

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assembly Member Wilmer Amina Carter, Chair****WEDNESDAY, MAY 12, 2010
STATE CAPITOL, ROOM 126
4:00 PM****OVERVIEW OF THE GOVERNOR'S 2010-11 BUDGET PROPOSALS:
AFFORDABILITY, STUDENT SERVICES, & CAPITAL OUTLAY**

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CONSENT ITEM

6120 CALIFORNIA STATE LIBRARY

ISSUE 1: INTEGRATED LIBRARY SYSTEM REPLACEMENT PROJECT

The California State Library's (CSL) mission is to serve as a public research library to the Legislative and Executive branches, as well as the general public. To maintain and search its collection of over one million books, magazines, newspapers, government publications, maps, and other publications, the CSL used an Integrated Library System (ILS) software tool. The previous ILS, Data Research Associates Classic System, was discontinued and all service support was terminated in February 2009.

The 2007-08 Budget Act provided funding with CSL to conduct a Request for Proposal for a new software tool to manage the State's library collection. In September 2009, the ExLibris Aleph system replaced the original ILS as the CSL system.

Governor's Proposal. The Governor proposes \$173,000 General Fund (GF) in ongoing funding (no new positions) to fund ongoing system costs not covered by the initial warranty, plus funding in subsequent years to cover ongoing operations and maintenance after initial warranty periods expire.

ISSUE 2: RELOCATION FOR INFRASTRUCTURE RENOVATION, YEAR THREE

The California State Library (CSL) is housed at the Library and Courts building at 914 Capitol Mall. The building was constructed in 1928. The 2005-06 Budget Act provided capital outlay funds for the renovation of the building. The project consists of fire, life safety, infrastructure improvements, and rehabilitation of historically significant architectural elements of the Library and Courts building. The renovation project was supposed to be completed in June 2011, but due to a delay in the construction start date it will not be completed until March 2012.

Temporary Move. The CSL can not stay in the Library and Courts building while the renovation project is underway. The 60 staffers of the CSL were moved to the nearby Library and Courts II annex at 900 N Street. A separate space was leased in West Sacramento for the CSL's extensive collection of printed materials.

Governor's Budget. The Governor's budget requests \$596,000 General Fund for 2010-11 to pay for the third year of lease costs and other costs related to maintaining an offsite venue for the CSL's collection as well as a public reading room in close proximity to the CSL's primary client base of state government agencies and the Legislature.

VOTE ONLY

6120 CALIFORNIA STATE LIBRARY**ISSUE 1: APPROPRIATE THE REMAINING HISTORICAL & CULTURAL RESOURCE BOND FUNDS TO THE CALIFORNIA CULTURAL & HISTORICAL ENDOWMENT (CCHE)**

The California State Library's (Library) purpose is to preserve California's heritage. AB 716 (Firebaugh) Chapter 1126, Statutes of 2002, the California Cultural and Historical Endowment Act, established within the Library the California Cultural and Historical Endowment (CCHE). The CCHE is intended to preserve and protect California's cultural and historical resources. The CCHE provides grants for cultural and historical preservation projects, including artifacts, collections, archives, historic structures, and properties.

Survey Requirement. In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. The CCHE has yet to begin work on the survey.

Governor's Budget. The Governor's Budget proposes \$560,000 million from Proposition 40 bond funds for 2010-11, of which \$60,000 would be for state operations and \$500,000 for local assistance. This proposal also requests Proposition 40 bond funds over the next four years, which along with budget year total \$2.7 million:

- 2010-11: \$560,000 – \$60,000 for state operations; \$500,000 for local assistance
- 2011-12: \$656,000 – all for state operations
- 2012-13: \$554,000 – all for state operations
- 2013-14: \$480,000 – all for state operations
- 2014-15: \$450,000 – all for state operations

The enabling legislation, AB 716 (Firebaugh) Chapter 1126, Statutes of 2002, imposes a 5 percent programmatic expenditures cap for Proposition 40 bond funds on the CCHE. Without the \$60,000 for state operations from this proposal, the total CCHE state operations since 2003 amount to \$6,414,758. The enabling legislation only allows for programmatic expenditures of \$6,421,000. The \$60,000 proposed in the Governor's budget would take CCHE over the administrative funds cap.

6440 UNIVERSITY OF CALIFORNIA

**ISSUE 1: GARAMENDI FINANCING AUTHORIZATION FOR UC SAN DIEGO
CLINICAL AND TRANSITIONAL RESEARCH INSTITUTE (ISSUE 001)**

The UC requests authority, pursuant to Government Code Section 15820.21, to establish a funding mechanism known as “Garamendi Financing,” to allow increased federal indirect costs generated from research conducted in a proposed new research building on the UC San Diego campus to pay debt service and maintenance costs for the proposed new building. The ability to finance research facilities under this program will allow facilities to “pay for themselves” by permitting the campus to use the gross indirect cost recovery attributable to the new facility to pay for debt service and maintenance.

The proposed new Clinical and Transitional Research Institute would support a range of health and science departments including the schools of Medicine, Neuroscience, Pathology, and Pharmacology. Since 1990-91, 22 capital projects totaling approximately \$717.0 million were financed using Garamendi Financing.

Therefore, it is requested that Item 6440-402 be added

- (a) The San Diego Campus—Clinical and Translational Research Institute is authorized pursuant to Section 15820.21 of the Government Code.

6610 CALIFORNIA STATE UNIVERSITY**ISSUE 1: SUPPLEMENTAL APPROPRIATION FOR NORTHRIDGE CAMPUS,
PERFORMING ARTS CENTER – CONSTRUCTION (ISSUE 001)**

It is requested that Item 6610-302-6048 be added in the amount of \$1,383,000 and provisional language be added to fund restart and mobilization costs for the Northridge Campus, Performing Arts Center Project (Project) resulting from the State's suspension of Pooled Money Investment Board construction financing. Total Project funding is over \$96.7 million, of which \$39.0 million represents donor funds. The Project is 60 percent complete; however, the Project had been halted for 62 days following the December 2008 direction to suspend construction. At this juncture, CSU would incur additional costs to restart the Project such as project management, inspection services, negotiated change orders for trade contractor settlements, which totals \$1,383,000. The lack of funds that forced the Project to halt and restart during the rainy season was due to conditions beyond CSU's control.

Therefore, it is requested that Item 6610-302-6048 be added with corresponding provisional language to reflect the additional funding needed to restart the Project.

**ISSUE 2: ITEM 6610-490, SUPPORT, REAPPROPRIATE BOND FUNDS FOR
CAPITAL RENEWAL PROJECTS (ISSUES 012 AND 013)**

It is requested that \$4,955,000 from the 1988 Higher Education Capital Outlay Bond Fund and \$13,673,789 from the 2004 Higher Education Capital Outlay Bond Fund, both reappropriated in the 2009 Budget Act, be reappropriated for one additional year (until June 30, 2011). The California State University (CSU) has experienced delays stemming from the State's inability to obtain financing for capital outlay projects during the past year, which have significantly altered project schedules.

Therefore, it is requested that Item 6610-490 be added as follows:

6610-490—Reappropriation, California State University. The balances of the appropriations provided in the following citations are reappropriated for the purposes provided for in that appropriation and shall be available for encumbrance until June 30, 2011.

0785—1988 Higher Education Capital Outlay Bond Fund

(1) Item 6610-002-0785, Budget Act of 2008 (Chs. 268 and 269, Stats. 2008) as reappropriated by Item 6610-490, Budget Act of 2009 (Ch. 1, Stats. 2009, Fourth Extraordinary Session).

6041—2004 Higher Education Capital Outlay Bond Fund

(2) Item 6610-002-6041, Budget Act of 2008 (Chs. 268 and 269, Stats. 2008) as reappropriated by Item 6610-490 Budget Act of 2009 (Ch. 1, Stats. 2009, Fourth Extraordinary Session).

**ISSUE 3: ITEM 6610-494, SUPPORT, EXTEND THE LIQUIDATION PERIOD OF
CAPITAL RENEWAL FUNDS (ISSUE 014)**

It is requested that the liquidation period for various capital renewal projects funded in the 2007 Budget Act from the 2006 University Capital Outlay Bond Fund be extended by one additional year, until June 30, 2011. The CSU has experienced delays attributable to the processing of reappropriations by the State Controller's Office and delays stemming from the State's inability to obtain financing to restart suspended projects during the past year.

Therefore, it is requested that Item 6610-494 be added as follows:

6610-494—Reappropriation, California State University. Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2011.

6048—2006 University Capital Outlay Bond Fund

(1) Item 6610-002-6048, Budget Act of 2007 (Chs. 171 and 172, Stats. 2007).

6870 CALIFORNIA COMMUNITY COLLEGES**ISSUE 1: INCREASE REIMBURSEMENTS FOR EMERGENCY PLANNING & PREPARATION (ISSUE 001)**

It is requested that Schedule (2) of Item 6870-001-0001 be increased by \$100,000 in Reimbursements to reflect additional federal homeland security funding received through an interagency agreement with the California Emergency Management Agency. The funding will be used to continue vulnerability assessments and emergency preparedness plans at the community college districts.

It is further requested that the following provisional language be amended to conform to this action:

"3. The funds appropriated in Schedules (2) and (5) reflect an interagency agreement with the California Emergency Management Agency for ~~\$400,000~~ \$500,000 in reimbursements to conduct emergency planning and preparedness training for community college districts."

ISSUE 2: ADD ONE-TIME FEDERAL FUNDS CARRYOVER FOR THE MATH & SCIENCE TEACHER INITIATIVE (ISSUE 009)

It is requested that Item 6870-002-0890 be increased by \$12,000 to reflect additional one-time carryover of federal funds for the Math and Science Teacher Initiative.

It is further requested that the following provisional language be added to conform to this action:

"2. Of the funds appropriated in this item, \$12,000 is one time carryover funds to support the Math and Science Teacher Initiative."

