASS helps districts identify problems in areas of particular concern to the state, including transfer and remediation. Identifying these problems is a first step toward improving performance.

Monitors Progress. The Cal-PASS can measure changes in performance over time, thereby providing policymakers with information on how well districts and the system as a whole are responding to state concerns.

LAO's Recommendation:

Although Cal-PASS has expanded far beyond its original inception as a pilot program, its grant funding has not increased and in fact will expire at the end of 2005-06. Based on the LAO's review of equipment, staffing, and other costs, they believe that a base budget of \$1.5 million per year would ensure the continuation and further expansion of Cal-PASS.

CCC:

Although the CCC agrees with the LAO's evaluation of the program, they are concerned about their recommended source of funding. The CCC prefers that this be an augmentation rather than a reduction of \$1 million from the \$31.4 million potential restoration.

DOF:

Staff is considering this issue and may include an augmentation at May Revise.

ITEM 7980 CALIFORNIA STUDENT AID COMMISSION (CSAC)**ISSUE 1: SUPPORT BUDGET**

The issue for the Subcommittee to consider is the California Student Aid Commission (CSAC) support budget.

BACKGROUND

The California Student Aid Commission (CSAC) is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant program, which is the primary state source of financial aid. In addition, the Commission administers the federal guaranteed Student Loan Operating Fund (SLOF) program.

The Governor's proposed budget includes a total of \$1.4 billion in State and federal funds for CSAC. Of these total funds, \$745.5 million are General Fund support, an increase of 26.5 percent from the fiscal year 2004-05 level of \$589.4 million General Fund.

MAJOR BUDGET PROPOSALS:

Cal Grant Increase. The Governor's budget proposes a \$23 million increase, or 8 percent, for Cal Grant awards for all recipients attending public institutions to match approved fee increases at the UC and the CSU.

General Fund Backfill. The Governor's budget proposes a \$146.5 million General Fund backfill to replace the SLOF funds used to support financial aid programs in the *Budget Act of 2004-05*.

Revised Current Year Estimates. The Governor's budget proposes a \$44.8 million increase for the revised current-year estimate of the Cal Grant Program, which reflects a General Fund savings of a similar amount that CSAC expects for 2004-05.

One-Time Shift in SLOF Funds. The Governor's budget proposes a \$35 million one-time shift in SLOF funds to the General Fund to support financial aid programs in 2005-06, thereby generating an equivalent General Fund savings.

Reduction of Cal Grant awards to Private Colleges. The Governor's budget proposes a \$7.5 million reduction achieved by reducing the maximum Cal Grant award for students attending private colleges and universities from \$8,322 to \$7,449. CSAC estimates that approximately 12,100 students in entitlement and competitive programs would be impacted.

APLE Awards. The Governor's budget proposes \$6.8 million General Fund to reflect additional payments to new and continuing Assumption Program of Loans for Education (APLE) recipients.

National Guard APLE awards. The Governor's budget proposes a \$200,000 General Fund allocation to implement an initial cohort of National Guard APLE awards pursuant to AB 1997 (Committee on Higher Education, Chapter 549, Statutes of 2004) and SB 1322 (Denham, Chapter 554, Statutes of 2004). These awards would provide up to \$11,000 for reimbursement of college loans in exchange for completing service enlistments in the National Guard. As proposed, this financial aid program is not "need-based" financial aid.

The following table provides information on CSAC's budget by program:

Student Aid Commission Budget Summary^a				
<i>(Dollars in Millions)</i>				
	2004-05 Revised	2005-06 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	\$551.0	\$608.9	\$57.9	11%
Competitive	116.2	124.9	8.7	7
Pre-Entitlement	37.2	7.4	-29.8	-80
Cal Grant C	9.7	10.3	0.6	6
Subtotals—Cal Grant ^b	(\$714.1)	(\$751.4)	(\$37.3)	(5%)
APLE ^c	\$34.0	\$40.9	\$6.9	20%
Graduate APLE	0.2	0.4	0.2	75
National Guard APLE	—	0.2	0.2	—
Law enforcement scholarships	0.1	0.1	—	1
Totals	\$748.5	\$793.1	\$44.6	6%
Funding Sources				
General Fund	\$589.4	\$745.5	\$156.1	26%
Student Loan Operating Fund ^d	146.5	35.0	-111.5	-76
Federal Trust Fund ^d	12.6	12.6	—	—
Totals	\$748.5	\$793.1	\$44.6	6%
<p>^a In addition to the programs listed, the commission administers the Byrd Scholarship and Child Development Teacher and Supervisor programs—both of which are supported entirely with federal funds. It also administers the Student Opportunity and Access program, an outreach program supported entirely with Student Loan Operating Fund monies.</p> <p>^b Includes \$46,000 for the Cal Grant T program in 2004-05. The program has been phased out as of 2005-06.</p> <p>^c Assumption Program of Loans for Education.</p> <p>^d These monies pay for Cal Grant costs as well as support and administrative costs.</p>				

COMMENTS:

LAO Concerns:

Cal Grant Program Projections.

1. Despite growing substantially by almost 90 percent between 2003-04 and 2004-05, the Governor's budget assumes no increase in new transfer entitlement awards in the budget year.
2. Despite strong growth by almost 23 percent between 2003-04 and 2004-05, the Governor's budget assumes competitive renewal awards will decline by 4.3 percent in the budget year.

Growth in Cal Grant Participation					
	2003-04 Actual	2004-05 Revised	2005-06 Projected	Change From 2004-05	
				Number	Percent
High School Entitlement					
New awards	60,359	63,000	64,449	1,449	2.3%
Renewal awards	82,486	106,960	114,371	7,411	6.9
Subtotals	(142,845)	(169,960)	(178,820)	(8,860)	(5.2%)
Transfer Entitlement					
New awards	2,270	4,300	4,300	—	—
Renewal awards	209	1,075	2,895	1,820	169.3%
Subtotals	(2,479)	(5,375)	(7,195)	(1,820)	(33.9%)
Competitive					
New awards	22,391	22,902	22,500	-402	-1.8%
Renewal awards	28,717	35,193	33,670	-1,523	-4.3
Subtotals	(51,108)	(58,095)	(56,170)	(-1,925)	(-3.3%)
Pre-Entitlement Renewal Awards					
	28,010	8,135	1,660	-6,475	-79.6%
Cal Grant C					
New awards	7,580	7,761	7,761	—	—
Renewal awards	6,500	6,884	7,964	1,080	15.7%
Subtotals	(14,080)	(14,645)	(15,725)	(1,080)	(7.4%)
Cal Grant T Renewal Awards					
	255	15	—	-15	-100.0%
Totals	238,777	256,225	259,570	3,345	1.3%

ISSUE 2: CAL GRANT REDUCTION FOR PRIVATE UNIVERSITY STUDENTS

The issue for the Subcommittee to consider is the Governor's proposal to reduce Cal Grant award funding for private university students by \$7.5 million.

BACKGROUND:

The Governor's budget proposes to reduce the maximum Cal Grant for students attending private colleges and universities by \$873, or 10 percent—lowering the award from its current-year level of \$8,322 to \$7,449. Between 2003-04 and 2004-05, the award was reduced by \$1,386, or 14 percent. Approximately 12,100 financially needy students attending private universities would be affected by the proposal, which would be imposed only on new Cal Grant recipients. Of these students, approximately 8,500 would experience the reduction in the budget year whereas approximately 3,600 others would experience the reduction in 2006-07. This delayed impact is due to a state policy that does not provide fee assistance to most first-year Cal Grant B recipients, even though they represent the financially neediest students served by the Cal Grant program. Continuing students would retain the higher award rates they are receiving in the current year.

COMMENTS:**LAO Recommendation:**

Establish a policy and an associated award formula that would link the Cal Grant for financially needy students attending private universities to the General Fund subsidy the state provides for financially needy students attending public universities. Under the LAO's recommended formula, the private university Cal Grant would be \$10,568 in 2005-06. Providing this higher award amount to new 2005-06 recipients would cost \$26.6 million relative to the Governor's budget. The LAO recommends the Legislature use additional Student Loan Operating Fund surplus monies to cover this cost.

