

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

Assemblymember Mervyn Dymally, Chair

**WEDNESDAY, MARCH 29, 2006
STATE CAPITOL, ROOM 126
4:00 P.M.**

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ITEMS TO BE HEARD

ITEM 6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

The California Community Colleges (CCC) provide instruction to about 1.6 million students at 109 campuses operated by 72 locally governed districts throughout the state. The CCC 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 total Proposition 98 funding of \$606 million, or 11.6 percent. This increase funds a cost-of-living adjustment (COLA) of 5.18 percent and an enrollment growth of 3 percent and various expanded programs. The CCC budget totals \$8.6 billion from all fund sources including student fee revenue, federal and local funds.

Community College Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2004-05	Estimated 2005-06	Proposed 2006-07	Change From 2005-06	
				Amount	Percent
Community College Prop 98					
General Fund	\$3,036.3	\$3,412.4	\$3,948.7	\$536.3	15.7%
Local property tax	1,755.7	1,829.7	1,899.3	69.6	3.8
<i>Subtotals, Prop 98</i>	<i>4,792.0</i>	<i>5,242.1</i>	<i>5,848.1</i>	<i>606.0</i>	<i>11.6%</i>
Other Funds					
General Fund	(\$241.2)	(\$265.8)	(\$255.9)	(\$10.0)	(-3.8%)
Proposition 98 Reversion Account	5.4	35.6	—	-35.6	-100.0
State operations	8.9	9.2	9.4	0.2	2.3
Teachers' retirement	98.3	82.2	83.2	1.0	1.2
Bond payments	128.6	138.9	163.3	24.4	17.6
State lottery funds	143.3	177.9	177.9	—	—
Other state funds	9.3	11.1	11.2	0.1	0.6
Student fees	334.7	347.9	358.4	10.4	3.0
Federal funds	244.1	268.5	268.5	—	—
Other local funds	1536.2	1691.9	1691.9	—	—
<i>Subtotals, other funds</i>	<i>2,508.8</i>	<i>2,763.2</i>	<i>2,763.7</i>	<i>0.5</i>	<i>—</i>
Grand Totals	\$7,300.8	\$8,005.3	\$8,611.8	\$606.5	7.6%
Detail may not total due to rounding.					

MAJOR BUDGET PROPOSALS:

Proposition 98 Funding. The Governor's budget includes \$5.8 billion in Proposition 98 funding for CCC in 2006-07. This is about two-thirds of total community college funding. Overall, Proposition 98 provides funding of approximately \$54 billion in support of K-12 education, CCC, and several other state agencies. As proposed by the Governor, CCC would receive about 10.8 percent of total Proposition 98 funding. Under State law, the CCC are to receive approximately 10.9 percent of total Proposition 98 appropriations. However, in recent years, this provision has been suspended in the annual budget act and CCC's share of Proposition 98 funding has been lower than 10.9 percent. The Governor's proposed budget would again suspend this provision, although the share provided CCC would come close to what is required in statute.

Major Community College Programs Funded by Proposition 98				
<i>(Dollars in Millions)</i>				
	Estimated 2005-06	Proposed 2006-07	Change	
			Amount	Percent
Apportionments				
General Fund	\$2,858.8	\$3,308.2	\$449.4	15.7%
Local property tax revenue	1,829.7	1,899.3	69.6	3.8
<i>Subtotals</i>	<i>4,688.5</i>	<i>5,207.6</i>	<i>519.0</i>	<i>11.1%</i>
Categorical Programs				
Extended Opportunity and Special Services	\$104.8	\$112.1	\$7.3	7.0%
Disabled Students	91.2	107.2	16.0	17.5
Matriculation	66.3	71.0	4.7	7.0
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	35.8	35.8	—	—
Career technical education	—	\$50.0	—	—
Telecommunications and technology services	24.4	24.9	0.5	2.0
Basic skills and apprenticeships	43.5	45.6	2.2	5.0
Financial aid/outreach	51.6	51.8	0.2	0.5
Child care funds for students	—	\$6.5	—	—
Foster Parent Training Program	4.8	4.8	—	—
Transfer education and articulation	2.0	1.4	-0.6	-27.9
Fund for Student Success	6.2	6.2	—	—
Baccalaureate Partnership Program	—	\$0.1	—	—
Other programs	2.2	2.2	—	—
<i>Subtotals</i>	<i>553.6</i>	<i>584.0</i>	<i>30.4</i>	<i>5.5%</i>
Totals	\$5,242.1	\$5,848.1	\$606.0	11.6%
Detail may not total due to rounding.				
^a California Work Opportunity and Responsibility to Kids.				