ISSUE 3: REMOVE PROGRAM FUNDING AND APPLICABLE PROVISIONAL LANGUAGE FOR STATE TRANSPORTATION CONTRACT BIDDING TRAINING PROGRAM (ISSUE 004)

Item 6870-111-0001, Local Assistance, California Community Colleges

It is requested that Schedule (5) of this item be decreased by \$1,340,000 in Reimbursements to reflect the elimination of the State Transportation Contract Bidding Training Program. The Program was funded through an interagency agreement with the Department of Transportation to develop and improve the capabilities of Disadvantage Business Enterprises and other small businesses by providing specialized technical assistance and business skills needed for bidding on highway contracts. The contract has expired and will not be renewed.

It is further requested that the following provisional language be deleted to conform to this action as follows:

~~"4. Of the funds appropriated in Schedule (5), \$1,340,000 shall be used to support an interagency agreement between the Office of the Chancellor of the California Community Colleges and the Department of Transportation for the purpose of providing assistance and training in business management practices to small and disadvantaged businesses in an effort to increase their capacity to be successful in bidding for state transportation contracts."~~

ISSUE 4: VARIOUS REAPPROPRIATIONS

Amendment to and Addition of Budget Bill Items 6870-490 and 6870-497, Capital Outlay, California Community Colleges

In December 2008, as a result of the state's deteriorating cash position in the Pooled Money Investment Account (PMIA), the Administration issued Budget Letter 08-33, directing departments to suspend any projects that required cash disbursements from PMIA loans. In order to comply with this, all state departments, including the California Community Colleges (CCC), suspended project activities on bond funded projects. Since that time, there have been several bond sales to provide some of the cash needed for projects. However, it is necessary to reappropriate the unspent balances of the requested funds to allow the CCC to fulfill its obligation for the bond funded projects as they are able to restart. Consequently, the following reappropriations are requested:

Add Item 6870-490 to reappropriate funds for the following 17 project phases appropriated from the 2006, 2007, 2008, and 2009 Budget Acts.

1. Cabrillo Community College District, Cabrillo College: Health Wellness Center—Equipment
2. Barstow Community College District, Barstow College: Performing Arts Center—Construction and equipment
3. Chabot-Las Positas Community College District, Chabot College: Math Science Modernization—Working drawings
4. El Camino Community College District, El Camino College Compton Center: Infrastructure Replacement Phase 1—Construction

5. Feather River Community College District, Feather River College: Learning Resource Center Technology Building—Equipment
6. Glendale Community College District, Glendale College: Laboratory College Services Building—Working drawings
7. Los Angeles Community College District, East Los Angeles College, Multi-Media Classrooms—Equipment
8. Mira Costa Community College District, Mira Costa College, Campuswide Fire Line Replacement—Construction
9. Ohlone Community College District, Ohlone College, Fire Suppression—Working drawings and construction
10. Riverside Community College District, Riverside City College: Wheelock Gymnasium Seismic Retrofit—Construction
11. Riverside Community College District, Moreno Valley Center: Phase III Student Academic Services Building—Working drawings
12. San Francisco Community College District, City College of San Francisco: Joint Use Instructional Facility—Equipment
13. Santa Clarita Community College District, College of the Canyons, Administration Student Services—Working drawings
14. Siskiyou Community College District, College of the Siskiyou, Science Complex Modernization—Construction
15. South Orange County Community College District, Irvine Valley College: Life Science Building—Construction and equipment
16. South Orange County Community College District, Saddleback College: Learning Resource Center Renovation—Equipment
17. Mt. San Jacinto Community College District, Menifee Valley Center: General Classroom Building—Construction and equipment

STAFF COMMENTS

Approve with technical changes noted by Department of Finance.

The language to be included is:

Barstow Community College District
 Barstow College
 (4) 40.04.104—Performing Arts
 Center—Construction and equipment

And an edit to

Feather River Community College District
 Feather River College
 (53) ~~(4)~~ 40.73.105 – Learning Resource Center
 and Technology Building-Equipment

ISSUE 5: REVERSION

Traffic studies completed in March 2009 concluded that vehicle and pedestrian traffic patterns at the intersection of El Don Drive and Rocklin Road have significant safety hazards. Placement of the child development center at its planned location would exacerbate these safety issues. In addition, the new Center would require the hiring of additional personnel at a time when the district is determining how to implement severe budget reductions that would likely include layoffs. The district board, therefore, made a difficult decision to postpone further development of the child development facility until it has addressed the safety issues at the planned site or identified a more appropriate site for the facility and the means to operate it effectively.

Amend Item 6870-497 to revert \$7,821,000 in 2006 California Community College Capital Outlay Bond Fund for the Sierra Joint Community College District, Sierra College: Child Developmental Center—Construction and equipment from the 2008 Budget Act.

ISSUE 6: 6870-301-6049 CAPITAL OUTLAY PROJECTS AND 6870-497 REVERSION IN 2010-11 BUDGET ACT

Project Name	Description	Amount (000)
El Camino College Compton Center	Phase 2: Upgrade campus infrastructure, including water, sewer, and electrical systems.	\$ 16,208
El Camino College Compton Center	Renovate Allied Health Building	\$ 8,946
Imperial Valley College	Modernize 44-year old building that is not ADA compliant	\$ 2,195
Monterey Peninsula College	Modernize Humanities, Business, and Student Services Building	\$ 4,485
Ventura County Community College District	Reversion - Reconstruct Art Studio Project	\$ (180)
Ventura County Community College District	Reversion - Modernize APP, S, and DP Buildings	\$ (5,294)
Santa Barbara College District	Reversion - High Technology Center Project	\$ (22,522)
TOTAL PROJECT COST		\$ 3,838

ITEMS TO BE HELD OPEN

ISSUE 1: CAPITAL OUTLAY OVERVIEW

The issue before the Subcommittee is the Governor's proposals via the April Letters process that proposes several capital outlay projects funded with residual General Obligation Bond Fund and/or Lease-Revenue Bonds.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- University of California
- California State University

BACKGROUND

The Governor's January Budget proposal did not include capital outlay projects for UC and CSU, and proposed a limited capital outlay program of four projects for California Community Colleges (CCC). Such a limited proposal reflects the fact that all three segments have essentially exhausted their general obligation bond balances. The LAO's figure below shows the lack of new general obligation bond funds has considerably slowed the amount of spending on higher education capital outlay projects in recent years.

The Legislature approved \$428 million in lease revenue bonds for UC and CSU projects in 2008-09, but rejected the Governor's proposal for additional lease-revenue bond projects in 2009-10. At this time, the approved lease-revenue bond projects have not moved forward due to the continued freeze on interim financing from the Pooled Money Investment Account. Meanwhile, the segments have been able to move forward on the many non-state funded projects – such as those funded with revenue bonds or local funds.

The Governor's budget includes reversions of \$28 million in general obligation bonds from three CCC projects, which the local community college districts no longer wish to pursue due to changing priorities or lack of local funds. The un-appropriated balance of CCC's approved general obligation bonds, combined with funds from the three proposed reversions, would be sufficient to cover the \$32 million in costs for the four proposed projects. The proposed funding would complete three projects previously funded by the state and fully fund one new project.

Although the Governor's proposal would fund the completion of the three continuing projects, there would still be 13 community college projects that received state funding for preliminary plans and working drawings in previous years that lack sufficient funding to complete. The estimated cost of completing these 13 projects would be approximately \$195 million.

The Governor's budget proposal stated that the Administration intends to propose funding for additional higher education facilities in the April Letter and May Revise process.

Higher Education Capital Outlay Appropriations

(In Millions)

	2007-08	2008-09	2009-10	Proposed 2010-11
University of California				
General obligation bonds	\$450	\$57	\$31	—
Lease revenue bonds	70	205	—	—
Subtotals	(\$520)	(\$261)	(\$31)	—
California State University				
General obligation bonds	\$417	\$72	\$16	—
Lease revenue bonds	—	224	—	—
Subtotals	(\$417)	(\$296)	(\$16)	—
California Community Colleges	\$536	\$444	\$194	\$32
Totals	\$1,473	\$1,001	\$241	\$32

6440 UNIVERSITY OF CALIFORNIA**Addition of Budget Bill Items 6440-301-0658, 6440-302-0658, 6440-301-0660, 6440-301-6048, 6440-402, 6440-496, Capital Outlay, University of California**

The following requests would address changes to proposed capital outlay projects.

Proposed Capital Outlay Projects (Various Issues) — While no capital outlay projects were included in the proposed 2010-11 Governor's Budget for either California State University (CSU) or University of California (UC), the Governor indicated that the Administration intends to propose funding for higher education facilities as part of the revised budget.

In accordance with this direction, it is requested that Items 6440-301-0658 and 6440-302-0658 be added in the amounts of \$5,113,000 and \$2,604,000, respectively, from the 1996 Higher Education General Obligation Bond Fund (Fund 0658) for design and or construction of three capital outlay projects, and Item 6440-301-0660 be added in the amount of \$342,896,000 from the Public Buildings Construction Fund for the design and construction of four capital outlay projects.

ISSUE 1: REVERSION FOR UC IRVINE, STEINHAUS HALL SEISMIC IMPROVEMENTS PROJECT (ISSUE 001)

The Steinhaus Hall Seismic Improvements project at the Irvine Campus is now complete and approximately \$2,668,000 in bid and project savings can be reverted to the 2006 University Capital Outlay Bond Fund (Fund 6048). UC is proposing to appropriate the project savings in an equivalent amount for equipment to support the Arts Building, currently under construction on the Irvine Campus.

Therefore, it is requested that Item 6440-496 be added to reflect the reversion of project savings for the project.

ISSUE 2: UC IRVINE, ARTS BUILDING—EQUIPMENT (ISSUE 001)

UC Irvine, Arts Building—Equipment (Issue 001)— UC requests \$2,668,000 from Fund 6048 for the Irvine Campus, Art Building Project (Project). This Project would provide instructional laboratory and support space, exhibition space, and academic and administrative offices in the Clair Trevor School of the Arts. The Project is nearing completion (completion date of May 2010), and \$2,668,000 for equipment is needed to ensure that the facility is fully operational when completed.