CSAC:

The Commission is supportive of the Governor and the Legislature adopting a new statutory formula for setting the maximum award granted to students attending the state's independent colleges and universities and has adopted a proposal, which would set the maximum award.

The Commission is recommending that the Education Code be amended to state the following:

"The maximum award amount should be based on the estimated average General Fund cost of educating a student at the public four-year public institutions. The estimated General Fund cost is defined as the weighted average of the General Fund component of the marginal cost at the UC and CSU plus the weighted average Cal Grant award at the UC and CSU."

With this formula, the maximum Cal Grant award for private university students would be \$10,600.

CSAC's and the LAO's formula approach is the same, however, there are differences in their recommendations for establishing the General Fund subsidy.

DOF:

In considering the Governor's proposal in total, this is not a high priority for the Administration. How do Cal Grant award changes impact students enrolling in private universities?

CPEC:

The Commission supports enactment of a long-term policy for setting and adjusting the maximum Cal Grant award for private university students and not having the award level determined annually via the budget process.

The Commission is also concerned about the continued use of SLOF to finance ongoing state student financial aid commitments since continued use of this fund may jeopardize the long-term health of the fund.

ISSUE 3: NATIONAL GUARD APLE PROGRAM

The issue for the Subcommittee to consider is the Governor's proposal to fund \$200,000 for the National Guard APLE Program.

BACKGROUND:

As established in 2003 and amended in 2004, the National Guard APLE program offers loan forgiveness as an incentive for more individuals to enlist or re-enlist in the National Guard, State Military Reserve, and Naval Militia. Specifically, qualifying members have a portion of their education loans forgiven after each year of military service—\$2,000 after their first year of service and \$3,000 after their second, third, and fourth years of service—for total loan forgiveness of \$11,000. The annual budget act has not yet authorized the commission to issue any National Guard warrants.

The Governor's budget proposes to authorize up to 100 new National Guard APLE warrants. It also includes \$200,000 for the program, with accompanying budget bill language that "these funds shall remain available through 2006-07." Because warrant-holders must complete one year of military service before receiving loan forgiveness, the state would not begin incurring a cost for a new National Guard APLE warrant, as is the case with all APLE warrants, until at least one year after it is originally issued.

COMMENTS:**LAO Recommendation:**

The Governor's proposal to set aside 2005-06 monies that will not be needed until 2006-07 is inconsistent with existing APLE funding practices. Specifically, the state has a long history of funding APLE warrants only as payment on them becomes due. This helps ensure funds are provided when needed. We recommend the Legislature continue to adhere to its existing budget practice and pay for any new warrants when payment becomes due. The LAO recommends the Legislature capture the unneeded \$200,000 as General Fund savings.

ISSUE 4: ED FUND OPERATING SURPLUS

The issue for the Subcommittee to consider the LAO's recommendation to use an additional \$26.6 million in SLOF surplus to restore Cal Grant benefits for financially needy students attending private universities.

BACKGROUND:

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

The Governor's budget proposes to use \$35 million in SLOF surplus monies to support the Cal Grant program. In essence, it swaps \$35 million in SLOF surplus monies for General Fund monies. We recommend the Legislature increase the swap by \$26.6 million—for a total of \$61.6 million—to restore the current-year and proposed reductions to the private university Cal Grant. If EdFund generated no additional operating surplus in FFY 2004-05, our recommendation would reduce EdFund's cumulative surplus from \$160 million to \$98 million. This equates to roughly a nine-month reserve. We think, for a nonprofit public agency, this is still a substantial reserve level—one that would not reduce EdFund's viability as a guaranty agency.

COMMENTS:**LAO Recommendation:**

Use an additional \$26.6 million in Student Loan Operating Fund surplus monies to restore Cal Grant benefits for financially needy students attending private universities thereby reducing the cumulative surplus to a more moderate level.

CSAC:

The Commission is scheduled to meet on April 14th. One of their agenda items is the approval of Ed Fund's Annual Performance Review. This review will provide more information as to the status of the SLOF.