Apportionment funding, which is available to districts to spend on general purposes, accounts for \$5.2 billion in 2005-06, an increase of about \$519 million, or 11.1 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 approximately 7 percent for certain categorical programs to fund a COLA and enrollment growth, but for most other programs it proposes no changes. In addition, the proposed budget provides a \$9.6 million augmentation for Disabled Students Programs and Services to fund additional sign language interpretative services and captioning equipment.

Student Fees. The Governor proposes no change to the existing student fee level of \$26 per unit.

Enrollment Growth. The Governor's budget provides \$148.8 million in Proposition 98 General Fund for enrollment growth. This represents a 3 percent growth to provide access for an additional 35,000 FTE students.

General Purpose COLA. The Governor's budget proposes \$264.6 million in Proposition 98 General Fund for a 5.18 percent COLA for general purpose apportionments for all districts.

Growth and COLA for Categorical Programs. The Governor's budget proposes \$20.8 million for a 1.7 percent growth and a 5.18 percent COLA for categorical programs.

Increased Funding for Disabled Student Programs and Services. The Governor's budget proposes \$9.6 million for Disabled Student Programs and Services including sign language interpretive services and real-time captioning equipment for deaf and learning disabled students.

California Partnership for Achieving Success (CalPASS) Augmentation. The Governor's budget proposes an allocation of \$500,000 to the CalPASS program for a total funding of \$1.5 million in the budget year to continue the statewide implementation of the program.

CCC Baccalaureate Partnership Program. The Governor's budget proposes a \$100,000 allocation for Baccalaureate Pilot Programs pursuant to Chapter 515, Statutes of 2005 (AB 1280, Maze). This augmentation funds two grants of \$50,000 to facilitate collaborative partnerships between community colleges and four-year institutions for the provision of baccalaureate degrees on community college campuses.

**ISSUE 1: COMPTON COMMUNITY COLLEGE ACCREDITATION UPDATE
(INFORMATION BRIEFING ONLY)**

Compton Community College District is a single-college district serving the cities of Carson, Compton, Lynwood, Paramount, and Willowbrook. It has a five member Board of Trustees that is elected by the district. The College serves approximately 9,000 FTES. On May 21, 2004, the CCC Chancellor's Office took over the Compton Community College District by imposing a State Trustee with authority to override the decisions of the Board of Trustees. The State Trustee was imposed because the district was experiencing financial problems. This Trustee acts on behalf of the Chancellor to take appropriate actions as necessary to assist the district toward achieving fiscal stability.

CCC Chancellor Mark Drummond and staff will update members on the steps taken to bring the College into fiscal solvency since the Chancellor's Office took over and will also provide an update on the College's accreditation status.

ISSUE 2: CAL PASS

The issue for the Subcommittee to consider is the Governor's proposed augmentation of Cal PASS by \$500,000 for a total funding of \$1.5 million in 2006-07.

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. 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 over 2,000 K-12 schools, colleges and universities statewide.

How does Cal PASS Work? After a region has agreed to form a Cal PASS consortium and all participating institutions have signed a memorandum of understanding, a consortium representative gathers, accesses, and submits data according to an approved schedule. A Cal PASS database administrator oversees the operation of a data server located at the CCC Chancellor's Office where the system stores millions of encrypted records provided by Cal PASS member institutions.

What type of information does Cal PASS produce? The program produces valuable reports and other tools that track and analyze student performance including:

- **Demographics:** Statistics and comparisons based on student ethnicity, transfer status, geographic location, and percentage of transfers from high school to community college or a four-year institution.
- **Performance:** Information such as length of time it took the student to graduate, a cohort's grade point average (GPA) compared to others, and student overall preparation.

- **Program Review:** Tracking of enrollment and performance in comparative classes during a specified time period ranging from year to many years.
- **Student Cohort Tracking:** Assessment of student progress from grade school to high school to a two-year or four-year institution, including units completed, the grade point average each semester, and enrollment over multiple semesters.
- **High School Transition:** This assessment can reveal if students are repeating courses such as basic math, Algebra I, and Calculus, or if there is a regression in their coursework.
- **Intersegmental Transfer Studies:** Outcomes of "Tech Prep" or "2+2" programs, including high school preparation and subsequent success in college or university coursework.