**ISSUE 3: UC MERCED, SITE DEVELOPMENT AND INFRASTRUCTURE, PHASE 6—
PWC (ISSUE 002)**

UC requests \$2.0 million from Fund 6048 to complete key phases of time sensitive work related to a federal Clean Water Action Section 404 permit requirement on the Merced Campus. Key phases of work that needs to be completed by May 1, 2012 include the construction of a dirt perimeter road to improve access to the outer areas of the campus and community, construction of boundary fencing between the campus and preserve lands, and mass grading to improve storm water management.

Therefore, it is requested that Item 6440-301-6048 be added to reflect the addition of the two projects.

**ISSUE 4: UC MERCED, SITE DEVELOPMENT AND INFRASTRUCTURE, PHASE 4—
PWC (ISSUE 002)**

UC requests \$4.5 million from Fund 0658 to fund a select group of infrastructure needs at the Merced Campus to set the framework for continued infrastructure progress on campus. Some of the activities that would be included in the project are: (1) modifying a water detention basin (North Pond) and installation of a new campus storm water detention pond (Lower Pond) to improve erosion control and storm water management; (2) installing underground utilities to future academic building sites in the campus academic core; (3) improving current corporation yard site paving, grading, and extending utilities (water, power, information technology, stormwater) at the site; and, (4) improving hardscape and storm drains along the extension of Scholars Lane and Ranchers Road.

Therefore, it is requested that Item 6440-301-0658 be added to reflect the addition of the new project.

ISSUE 5: VARIOUS REAPPROPRIATIONS

Amend Item 6440-492 to reappropriate funds for the following three project phases appropriated from the 2007 Budget Act.

1. Los Angeles Campus, Telemedicine and PRIME Facilities Phase 1—Equipment.
2. San Francisco Campus, Telemedicine and PRIME Urban Underserved Education Facilities—Equipment.
3. Santa Cruz Campus, McHenry Project—Equipment.

ISSUE 6: VARIOUS EXTENSION OF LIQUIDATION PERIODS

Add Item 6440-493 to extend the liquidation period by one additional year (until June 30, 2011) for the following six project phases appropriated in 2007.

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Preliminary plans and working drawings.
2. Davis Campus, Veterinary Medicine 3B—Working drawings.
3. Riverside Campus, Boyce Hall and Webber Hall Renovations—Working drawings and construction.
4. Riverside Campus, Batchelor Hall Building—Preliminary plans
5. San Francisco Campus, Electrical Distribution Improvements, Phase 2—Working drawings.
6. Santa Barbara Campus, Davidson Library Addition and Renewal—Working drawings.

6610 CALIFORNIA STATE UNIVERSITY

Addition of Budget Bill Items 6610-301-0658, 6610-301-0660, and 6610-302-6048, Capital Outlay, California State University

The following requests would address changes to proposed capital outlay projects.

Proposed Capital Outlay Projects (Various Issues)—While no capital outlay projects were included in the proposed 2010-11 Governor’s Budget for either California State University (CSU) or University of California (UC) the Governor indicated that the Administration intends to propose funding for higher education facilities as part of the revised budget.

In accordance with this direction, it is requested that Item 6610-301-0658 be added in the amount of \$9,105,000 from the 1996 Higher Education General Obligation Bond Fund for the design phases of four capital outlay projects, that include both design and construction elements, and that Item 6610-301-0660 be added in the amount of \$75,953,000 from the Public Building Construction Fund for the construction phase of two capital outlay projects.

ISSUE 1: VARIOUS REAPPROPRIATIONS

Add Item 6610-491 to reappropriate funds for the following two project phases appropriated from the 2007 Budget Act.

1. San Marcos Campus, Social and Behavioral Sciences—Working drawings and construction.
2. Los Angeles Campus, Corporation Yard—Construction.

ISSUE 2: VARIOUS EXTENSION OF LIQUIDATION PERIODS

Add Item 6610-492 to extend the liquidation period by one additional year (until June 30, 2011) for the following seven project phases appropriated in either 2005, 2006, or 2007:

1. Systemwide, Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 1998 and 2002 Higher Education Capital Outlay Bond Fund).
2. Humboldt Campus, Behavioral and Social Sciences, Phase 1—Construction.
3. Monterey Bay, Library—Equipment.
4. Humboldt, Mai Kai Land Acquisition—Acquisition.
5. San Diego Campus, Storm/Nasatir Halls Renovation—Preliminary plans and working drawings.
6. Stanislaus Campus, Science 1 Renovation (Seismic)—Preliminary plans and working drawings.
7. Northridge Campus, Performing Arts Center—Working drawings and construction.

Add Item 6610-301-6048 for the following project:

ISSUE 3: SAN FRANCISCO CAMPUS, JOINT LIBRARY: J PAUL LEONARD & SUTRO LIBRARY - EQUIPMENT

The project is an 85,000 square foot (sq. ft.) five-story addition and 283,000 sq. ft. renovation of the existing San Francisco State University library building. The project is funded with lease revenue funds totaling \$121.8 million (design and construction), and also includes the renovation and permanent home of the Sutro Collection of the State Library as part of the project. It is anticipated that the project will be completed by April 2012. Consequently, the campus requests \$3.0 million in equipment funding from the 2006 University Capital Outlay Bond Fund so that the library can be operational when it is opened.

6440	UNIVERSITY OF CALIFORNIA
6610	CALIFORNIA STATE UNIVERSITY
6870	CALIFORNIA COMMUNITY COLLEGES
7980	CALIFORNIA STUDENT AID COMMISSION

ISSUE 1: OVERVIEW OF STUDENT FEES

The issue before the Subcommittee is information on student fee increases and financial aid at all three of California's public higher education systems.

In the Governor's 2010-11 January Budget Proposal reflects the University of California's 23 percent increase to undergraduate fees (due to an approved 15 percent increase for 2010-11, as well as the annualization of a midyear increase imposed in the current year) and assumes a 10 percent increase in undergraduate fees for California State University. No fee increase is proposed for the Community Colleges.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- University of California
- California State University
- California Community Colleges
- California Postsecondary Education Commission

BACKGROUND

Setting Student Fee Levels

Student fees are an important component of higher education budgets, both as a source of revenue and as factor in affordability. Formally, the Legislature sets student fee levels for the California Community Colleges (CCC) in statute, while the University of California (UC) Board of Regents and the California State University (CSU) Board of Trustees set student fees for their respective systems. As a practical matter, however, the Legislature assumes a certain level of revenue to be generated by student fees when it approves funding for all three of the segments in the annual budget act. That is, the Legislature takes projected student fee revenue and other sources of funding into consideration when it decides what level of General Fund support to appropriate for the higher education segments.

State Lacks Fee Policy Structure

Key higher education funding decisions have been made without the benefit of clear state policy guidance. For example, the state has no formal policy to guide the setting of student fees at the public colleges and universities. As a result, fee levels have been unpredictable and volatile, with little alignment to the cost of instruction or to students' ability to pay.

California lacks a consistent fee policy for postsecondary education. Typically, changes to student fee levels have been influenced more by the availability of state funds in any given year than through an established policy for sharing the cost of higher education between the state and students. The LAO has consistently pointed out that the lack of an explicit fee policy can make it difficult for students, their families, and the state to plan effectively. The LAO recommends statutorily linking fees to a fixed share of educational costs, student fees would change much more gradually. Moreover, students would have a financial incentive to hold the segments accountable for cost increases.

The LAO's chart below shows the past, current, and proposed annual student fees at the public colleges and universities.

Annual Education Fees for Full-Time Resident Students

2007-08 Through 2010-11

	2007-08	2008-09	2009-10	2010-11 Proposed	Change 2009-10 to 2010-11		
					Amount	Percent	
University of California							
Undergraduate	\$6,636	\$7,126	\$8,373	\$10,302	\$1,929	23.0%	
Graduate	7,440	7,986	8,847	10,302	1,455	16.4	
Hastings College of the Law	\$21,303	\$26,003	\$29,383	\$36,000	\$6,617	22.5%	
California State University							
Undergraduate	\$2,772	\$3,048	\$4,026	\$4,429	\$403	10.0%	
Teacher Credential	3,216	3,540	4,674	5,141	467	10.0	
Graduate	3,414	3,756	4,962	5,458	496	10.0	
Doctoral	7,380	7,926	8,676	9,544	868	10.0	
California Community Colleges	\$600	\$600	\$780	\$780	—	—	
Source: LAO							

In the last two years, fees at all three public higher education segments have been increased in partial response to General Fund constraints. Financial aid has also increased substantially, mitigating the effects of fee increases on affordability.

A student entering UC as a freshman in fall 2006 and graduating in spring 2010 will have seen an increase in annual fee costs of more than \$2,200, or 36 percent, while enrolled. A CSU student during the same years will have experienced an increase of more than \$1,500 or nearly 60 percent.

The universities have also raised fees for graduate, professional, and nonresident students over this time. In some cases, these increases are less steep than for resident undergraduates. For example, the UC Regents have moderated increases in graduate student charges because they are concerned about UC's ability to attract the best graduate students.

The 2009-10 budget includes an increase of \$6 per unit (30 percent) in community college fees, following four years in which fees were reduced or held constant.

Nationwide Comparisons

Despite recent fee increases, fees at all three segments remain below national or comparison group averages. Both undergraduate and graduate fees for resident students at UC are less than 90 percent of the average of UC's public research university comparison group. Fees at CSU are 61 percent of its comparison group average, making them the second-lowest among 16 comprehensive state universities. Community college fees remain by far the lowest in the nation, at about 27 percent of the national average.

LAO RECOMMENDATIONS

The Legislative Analyst's Office recommends that the Legislature fund enrollment growth with revenues generated from increasing the community college fees from \$26/unit to \$40/unit. This would generate approximately \$150 million in additional fee revenues for community colleges, while having no effect on most students' net costs due to multiple state and federal aid programs. These monies could be used to fund over-cap enrollments, as well as reverse the Governor's negative COLA proposal. The net effect of their fee recommendation would provide slightly more resources for the community college system while achieving about \$125 million in Proposition 98 General Fund savings.

STAFF COMMENTS

The Legislature made the decision to raise fees for the community colleges last year to mitigate the dramatic funding reductions to ensure students would be able to access courses and alleviate the community college districts' loss of General Fund support.

ISSUE 2: OVERVIEW OF FINANCIAL AID PROGRAMS

The issue before the Subcommittee is information regarding the segments' financial aid packaging for undergraduate students and other financial aid programs available to students.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- University of California
- California State University
- California Community Colleges
- California Postsecondary Education Commission

**SEGMENTS INSTITUTIONAL
FINANCIAL AID REPORTS**

The University of California and California State University are requested annually by Section 66021.1 of the Education Code to report to the Legislature on its institutional financial aid programs.

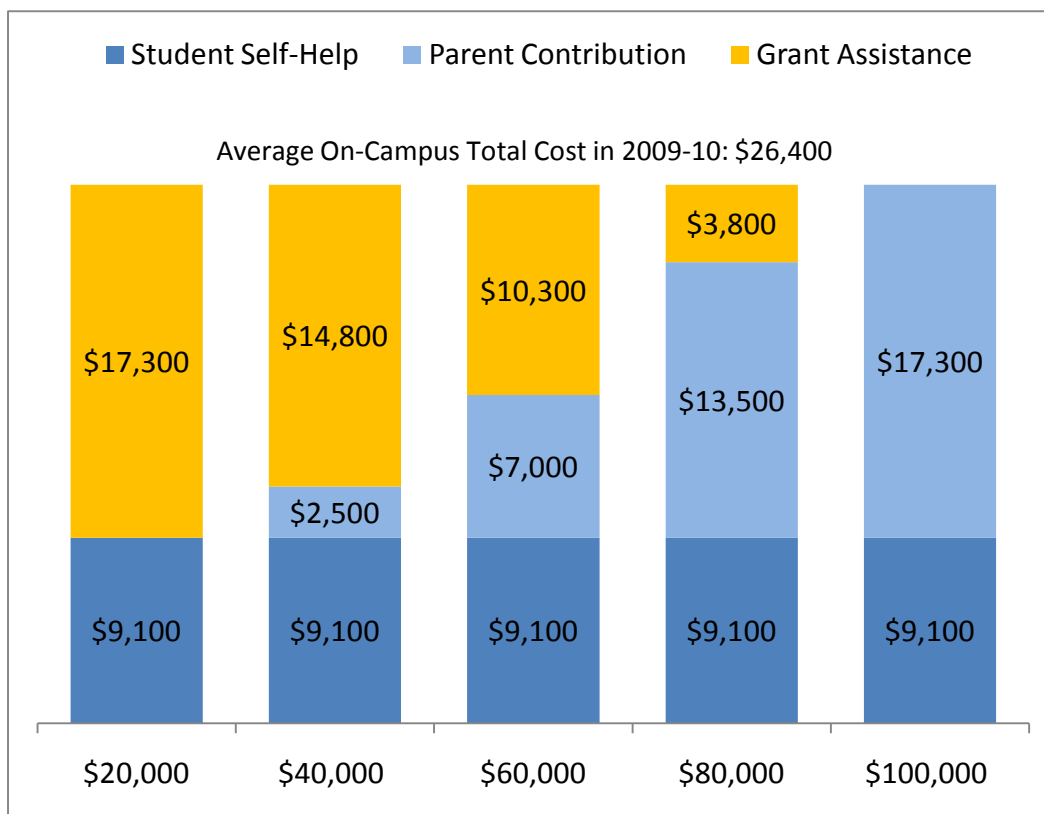
University of California

The University's Undergraduate Financial Aid Policy, adopted by the Regents in 1994, calls upon the University to make the *full cost of attending the university* – known as the cost of attendance or the student budget – manageable for eligible students and their families, irrespective of their family resources.

The Education Financing Model is built upon a simple framework that says the cost of attendance or student expense budget minus 1) a reasonable parent contribution calculated to federal standards, 2) anticipated grant aid from state and federal sources, and 3) a manageable student self-help contribution from loan and/or work, equals the amount of University grant aid needed.

The display below depicts typical financial aid packages for students at different parent income levels living off-campus for 2009-10.

Chart from University of California Institutional Aid Report:
Typical Financial Aid Packages, 2009-10 Academic Year



Recent UC Changes to Institutional Aid Policy

Blue & Gold Opportunity Plan. In an effort to communicate financial aid opportunities clearly to families concerned about affordability, the University of California developed the *Blue and Gold Opportunity Plan*—a guarantee that fees will be covered for students from families earning up to \$60,000. (The income cap will rise to \$70,000 for 2010-11, and will be reviewed annually to ensure it remains at or above the median California household income.) Fees for nearly all of these students are covered by Cal Grants and institutional aid, irrespective of the Blue and Gold plan. The new program is primarily a packaging strategy that reduces a more complex discussion of financial aid into an easily understood message. The California State University has announced a similar guarantee, as have numerous public and private universities around the country.

Revised Treatment of Veterans Educational Benefits. Prior to 2009-10, the University considered veterans educational benefits to be a financial resource that effectively reduced a student's UC grant eligibility. Beginning in 2009-10, these benefits are now ignored for purpose of determining a student's UC grant eligibility. This policy change is part of a broader University-wide effort to assist veterans who enroll at UC and is consistent with how these benefits are treated under federal need analysis.

California State University

The California State University Board of Trustees adopted a fee and financial aid policy in 1993 that set a policy goal to cover the State University Fee for financially needy students. In response to Trustee policy, to the maximum extent possible, the CSU offsets the State University Fee for low and middle-income students utilizing the State University Grant and Cal Grant programs to promote access and ensure affordability.

The **State University Grant (SUG)** provides need-based grants to eligible California residents who enroll at CSU campuses in undergraduate, post-baccalaureate, and graduate programs. The SUG program is funded from one-third of annual incremental fee revenues. For 2009-10, CSU committed to this program \$401 million.

Financial need is determined by deducting the amount of the Expected Family Contribution (EFC) determined through the federal need analysis methodology from the student's Cost of Attendance (COA).

The CSU display below depicts typical financial aid packages for students at different parent income levels living off-campus for 2009-10.

2009-10 Academic Year	Parent Income				
	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000
Cost of Attendance	\$21,025	\$21,025	\$21,025	\$21,025	\$21,025
Parent Contribution	\$0	\$1,047	\$4,336	\$9,775	\$15,918
Financial Need	\$21,025	\$19,978	\$16,689	\$11,250	\$5,107
Typical Financial Aid Package					
Federal Pell Grant	\$5,350	\$4,300	\$1,000	\$0	\$0
Federal SEOG	\$800	\$750	\$0	\$0	\$0
Cal Grant	\$1,551	\$4,026	\$0	\$0	\$0
State University Grant	\$4,026	\$0	\$4,026	\$0	\$0
Federal Work-Study & Student Loans	\$9,290	\$10,900	\$11,660	\$11,250	\$5,107
Total Student Financial Aid	\$21,017	\$19,976	\$16,686	\$11,250	\$5,107
Source: CSU					

California Community Colleges

The **Community Colleges'** primary campus-based aid is provided through the Board of Governors (BOG) fee waiver program. All financially needy students qualify to have their enrollment fees waived, and thus are not affected by fee increases.

BACKGROUND**Undergraduate Institutional Aid Programs**

Need-based financial aid programs have expanded to partially or fully offset increased fees and other costs for most low-income and middle-income students.

The **Cal Grant Program** is the state's primary student financial aid program. Over 200,000 students at public and private postsecondary institutions will receive an estimated \$1 billion in awards this year. Income ceilings for eligibility are relatively high. For example, a student from a four-person family making \$80,000 per year could qualify.

The Cal Grant award amount for UC and CSU student is set by statute at the mandatory systemwide fee level for each segment. Some Cal Grant recipients are not eligible for a fee payment in their first year, but most of these students receive additional support from the institutions to cover their fees. When the segments increase fees, the California Student Aid Commission increases award amounts accordingly. As a result, all university students whose fees are paid by Cal Grants are protected from fee increases.

The **Campus-Based Financial Aid Programs** have expanded with fee increases. For many years, the universities have set aside a portion of revenues from fee increases to augment their own "institutional" financial aid programs. In the current year, fee revenues directed to aid programs total \$630 million at UC and \$435 million at CSU. In addition, each segment receives General Fund support specifically for student financial aid - \$52 million at UC and \$34 million at CSU. Combined, these funds provide about \$1.2 billion in campus-based aid.

The campuses use institutional aid funds in combination with other sources to meet students' financial need. The **UC** campuses fully fund any costs of attendance – including fees, room and board, books, supplies, and other costs – that are not covered through federal and state grants, the expected family contribution (EFC), and a manageable student self-help contribution from work and borrowing. The EFC is calculated for each family in accordance with the federal needs analysis methodology. The self-help contribution, currently set at \$91,000, is consistent for undergraduates at all campuses.

The **CSU** uses a different approach to meeting student need, concentrating their resources on students with the greatest financial need rather than maintaining a common self-help expectation for all students. Campuses use institutional aid to ensure that fees (but not necessarily all costs of attendance) are fully covered for students above a certain need threshold who do not qualify for Cal Grants. The threshold varies depending on available funding, but generally corresponds to an EFC of \$4,000 or less using the federal methodology. In the current year, a family of four with one child at CSU would meet this threshold with an income of about \$55,000.

If campuses have remaining funds after serving these students, they can raise the EFC threshold, provide awards that exceed fee coverage for some students, or otherwise supplement students' financial aid packages. At both UC and CSU, campuses generally cover any fee increase for grant recipients by increasing financial aid awards. The UC campuses also offer partial fee coverage, equal to half the amount of any fee increases, to non-needy students with family incomes up to \$100,000 in 2009-10 (\$120,000 in 2010-11) who are not otherwise eligible for grant assistance.