Reporting Requirement. Last year, the Legislature adopted Supplemental Report Language (SRL) requesting the Chancellor's Office to provide information on the Cal PASS program:

"The Chancellor of the California Community Colleges shall report to the Legislature and Governor on or before May 1, 2006 on the Cal-PASS program. The report shall include, at a minimum, (1) an accounting of all funding for Cal-PASS in 2005-06; (2) a description of major Cal-PASS activities performed in 2005-06; (3) a listing of all institutions that are participating in the Cal-PASS program through memoranda of understanding or other formal agreements; and (4) the Chancellor's recommendations, if any, for future changes to the program's activities, mission, and funding."

COMMENTS:

Legislative Analyst Office (LAO) Recommendation. The LAO believes that the Cal PASS program 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.

The LAO recommends that the Legislature approve the proposed augmentation as it would support the expansion of the Cal PASS program by including more institutions, creating additional faculty councils that use Cal PASS data to align curricula and performing additional research on student transitions and outcomes.

At the time that this agenda was written, Budget staff had not received information on the use of the \$1 million allocated for this program by the Legislature in the current year. Cal PASS staff plans to submit this information at the time of the hearing. Such information will also be included in the report required by SRL due May 1, 2006.

Given that the Chancellor's Office had requested an augmentation of \$1 million in base funding for a total of \$2 million in the budget year for the continued expansion of the program, Budget staff is concerned that the proposed \$500,000 augmentation, if approved, might not be enough to implement Cal PASS in all 58 counties in the state, particularly in the areas of the State that are not currently served by the program and which are probably the ones that need the services the most.

ISSUE 3: ENROLLMENT GROWTH FUNDING

The issue for the Subcommittee to consider is the Governor's proposal to increase the community colleges enrollment by \$148.8 million, or 3 percent, to fund an additional 35,000 full-time equivalent students (FTES).

BACKGROUND:

The CCC is the nation's largest system of higher education and enrolls three out of four public postsecondary students in the state. Over the last decade, enrollment increased by about 268,000 students or an average of 2.1 percent annually. However, CCC's headcount enrollment peaked in fall 2002, but since then has been experiencing a decline. Preliminary estimates indicate that CCC enrolled about 1.6 million students in the fall 2005 term. This would reflect a decline from the previous fall term of about 2 percent and represent the third consecutive year of decline. While enrollment may begin to rebound, the Department of Finance's (DOF's) Demographic Research Unit projects a modest decline in CCC headcount enrollment for 2006-07.

What Influences Enrollment at CCC? An increase in the state's college-age population is a major factor affecting enrollment levels, but it is not the only one. Fluctuations in participation rates affect enrollment at California's community colleges as well. Factors such as state and local education policies and personal choices of potential students determine participation rates and are much more difficult to predict. State policies affecting demand include fees and financial aid, eligibility requirements, and educational priorities, such as transfer preparation and vocational training. Additionally, factors such as the availability of certain classes, local economic conditions, and the perceived value of the education to potential students also affect participation rates.

In their analysis, the LAO cited several factors that, according to them, are likely to have contributed to the decline:

- **Recent Improvements in the State's Economy.** The availability of jobs influences the decision adults make to attend college. After a recent peak in 2003, the state's unemployment rate has been steadily declining, resulting from an expansion of various economic sectors. In some regions, for example, new housing developments have created greater demand for housing construction workers. Some community college districts, using local surveys of recent students, report that some of these students left college to take advantage of these types of higher-wage jobs available in local economies. Thus, some portion of the statewide enrollment decline resulted from students opting for the more immediate benefits of employment in an improving economy.
- **Expected Reductions in Concurrent Enrollment.** Beginning in 2002, the state took statutory and budgetary action to reduce concurrent enrollment levels after concerns were raised about a number of community college districts inappropriately claiming state funding for an increasing number of concurrently enrolled high school students. While state statute still permits districts to enroll some K-12 students, the Legislature and Governor adopted new restrictions on concurrent enrollment to prevent districts from abusing the provision. As a result,

the number of K-12 students concurrently enrolled in CCC, predominantly high school students taking physical education courses, declined by more than 100,000.

- **Reduced Course Offerings.** The Chancellor's Office suggests some of the enrollment decline can be explained by districts having reduced the number of course offerings in spring 2003, in anticipation of the Governor's proposed budget reductions. Although the Legislature rejected most of these cuts in the enacted budget, some districts reportedly prepared for budget cuts by hiring fewer part-time faculty and reducing the number of course sections available to students. Community colleges reduced about 9,800 course sections systemwide between fall 2002 and fall 2003. However, by spring 2005, CCC had restored the sections. Despite the restoration of course sections, overall enrollment has continued to decline. As a result, the average class size has fallen.
- **Impact of Fee Increases.** The Governor and the Legislature raised fees in 2003-04 from \$11 to \$18 per credit unit and again in 2004-05 from \$18 to \$26 per credit unit. Although all financially needy students are eligible to receive a fee waiver, some assert that the fee increases may have influenced demand.