The Federal Financial Aid Programs have helped to off-set some cost increases in recent years. Below is a chart developed by the LAO that shows the benefits under these programs.

The Health Care and Education Reconciliation Act of 2010 increases the Pell Grant maximum from \$5,350 to \$5,500 for the next two years, then pegs increases to the Consumer Price Index, aiming to make the Pell Grant sensitive to inflation.

In addition, the new Income-Based Repayment Plan will allow students who borrow money to cap payments at 10 percent of their discretionary income starting in July 2014, instead of 15 percent. If students keep up with their payments, they will be able to have any remaining debt forgiven after 20 years instead of 25. That window can be decreased to 10 years if they are in public service positions such as teaching, nursing, firefighting or serving in the military.

Federal Tax Benefits Applied Toward Higher Education Fees (2010)

American Opportunity Tax Credit	Lifetime Learning Credit	Tuition and Fee Deduction
<ul style="list-style-type: none"> ▪ Directly reduces tax bill and/or provides partial tax refund to those without sufficient income tax liability. ▪ Covers 100 percent of the first \$2,000 in tuition payments and textbook costs. Covers 25 percent of the second \$2,000 (for maximum tax credit of \$2,500). ▪ Designed for students who: <ul style="list-style-type: none"> - Are in first through fourth year of college. - Attend at least half time. - Are attempting to transfer or acquire a certificate or degree. ▪ Provides full benefits at adjusted income of up to \$160,000 for married filers (\$80,000 for single filers) and provides partial benefit at adjusted income of up to \$180,000 (\$90,000 for single filers). 	<ul style="list-style-type: none"> ▪ Directly reduces tax bill for unlimited number of years. ▪ Covers 20 percent of first \$10,000 in fee payments (up to \$2,000 per tax year). ▪ Designed for students who: <ul style="list-style-type: none"> - Already have a bachelor’s degree. - Carry any unit load. - Seek to transfer or obtain a degree/ certificate—or simply upgrade job skills. ▪ Provides full benefits at adjusted income of up to \$100,000 for married filers (\$50,000 for single filers) and provides partial benefit at adjusted income of up to \$120,000 (\$60,000 for single filers). 	<ul style="list-style-type: none"> ▪ Reduces taxable income. ▪ Deducts between \$2,000 and \$4,000 in fee payments (depending on income level). ▪ Designed for any student not qualifying for a tax credit. ▪ Capped at adjusted income of \$80,000 for single filers and \$160,000 for married filers.

As a result of these financial aid programs, nearly one-half of undergraduates at CSU and about one-third at UC and CCC effectively pay no fees. As such, they are fully protected from fee increases. Furthermore, many of these students receive financial aid to cover additional costs of attendance.

The general public often does not have a good understanding of how various financial aid programs work together to help make college affordable for many families.

Who Feels the Squeeze?

The financial aid programs described above are designed to help low-income and middle-income families afford college costs. They do not, however, cover all costs of attendance for students who qualify. Moreover, there are many students who do not qualify for need-based aid, even though their families may find it difficult to afford college costs. This is especially true for families above California's median income. Their income may be high enough to disqualify them from grant aid, but not so high as to cover all costs of attendance without substantial loans and student contributions from work.

California has earned high marks for affordability in national rankings, primarily because it provides a low-cost option for students through the community colleges. Attending a community college or public university while living at home with parents remains an affordable option for many Californians. Recent funding reductions and enrollment surges at the community colleges, however, have made it more difficult for students in many districts to enroll in the courses they need. Low cost options remain available, but are increasingly difficult to navigate at resource-constrained campuses.

ISSUE 3: GOVERNOR'S PROPOSAL TO REDUCE THE CAL GRANTS PROGRAMS

The issue before the Subcommittee is the Governor's budget proposal to provide funding for Cal Grant entitlement programs to cover increased costs resulting from fee increases at the universities. It also fully funds the Cal Grant C program for occupational and technical training, and several loan assumption programs.

However, the Governor's proposes to suspend the Cal Grant competitive awards for 2010-11 to save \$45.5 million and as part of his trigger reductions, in the event a proposed \$6.9 billion in additional federal funding does not materialize, includes additional reductions of \$79 million to the Cal Grant Entitlement Programs.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Student Aid Commission
- California Postsecondary Education Commission

BACKGROUND

Since the inception of the Cal Grant entitlement and competitive program in 2000, annual augmentations have been provided to cover increased participation in all segments and fee increases at the universities. Fees at the community colleges are covered by a separate fee waiver program. From 2007-08 to 2009-10, General Fund support was increased by a total of \$147 million to cover these Cal Grant costs, as shown in the figure below.

Proceeds from the Student Loan Operating Fund provided an additional \$24 million in 2008-09 and \$32 million in 2009-10 toward Cal Grant funding – bringing the two-year increase in total funding to about 20 percent. Participation in the programs has remained relatively stable for the past three years. Most of the cost increases are due to higher fees – which drive up the cost of the program for each student served.

The figure also shows that support for the commission's operations declined by more than 25 percent over the same period. The commission has absorbed these reductions by a combination of improvements in automation and lower levels of service, such as reduced customer service call center hours.

General Fund Support for California Student Aid Commission

(In Millions)

	Actual 2007-08	Actual 2008-09	Estimated 2009-10	Change From 2007-08	
				Amount	Percent
Grant Aid Programs	\$851.7	\$877.4	\$999.0	\$147.3	17.3%
State Operations	13.6	10.8	9.8	-3.7	-27.4
Totals	\$865.2	\$888.3	\$1,008.9	\$143.6	16.6%
Source: LAO					

THE CAL GRANT PROGRAMS

High School Entitlement Program. Under this program, every graduating high school senior who meets financial need and academic eligibility criteria, and applies by the deadline in the year of graduation or the following year, is guaranteed a Cal Grant A or B award. About 194,000 new and continuing high school entitlement awards are projected for 2010-11.

- Cal Grant A awards cover full systemwide fees at the University of California and California State University, and provide tuition support at private California colleges and universities. For 2010-11, Cal Grant A pays \$10,302 at the University of California, \$4,026 at California State University, and \$9,708 at the non-public colleges.
- Cal Grant B awards provides up to \$1,551 for books and living expenses for students with greater financial need in the first year and also help pay for fees beginning in the second year.

Transfer Entitlement Program. The transfer entitlement is for graduates of California high schools who transfer from a California Community College to a qualifying baccalaureate-degree granting institution. Students must also meet financial and academic eligibility criteria, and be under the age of 28 at the end of the year in which they first receive an award. This was recently raised from 24 years by Chapter 822, Statutes of 2006 (AB 2813, De La Torre). As under the high school entitlement, transfer entitlements include both A and B awards, with the same maximum for books and living expenses. About 14,000 new and continuing transfer entitlement awards are projected for 2010-11.

Competitive Program. The Cal Grant Competitive Award Program is for students who meet the basic eligibility criteria of the entitlement program (such as income and grade point average), but do not qualify for those awards. This may be because of age, or a delay in attending college following high school graduation. Recipients are selected for A and B awards from the applicant pool through a competitive process based largely on family income and grade point average, with special consideration for disadvantaged students. For example, students are more likely to receive an award if they received a GED, have been out of high school for several years, or attended a high school with a low college-going rate or a high proportion of students eligible for free and reduced-price lunch. Because of limited funding the state only authorizing 22,500 new grants annually, therefore, only about one out of every nine qualified applicants receive awards. About 54,000 new and renewal competitive grants were awarded in the current year.

Cal Grant C. This program provides up to \$2,592 for tuition and fees and up to \$576 for other costs for eligible low- and middle-income students preparing for occupational or technical careers. About 7,400 new awards are authorized for 2010-11.

GOVERNOR'S PROPOSALS

Suspension of Cal Grant Competitive Program – \$45.5 million in General Fund Savings

The competitive program accounts for about one-fifth of Cal Grants and 14 percent of grant dollars. Unlike the entitlement programs, it is selective. Criteria are weighted with 70 percent based on grade point average (GPA) and 30 percent based on various measures of disadvantage (such as parents' educational level, family income, and household size).

In his budget summary, the Governor describes the suspension of new awards as Cal Grant reform, and asserts that the competitive program is largely duplicative of the entitlement programs, which is inaccurate. This proposal would provide \$45.5 million in General Fund savings.

The figure below compares average age, income, GPA and family size for recipients of the high school entitlement and competitive programs. The competitive program services older students, many of whom are financially independent from their parents. Both programs serve very low-income, financially needy students. The competitive program recipients have a higher average GPA than those in entitlement programs.

The Cal Grant competitive program serves nontraditional students who are seeking education and training. About two-thirds of these students attend CCC. Suspending the state competitive program would undermine a key part of the state's affordability strategy. In order to maintain the state's commitment to affordability in higher education, the LAO recommends the Legislature seek alternative savings, and consider suspension of the competitive program only as a last resort.

Cal Grant Recipient Characteristics

2007-08

Averages	Entitlement Program ^a	Competitive Program
Age	18	30
Grade point average	3.10	3.27
Income	\$28,771	\$14,895
Family size	4.1	3
a High school component only.		
Source: California Student Aid Commission.		

Decoupling the Cal Grant awards & Freezing Income Ceilings - \$79 million in General Fund Savings

Under the Governor's trigger proposal, Cal Grants would no longer cover full fees. As a result, Cal Grant recipients would have to secure additional financial aid or pay for fee increases out of pocket. This proposal would affect all Cal Grant recipients at UC and CSU (about 115,000 students), as well as other recipients planning to transfer to one of the public universities. In addition to creating a potential barrier to affordability for these students, this action would complicate public awareness efforts about college affordability.

Currently, CSAC and its outreach partners can deliver a clear message: if students meet established eligibility criteria and enroll in a public university, they will qualify for Cal Grants that pay their full fees for three to four years of postsecondary education. If the link with fees is broken, the clarity of the message will suffer. This is important because studies show that perceived complexity in financial aid programs deters students and families from applying. In addition, linking Cal Grant amounts to fee levels provides a logical basis for funding. Without this link, the amounts would be arbitrary, making budgeting more difficult for state policymakers as well as students and families.

The second part of the Governor's trigger reduction, freezing income ceiling for Cal Grant eligibility at current-year levels, would have a smaller impact, affecting about 280 students. The income limits are normally increased by the previous year's percent change in per capita personal income. The projected savings, however, are also relatively small.

LAO RECOMMENDATIONS

The LAO questions the value of "moving the bar" on income eligibility for these savings. Initially the number of students affected would be small, especially during a period of slow or negative income growth. If this practice is continued, however, it could cause an erosion of the program's value over time by reducing the pool of eligible applicants. It could also set a precedent for arbitrary changes to eligibility requirements that reduce the program's effectiveness in serving financially needy students.

The LAO provided alternative solutions in their *2010-11 Budget: Higher Education* analysis, that could yield General Fund savings with less damage to the structure of California's financial aid system.

- **Increase Minimum GPA for Cal Grant B Eligibility to 2.5.** Under the High School Entitlement program, students must attain a high school GPA of 3.0 to qualify for a Cal Grant A which provides full fee coverage for four years. Students may qualify for the Cal Grant B, which provides a stipend of \$1,551 each year and full fee coverage after the first year, with a 2.0 GPA. Students with a GPA of 2.0 have extremely low rates of persistence and success in college. Estimates show fewer than 20 percent of students with high school GPA of 2.0 or less graduate from the CSU in six years or more. Raising the GPA requirement would eliminate about 13,500 students from entitlement program eligibility, and save \$13 million.
- **Limit New Competitive Cal Grant Awards to Stipends Only.** While suspending competitive Cal Grant awards would affect about 17,000 students and create a significant gap in the state's financial aid strategy, the state has other options for reducing expenditures in this program that would affect fewer students. Currently, community college students receive three-quarters of new competitive awards but only one-third of new funding. Students at UC, CSU, nonprofit colleges and universities, and private career schools receive one-quarter of awards (about 4,000) with the majority of funding. This is largely because community college students do not receive fee coverage as part of their grant awards. They qualify for BOG fee waivers, and receive a \$1,551 annual stipend to cover expenses other than fees. Restricting all new competitive awards to this amount would not affect the three-quarters of new recipients who are CCC students. Other students would have the option to attend a community college for two years with fee waivers and stipends, or seek additional financial aid at other institutions. This would create about \$20 million in General Fund savings versus the \$45 million the Governor assumed from suspending competitive awards.

- ***Eliminate Non-Need Based Fee Waivers.*** The state has two programs which waive fees for survivors and dependents of deceased and disabled public safety workers and veterans – regardless of a student's financial situation. These programs account for more than \$20 million in foregone fees at public colleges and universities. Although we recognize the disability of honoring service and sacrifice, we believe that state financial aid resources should be targeted to students who would otherwise not be able to afford college. In both instances, there are similar federal assistance programs that serve these populations.

STAFF COMMENTS

The Legislature has consistently rejected the Governor's proposals to cut or change the Cal Grant program. At a time of skyrocketing student fees, and decreased access to the state's public higher education institutions, the Cal Grant program is one of the few programs low-to-moderate income families have been able to count on to help finance a college education.

ISSUE 4: FINANCIAL AID OUTREACH PROGRAMS

The issue before the Subcommittee is an informational item regarding two federally funding programs administered by the California Student Aid Commission. This item will be held open pending May Revision.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Community Colleges
- California Student Aid Commission
- CaliforniaColleges.edu

BACKGROUND

The California Student Aid Commission serves to increase public awareness of the Cal Grant programs and to assist students and families with completing the often complex federal and state financial aid processes. In addition, the State has funded the public higher education institutions through various means to increase available financial aid information and support to students and families.

The following is a summary of the major financial aid outreach and public awareness programs currently funded by the State:

- **California Community Colleges "icanaffordcollege.org Campaign".** In the 2003-04 Budget Act, as part of an agreement that implemented a major community college fee increase, \$38 million was redirected from within the California Community College system budget to the Board Financial Assistance Program – Student Financial Aid Administration (BFAP-SFAA) allowance, specifying that \$34.2 million would be dedicated to increasing community college financial aid administrative capacity and outreach in an effort to mitigate the negative effect of the fee increase. In addition, the Budget Act designated the remaining funds in 2003-04, \$3.8 million (now funded at \$2.8 million), for a statewide media campaign to promote public awareness of financial aid availability and increase participation.
- **California Cash for College Program.** In 2007, the California Cash for College program was codified into the Education Code through AB 1540 (Bass) and is now a Student Aid Commission operated program. The Cash for College program provides hands-on, multi-lingual assistance to students and their families by helping them complete the universally required federal financial aid form – the FASFA. In 2007, more than 420 local Cash for College workshops were offered in 44 counties across California, serving close to 15,000 students and their family members. In 2008, more than 23,000 low-income students were served at more than 500 workshops in 52 out of 58 counties across California. For the 2008-09 fiscal year (and 2009-10), the Cash for College program is funded at \$330,000 (\$130,000 of which is state operations monies) using a portion of the federal College Access Challenge Grant. This level of funding represents an over 50% reduction of funding for Cash for College program services from the prior year. At its height, the Commission had funded the Cash for College program for the 2007-08 fiscal year at \$661,643 from the Student Loan Operating Fund. The Assembly has attempted to increase funding for Cash

for College to expand its reach to more students and families but this effort has been unsuccessful.

- **California Student Opportunity and Access Programs (Cal-SOAP).** The California Student Opportunity and Access Program (Cal-SOAP) was established by the State Legislature in 1978. At that time, five projects were established with the \$250,000 appropriated for the program. Cal-SOAP was established to improve the flow of information to students about postsecondary education and financial aid while simultaneously working at raising the achievement levels of low-income, elementary and secondary school students. Today, the 15 Cal-SOAP consortia operate in seventeen outreach service areas throughout the State. Cal-SOAP was funded at \$8.6 million from 2001-02 through 2006-07, with four years of funding from the Student Loan Operating Fund. In 2007-08 funds were shifted back to the General Fund and reduced to \$6.3 million. Cal-SOAP is now funded at \$7.3 million using a portion of the federal College Access Challenge Grant as originally proposed by the Governor, and Cal-SOAP's mission has been modified to include career technical education as proposed by the Governor. The Assembly has attempted to restore funding for Cal-SOAP to its 2006-07 using Student Loan Operating Fund revenues but this effort has been unsuccessful.
- **CaliforniaColleges.edu.** This program was established in 2000 to reduce the duplication and complexity of information about college and career options in California. Administered by the inter-segmental Coordinating Committee of the California Education Round Table, this website is the common electronic portal to higher education in the State. In 2010-11, it will continue to receive funding through the Kern County Grant (Proposition 98 dollars), which allocates \$500,000. It also receives \$20,000 from ScholarShare and \$20,000 from GEAR UP. Additional expenses have been covered for the past three years from a one-time grant from EdFund. The entity has informed the Legislature that it will experience a shortfall of \$91,502 for 2010-11.

The Federal College Access Challenge Grant Program

The State has used support from the federal College Access Challenge Grant Program to continue some of its financial aid public awareness and hands-on-assistance to families. Through the Challenge Grant, projects are authorized to: promote financial literacy and debt management; assist students in completing the Free Application for Federal Student Financial Aid (FAFSA); and offer student loan cancellation or repayment or interest rate reductions for borrowers who are employed in a high-need geographical area or a high need profession.

California has used the Challenge Grant to continue funding Cash for College (\$330,000) and Cal-SOAP (\$7.35 million), albeit at lower levels than these programs were previously funded. Through the recently enacted Federal Health Care and Education Reconciliation Act of 2010, President Obama and Congress were successful in increasing funding for the Challenge Grant from \$66 million a year to \$150 million a year from 2010-2014. It is estimated that California may gain an additional \$75 million over the next five years (or close to \$15 million annually) to fund programs for students. Given the tremendous access and affordability challenges in California due to the State's fiscal situation, it is important that the Legislature participate in the process to determine the best uses of these funds and to indicate its priorities in future appropriations related to the Challenge Grant.

ISSUE 5: UPDATE – SALE OF EDFUND & STUDENT LOAN OPERATING FUND

The issue before the Subcommittee is an update regarding the sale of EdFUND and federal changes to the Federal Family Education Loan Program (FFELP). The Subcommittee will inquire as to the status on the Student Loan Operating Fund.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- EdFund
- California Student Aid Commission

BACKGROUND

EdFund is a statutorily created auxiliary organization of the California Student Aid Commission that administers the Federal Family Education Loan Program on behalf of the State. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program, which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

On March 21, 2010, the United States Congress passed H.R. 4872, *The Student Aid and Fiscal Responsibility Act*, which makes significant changes to the federal student loan process. H.R. 4872 converts all new federal student lending to the Direct Loan program. Beginning July 1, 2010, all new federal student loans will be originated through the Direct Loan program, instead of through the federally-guaranteed student loan program. The Direct Loan program has the U.S. Treasury make direct loans to the student, rather than having bank loan the funds and the State guarantee the loan if the student defaults.

Colleges and universities which offer student loan programs had a choice between a variety of FFELP "guarantors" or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFund, freeing the organization of State bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

SB 89 (Chapter 182, Statutes of 2007), authorized the sale of EdFund. At the time, the sale was estimated to produce \$1 billion in General Fund revenue.

The Department of Finance has issued the Request for Qualifications for potential buyers of EdFund. Responses were received during the Fall 2009. Final bids for the sale of EdFund were due on April 15, 2010.