In December 2005, the CCC Chancellor's Office released an addendum report on the "Impacts of Student Fee Increase and Budget Changes on Enrollment in the CCC". In their analysis of the fee increase from \$18 to \$26 per unit, the Chancellor's Office concluded the following:

- **Changes in College and Student Behavior.** The fee increase addressed in this report was accompanied by a budget increase. The increase resulted in colleges being able to either restore or offer more course sections. However, student enrollment continued to lag. The system still declined in headcount, FTES and had a smaller than normal first-time and returning class.
- **The loss of older students (25+) has been significant.** Older students represent half of the student population in the system. This group tends to have a higher percentage of females as compared to the under 25 years-old female population and tend to have different purposes for accessing the system. Almost one quarter of all students in this age group stated their educational goal was to either "prepare for a new career", "update job skills", or "maintain certificate or license".
- **Lingering Effect of Fee Increases.** The population of new and returning students is down some 340,000 from normal levels. The passage of smaller cohorts through the system will serve to inhibit future growth. Only until large first-time and returning student populations begin to return to prior level will growth begin again.
- **No Disproportionate Effect on Student Ethnicity and Gender.** Although the total student population has declined in the system, there was little disproportionate effect on students by ethnicity or gender.

The report also concluded that it is almost impossible to isolate what may have caused the decline of CCC enrollment growth. However, it cannot be discarded that the fee increases have had an impact on student enrollment. Without a survey of students who actually left the system, it is impossible to pinpoint which students left for what purposes. Additionally, it is almost impossible to identify and query prospective students who otherwise might have entered as first-time students who chose not to enroll due to lack or a perceived lack of course offering or the inability or a perceived inability to afford a community college education.

COMMENTS:

The Subcommittee will be considering the following issues:

Unspent Funding for Enrollment Growth in 2004-05. Data from CCC suggest that the community colleges served fewer FTES than it was funded to serve in 2004-05. The *2004-05 Budget Act* included \$161 million to fund enrollment growth of 3.7 percent. According to the most recent available data, the community colleges fell about 13,000 students short of its funded level. The Chancellor's Office estimates that \$5.7 million for enrollment growth for this fiscal year will go unspent. A better estimate is expected by the Governor's May Revision. State law requires that any unused growth funding revert to the Proposition 98 Reversion Account.

Unspent Funding for Enrollment Growth and 2005-06. The CCC may not be able to use all the funding provided for enrollment growth in 2005-06. *The 2005-06 Budget Act* provided an augmentation of about \$142 million to fund 3 percent enrollment growth, or an additional 34,000 FTES. Preliminary enrollment estimates indicate that CCC enrollment in 2005-06 could continue to decline or, at best, remain flat. The Chancellor's Office has not yet received the final fall 2005 term enrollment numbers but preliminary data based on an initial census of districts' enrollment of FTES project a decline of as much as 1 percent compared to the fall 2004 term.

Redirection of Unspent 2005-06 Funds. The Chancellor's Office projects that about \$65 million of unspent enrollment growth might be available for redirection to other system priorities. This projection is subject to change pending actual enrollments for the fall, spring and summer terms. At the March 2006 meeting, the Chancellor's Office recommended that the Board of Governors adopt a redirection plan for the unspent funds in the current year based on the assumption that the specific amounts for various programs in the Governor's January 10th proposal do not decline in the May Revision.

The available funds for redirection will be allocated for the following priorities:

- Fully fund the State match for part-time faculty office hours and health insurance (\$9 million)
- Increase the noncredit rate per student (\$30 million)
- Fund Rural Access Grants (\$5 million)

To the extent that the available amount is less than what is needed for the above priorities, these amounts would be reduced on a pro-rata basis. If there are additional funds available, these would be redirected as follows:

- Restore prior year cuts to Matriculation/ Counseling (up to \$24 million)
- Re-establish a line item for professional development of faculty and staff (up to \$5 million)
- Increase full-time faculty positions and the ration of full-time to part-time faculty

The CCC system plans to advocate for adoption of this redirection proposal by the Legislature and the Governor through legislation or trailer bill language.

What Should the Enrollment Growth Funding Level be for 2006-07? The budget proposal provides an increase of \$149 million, or 3 percent increase, for enrollment growth in 2006-07 to fund about 35,000 additional FTES. Since the CCC have been experiencing an overall decline in enrollment growth in recent years, which is expected to continue in the current year, it makes it very difficult to project how much to fund in the budget year.