STUDENT LOAN OPERATING FUND

Federal statute governs the use of guaranty agencies' operating funds. Specifically, federal statute allows these monies to be used for (1) guaranty agency-related activities, including application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, and compliance monitoring; (2) financial aid awareness and related outreach activities; and (3) other student "financial aid-related activities." Currently, EdFund uses its operating fund monies both for loan-related activities and financial aid outreach activities. Additionally, the commission uses SLOF monies to support all its operating costs.

If EdFund is sold, the SLOF will no longer be available to support commission costs. Until then, it may be possible to continue using SLOF balances for operating, outreach and grant costs.

However, it is important that the Subcommittee be aware of the current funding amount and possible level of funding the Legislature can redirect in the event that it requires seeking other funding sources to maintain the State's Cal Grant programs intact.

California Student Aid Commission
 Non-loan Program Expenditures from SLOF
 (\$ in millions)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Administration - Grant Programs		1.4	10.7	10.9	11.1	13.5				47.6
Cal SOAP		8.6	8.6	8.6	8.6	8.6				43.0
Cal Grant Program				146.5	51.0			24.0	32.0	253.5
Public Awareness Campaign*			3.0	3.0	2.0	2.0	1.7			11.7
Cash for College*				0.3	0.5	0.6	0.5			1.9
Total	-	10.0	22.3	169.3	73.2	24.7	2.2	24.0	32.0	357.7

ISSUE 6: OVERVIEW OF THE CALIFORNIA COMMUNITY COLLEGES' FUNDING & FLEXIBILITY PROPOSALS

The issue before the Subcommittee is the Governor's proposal to provide \$219 million, or 3.9 percent, over the revised current-year level. When the \$163 million deferral payment is excluded, Proposition 98 programmatic support for CCC grows by about \$56 million, or 1 percent, over current-year levels.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Community Colleges

BACKGROUND

The Governor's proposed augmentations are the net of several changes, including:

- An increase of \$126 million for 2.2 percent enrollment growth for apportionments;
- A reduction of \$23 million resulting from a 0.38 percent negative COLA to apportionments and categorical programs;
- A reduction of \$28 million in Proposition 98 support for Career Technical Education (CTE) Pathways Initiative (SB 70);
- Base cuts of \$10 million each to Extended Opportunity Programs & Services (EOPS) and Part-Time Faculty Compensation; and,
- A technical adjustment of \$163 million which represents payments owed to community college districts in 2009-10 that were deferred until 2010-11.

The Governor proposes some additional flexibility for the community colleges, listed below:

- **Contact-Out Services.** The proposal eases certain restrictions on districts to contact out for non-instructional services.
- **Suspend Full-Time Faculty Requirements.** The proposal suspends a requirement that prescribes the percentage and number of full-time faculty that districts must employ each year.
- **Suspend Mandates.** The proposal allows districts to choose whether to perform various activities. *This issue was discussed Tuesday, May 4, 2010.*
- **Categorical Flexibility Changes.** The proposal places three currently protected categorical programs in the "flex item" and remove the Career Technical Education from this flexibility, which would reduce districts' flexibility.

California Community Colleges Governor's Proposition 98 Budget Proposal

(Dollars in Millions)

2009-10 (Enacted)	\$5,668.8
Local property tax adjustment	\$6.3
2009-10 Revised	\$5,675.1
Proposed Budget-Year Augmentations	
Enrollment growth for apportionments	\$126.0
Proposed Budget-Year Reductions	
Cost-of-living adjustment (COLA) for apportionments	-22.1
COLA adjustment for certain categorical programs	-0.8
Reduce Career Technical Education (CTE) Initiative	-28.0 ^a
Reduce Extended Opportunity Programs and Services	-10.0
Reduce Part-Time Faculty Compensation program	-10.0
Suspend mandates	— ^b
Other Adjustments	
Payment of prior-year deferral	163.0
Technical adjustments	1.3
2010-11 Proposal	\$5,894.6
Change From 2009-10 Revised Budget	
Amount	\$219.4
Percent	3.9%
^a The Governor's budget proposes to provide the CTE Pathways Initiative with a total of \$20 million in Proposition 98 resources in 2010-11, with an additional \$48 million in non-Proposition 98 support through the Quality Education Investment Act (grand total of \$68 million for the program).	
^b Reduction of \$3,000 to reflect proposal to suspend, rather than defer, three mandates.	
Source: LAO	

ISSUE 7: CALIFORNIA COMMUNITY COLLEGES – CONTRACTING OUT

The issue before the Subcommittee is the Governor's proposal to ease certain restrictions on districts to contract out for non-instructional services.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Community Colleges

BACKGROUND

Under current law (SB 1419, Chapter 894, Statutes of 2002), school districts can contract out for many non-instructional services -- such as food service, maintenance, clerical functions, and payroll -- only if certain conditions are met. For example, a district can contract out for services to achieve cost savings, however, there must be a clear demonstration that the contract will result in actual overall cost savings to the district.

Current law specifically prohibits the approval of contracts solely on the basis that savings will result from lower contractor pay rates or benefits, and requires that contractor's wages be at the industry's level and not undercut district pay rates. Current law also does not allow for the displacement of district employees (defined as layoff, demotion, involuntary transfer to a new classification, involuntary transfer to a new location requiring a change of residence, and time base reductions).

GOVERNOR'S PROPOSAL

The Governor's proposal amends existing law governing contracting out for personal services to remove provisions that currently: (1) disallow approval of contracts solely on the basis of cost savings; and, (2) disallow contracts if it causes displacement of school employees who previously provided the services. This new authority would become effective for personal services contracts entered into after January 1, 2011.

LAO RECOMMENDATIONS

The Legislative Analyst's Office supports the Governor's attempt to increase CCC's districts' fiscal and program flexibility. The LAO recommends adopting the Administration's language to allow additional contracting out.

STAFF COMMENTS

There are no State savings associated with this proposal. Given that this proposal amends current law, it would be imperative that any major policy change be directed to the policy process for a full vetting of the implications of the proposed changes.

ISSUE 8: CALIFORNIA COMMUNITY COLLEGES – SUSPEND FULL-TIME FACULTY REQUIREMENTS

The issue before the Subcommittee is the Governor's proposal to suspend a requirement that prescribes the percentage and number of full-time faculty that districts must employ each year until 2012-13.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Community Colleges

BACKGROUND

Instruction at the community colleges is provided by a combination of full-time (permanent) and part-time (adjunct) faculty. State statute expresses legislative intent that 75 percent of credit instructional hours be taught by full-time faculty, with no more than 25 percent taught by part-time faculty. Implementing regulations developed by the Board of Governor's (BOG), which oversees the statewide system, generally require districts move closer to the 75 percent target by hiring more full-time faculty in years in which they receive additional enrollment funding.

While the 75/25 statutory ratio is merely a guideline for districts, the CCC regulation (commonly known as the full-time Faculty Obligation Number, or FON) imposes financial penalties on districts that fail to meet their employment target for full-time faculty members.

The Governor proposes to suspend the 75.25 law (and with it, the FON regulation) until 2012-13 in order to provided added flexibility to districts.

LAO RECOMMENDATIONS

There are several benefits to colleges employing full-time faculty. For example, full-time faculty members are more likely to provide direction and leadership for program planning and curriculum development. However, it is widely acknowledged that part-time faculty can provide many benefits, as well.

For example, they can bring unique and practical experience to the classroom. The use of part-time faculty can also allow colleges to respond quickly to changing student demands and labor-market needs. While the State has an interest in ensuring that districts employ faculty to maximize educational outcomes, we have not seen any evidence that prescribing a specific ratio or number for full- and part-time faculty will do this.

If the community colleges received additional enrollment growth funds (as proposed by the Governor) and the FON requirement continued to remain in effect, districts could be required to hire new full-time faculty regardless of their own local spending preference or priorities. For instance, certain districts might prefer to delay making a commitment to employ additional permanent faculty (and instead hire part-time faculty) given the uncertainty of the State's – and by extension CCC's – current fiscal condition. Other districts may prefer to first hire back valued non-instructional staff that were recently let go, such as counselors and tutors. In order to increase districts' ability to make their own resource-allocation decisions, the LAO recommends the Legislature adopt the Governor's proposal.

STAFF COMMENTS

There are no State savings associated with this proposal. Given that this proposal amends current law, it would be imperative that any major policy change be directed to the policy process for a full vetting of the implications of the proposed changes.

ISSUE 9: CATEGORICAL PROGRAMS' FUNDING & FLEXIBILITY PROPOSAL

The issue before the Subcommittee is the Governor's proposal to fund the community colleges' categorical program and amend the flexibility proposal.

- Adds Basic Skills, Extended Opportunity Programs and Services to be in the flex item.
- Removes the Career Technical Education Program out of the flex item.
- Provides the Career Technical Education Program with \$20 million in Proposition 98 funding, by reducing \$10 million from EOPS and Part-Time Compensation Program. Also proposes to provide an additional \$48 million in non-Proposition 98 support through the Quality Education Investment Act (QEIA).
- Imposes a negative COLA of -0.38 percent on 5 categorical programs, for a total reduction of \$800,000. Programs affected: Apprenticeship, EOPS/CARE, Disabled Students Program, Matriculation, and Child Care Tax Bailout.

BACKGROUND

To help districts better accommodate these reductions, the budget package moved 12 of the community colleges 21 categorical programs into a flex item. From 2009-10 to 2012-13, districts are permitted to transfer funds from categorical programs in the flex item to any other categorical spending purpose. Such decisions must be made by local governing boards at publicly held hearings. By contrast, funding in categorical that are excluded from the flex item must continue to be spent on their own specific program in accordance with statutory and regulatory requirements.