LAO's Recommendation. The LAO is recommending a 1.75 percent funding for enrollment growth. The LAO believes that, while potentially on the high side, this funding would support the Legislature's goal of ensuring widespread access to the community colleges. At the recommended level, CCC's growth augmentation could be reduced by \$62 million compared to the Governor's budget.

In summary, the Subcommittee has three options to consider:

- Revert the unspent enrollment growth funding to the Proposition 98 Reversion Account.
- Redirect the unspent funds to support other CCC system needs according to the Legislature's priorities.
- Reduce the 2006-07 base budget for enrollment growth funding and score that as savings. Ongoing funds will be made available by re-benching the base amount for growth. This is in addition to the one-time savings of unused growth in the current year.

ISSUE 4: COLA INCREASE

The issue for the Subcommittee to consider is the Governor's proposal to increase the community colleges COLA by \$265 million, or 5.18 percent.

BACKGROUND:

Each year, the budget provides most Proposition 98 programs with a COLA, or an increase in funding to reflect the higher costs schools experience due to inflation. Some programs receive this adjustment through statute, and others are typically provided with a discretionary COLA in the annual budget act. The K-12 COLA, also used for community college programs, is based on the gross domestic product deflator for purchases of good and services by state and local governments (GDPSL). For 2006-07, the K-12 COLA will be based on GDPSL growth rates from the final three quarters of 2005 and the first quarter of 2006.

Budget-Year COLA Expected to Be Higher Than Governor's Estimates. Based on the two quarters of GDPSL data available at the time the budget was developed, the administration estimated a 5.2 percent COLA and the budget provided corresponding adjustments to K-14 programs. The Governor's budget provided approximately \$2.6 billion in Proposition 98 funding to support COLAs for K-14 education. Recently released fourth quarter 2005 data indicates that the actual COLA factor may be even higher-around 5.8 percent. The LAO estimates funding a 5.8 percent COLA for CCC would cost approximately \$30 million more than the level funded in the Governor's budget. The COLA factor will be finalized at the end of April, when the federal government releases the cost data for the first quarter of 2006.

ISSUE 5: NEW ACCOUNTABILITY SYSTEM UPDATE (INFORMATION ONLY)

Subcommittee members will be briefed by CCC staff on the new accountability system.

BACKGROUND (LAO ANALYSIS):

Anticipating the sunset of the Partnership for Excellence (PFE) program, the Legislature and Governor enacted Chapter 581, Statutes of 2004 (AB 1417, Pacheco), which required the CCC 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. Pursuant to statutory direction, the BOG consulted with LAO, DOF, and various other higher education experts and interested parties as it developed its proposal. The proposal was presented to the Legislature and Governor last spring, and was adopted as part of the 2005-06 budget package in Chapter 73, Statutes of 2005 (SB 63, Committee on Budget and Fiscal Review). Chapter 73 requires community college districts to report specified data to the CCC Chancellor's Office, which in turn is to submit an annual report to the Legislature and Governor. The first preliminary report is due January 31, 2007.

Specific Performance Measures Being Developed. While Chapter 73 establishes several major types of outcomes to be measured such as student transfers, it does not specify what specific data will be used to measure outcomes. For example, there are various ways to define transfer rates that use different definitions of the pool of potential transfer students. To resolve these kinds of measurement questions, the Chancellor's Office established a "Technical Advisory Workgroup." In addition to staff from the Chancellor's Office, the workgroup includes about a dozen research and analysis experts from community college districts and other agencies. The workgroup has been meeting regularly, and is expected to develop a final recommendation for approval by the Board of Governors this spring.

Reports Should Facilitate Various Forms of Accountability. The CCC accountability reports should be helpful for a number of different purposes. For example, they can assist the Legislature in its oversight function, indicating overall system performance and effectiveness in carrying out CCC's educational mission. The reports should also help inform legislative budgeting and policy decisions, helping to identify issues that require attention. The reports should also help the Chancellor's Office in its role of monitoring the performance of individual districts and colleges, enabling it to respond to concerns as warranted. In addition, the reports should be helpful to local residents in holding their local community college governing boards accountable for district performance in relation to similar districts.

Once the working group completes its recommended accountability methodologies, the LAO will advise the Legislature on further steps, if any. The LAO notes that Chapter 73 expresses the Legislature's intent to specify performance measures and reporting requirements in the annual budget if warranted by changes in state needs, legislative priorities, or the availability of data.