2009-10 Budget Package's "Flex Item" for California Community College Categorical Programs

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate	Basic Skills Initiative ^a
Apprenticeship	CalWORKs Student Services
Campus Child Care Support	Disabled Students Program
Career Technical Education Initiative ^b	Extended Opportunity Programs and Services ^a
Economic and Workforce Development	Financial Aid Administration
Equal Employment Opportunity	Foster Care Education Program
Matriculation	Fund for Student Success ^a
Part-Time Faculty Compensation	Nursing Grants
Part-Time Faculty Health Insurance	Telecommunications and Technology Services
Part-Time Faculty Office Hours	
Physical Plant and Instructional Support	
Transfer Education and Articulation	
^a Governor proposes to include this program in flex item beginning in 2010-11.	
^b Governor proposes to remove this program from the flex item in the current and budget years.	
Source: LAO	

Community College Programs Funded by Proposition 98a

(Dollars in Millions)

	Actual 2007-08	Actual 2008-09	Revised 2009-10	Proposed 2010-11	Change From 2009-10	
					Amount	Percent
Apportionments						
General Fund	\$3,385.7	\$3,144.2	\$3,213.0	\$3,517.0	\$304.0	9.5%
Local Property Taxes	1,970.7	2,010.7	1,953.2	1,913.3	-40.0	-2.0
Subtotals	(\$5,356.4)	(\$5,154.9)	(\$5,166.2)	(\$5,430.3)	(\$264.1)	(5.1%)
Categorical Programs						
Academic Senate	\$0.5	\$0.5	\$0.3	\$0.3	—	—
Apprenticeships	15.2	14.6	7.2	7.1	—	-0.4%
Basic Skills Initiative	33.1	33.1	20.0	20.0	—	—
CalWORKs student services	43.6	43.6	26.7	26.7	—	—
Campus child care support	6.8	6.8	3.4	3.3	—	-0.4
CTE Initiative	10.0	20.0	48.0	20.0	-\$28.0	-58.3
Disabled Students Program	115.0	115.0	69.2	69.0	-0.3	-0.4
Economic and Workforce Development	40.7	46.8	22.9	22.9	—	—
EOPS	122.3	122.3	73.6	63.3	-10.3	-14.0
Equal Employment Opportunity	1.7	1.7	0.8	0.8	—	—
Financial Aid Administration	51.6	51.3	52.9	55.0	2.1	4.0
Foster Parent Education	5.2	5.3	5.3	5.3	—	—
Fund for Student Success	6.2	6.2	3.8	3.8	—	—
Matriculation	101.8	101.8	49.2	49.0	-0.2	-0.4
Nursing grants	21.0	22.1	13.4	13.4	—	—
Part-Time Faculty Compensation	50.8	50.8	24.9	14.9	-10.0	-40.1
Part-Time Faculty Office Hours	7.2	7.2	3.5	3.5	—	—
Part-Time Faculty Health Insurance	1.0	1.0	0.5	0.5	—	—
Physical Plant/Instructional Support	27.3	27.3	—	—	—	—
Telecommunications/Technology	26.2	26.2	15.3	15.3	—	—
Transfer Education	1.4	1.4	0.7	0.7	—	—
Subtotals	(\$688.7)	(\$705.0)	(\$441.5)	(\$394.8)	(\$46.7)	(-10.6%)
Other Appropriations						
District financial-crisis oversight	\$0.6	\$0.6	\$0.6	\$0.6	—	—
Lease revenue bond payments	63.1	68.1	66.8	68.9	\$2.0	3.0%
Mandates	4.0	—	—	—	—	—
Subtotals	(\$67.7)	(\$68.7)	(\$67.4)	(\$69.4)	(\$2.0)	(3.0%)
Totals	\$6,112.8	\$5,928.6	\$5,675.1	\$5,894.6	\$219.4	3.9%

^a Excludes available funding appropriated in prior years and scores deferred monies in the fiscal year in which they were received.

CalWORKs = California Work Opportunity and Responsibility to Kids; CTE = Career Technical Education; EOPS = Extended Opportunity Programs and Services.

Source: LAO

GOVERNOR'S PROPOSAL**Add Three Currently Protected Categorical Programs to Flex Item & Removes the Career Technical Education Program from Flex**

As part of his emphasis on flexibility, the Governor's budget proposes to add three categorical programs to the flex item: the Basic Skills Initiative, EOPS, and the Fund for Student Success.

Funds in the **Basic Skills Initiative** (formally known as "Student Success for Basic Skills Students," which is separate from the Fund for Student Success) are used by districts for activities and services such as curriculum development, professional development workshops, and supplemental counseling and tutoring for CCC students who lack college-level proficiency in English and mathematics. Basic Skills is a term typically used interchangeably with foundational skills and remedial and developmental education.

The **Extended Opportunity Programs and Services (EOPS)** provides supplemental services (such as orientation, counseling, tutoring, and financial assistance to purchase textbooks) for low-income – and typically under-prepared – students. (The Cooperative Agencies Resources for Education program is a subset of EOPS that serves welfare-dependent single parents who are attending CCC.)

The **Fund for Student Success** consists of three separate programs: Middle College High School (MCHS); Puente; and Mathematics, Engineering and Science Achievement (MESA).

- The 13 existing MCHS are located in community college campuses. Students in the program typically take their high school classes together during one half of the school day, and attend community college classes during the other half. In addition to working toward a high school diploma, MCHS students have an opportunity to earn an associate's degree and credits that are transferable to a four-year institution. The \$1.5 million of 2009-10 General Fund support for MCHS is typically used for purposes such as helping high school students buy their college textbooks and paying the partial salary of a CCC counselor to advise students and their parents on courses to take.
- Puente is a partnership among 58 community colleges, the UC and the private sector. Staff from the UC Office of the President train CCC faculty to implement the program, which consists of intensive reading and writing classes (typically involving Latino literature), mentoring, and counseling services. The program is designed for students from historically underrepresented groups who are interested in transferring to a four-year institution. In 2009-10, the State provides Puente with \$1.6 million in General Fund monies.
- The purpose of MESA is to increase transfer rates of low-income students pursuing degrees in math-based fields (such as engineering, computer science, and physics). Students in the MESA program receive counseling, tutoring, mentoring, and other services at one of the 30 participating community college campuses. The 2009-10 Budget Act provides \$2.1 million in General Fund support for the programs.

At the same time that it would add flexibility to three categorical programs, the Administration proposes to remove another – the **Career Technical Education Pathways Initiative** – from the flex item.

The CTE Pathways Initiative was created by SB 70 (Scott, Chapter 352, Statutes of 2005). SB 70 established a program to "improve linkages and career technical education pathways" between K-12 and community colleges. These "pathways" are designed to help K-12 students develop vocational skills sought by employers in the area, while also preparing students for more-advanced academic or vocational coursework at a community college or university.

The CCC Chancellor's Office and California Department of Education (CDE) administer the initiative and allocate funds through a competitive grant process. Local projects are jointly developed by community colleges and K-12 entities (high school and Regional Occupational Centers/Programs). Most local projects also are required to involve local business. Grants typically provide short-term improvement funding to develop or strengthen CTE programs rather than ongoing operational support. Currently, the initiative consists of 19 separate grant categories.

As the figure on the following page shows, the program was funded with Proposition 98 funds during the first two years of operations (2005-06 and 2006-07). SB 1133 (Torlakson, Chapter 751, Statutes of 2006) included additional annual funding for the initiative as part of the QEIA. The QEIA payments are suspended in the current year.

As the figure also shows, the Administration's proposal would augment total support for the program would augment total support for the program to \$68 million in 2010-11. It would pay for this augmentation by reducing base support by \$10 million each from the Part-Time Faculty Compensation Program (currently in the flex item) and EOPS (proposed to be in the flex item).

State Support for Career Technical Education Pathways Initiative (SB 70)

2005-06 Through 2010-11 (In Millions)

	Proposition 98	QEIA ^b	Totals
2005-06	\$20 ^a	—	\$20
2006-07	60 ^a	—	60
2007-08	10	\$32	42
2008-09	20	38	58
2009-10	48	—	48
2010-11 (Proposed)	20	48 ^c	68
Totals	\$178	\$118	\$296

^a Funding in these years included reappropriated Proposition 98 reversion and settle-up funds.

^b Quality Education Investment Act (QEIA). These are non-Proposition 98 General Fund monies.

^c The administration has proposed to split the planned \$48 million QEIA allocation for 2010-11 into two allocations: \$30 million for the current year, and \$18 million in the budget year. This does not affect programmatic funding for the initiative.

Source: LAO

LAO RECOMMENDATIONS***Flex Item Recommendations:***

The Governor's plan to add three categorical programs to the flex item is consistent with recommendations the LAO have made in the past. By placing three programs in the flex item, districts would be permitted to decide for themselves how best to allocate funds to targeted purposes. Districts would be free to modify an existing program model to better suit their students, including combining separate pots of categorical funds (such as Matriculation, the Basic Skills Initiative, and Apprenticeships) to address the program of under-prepared students. This could help districts operate their services more efficiently, such as by consolidating categorical programs' various counseling functions. In addition, increasing the number of programs in the flex item could generate savings to districts by eliminating numerous applications, accounting, and monitoring requirements.

The LAO recommends that the Legislature approve the Governor's proposal to add the Basic Skills Initiative, EOPS, and Fund for Student Success to the flex item. In addition, the LAO recommends that the Legislature add the Financial Aid Administration program to the flex item. Doing so would give districts greater ability to select for themselves the best strategies for advising and providing outreach to financially needy students (including perhaps combining elements of the program with other categorical programs that provide services to low-income CCC students).

CTE Funding Recommendation

As the LAO discussed in their 2007-08 Analysis of the Budget Bill, the CTE Pathways Initiative recognizes an important need – better alignment and coordination of vocational programs among K-12 schools, community colleges, local employer communities, and other entities. However, this need must be balanced against many other educational needs in the budget year. In particular, the CCC system is faced with extraordinary demand for classes and various student services. It is for this reason that community colleges need enhanced flexibility over how they allocate their funding. Yet, the Administration's proposal works at cross purposes by cutting base support for two programs in the flex item, while increasing funding for the Pathways Initiative. In order to give districts more discretion in how they use their limited resources, the LAO recommends that the Legislature reject the Governor's proposal to provide \$20 million in additional Proposition 98 support for the program, and instead fund the program entirely with \$48 million in non-Proposition 98 QEIA funds.

Although the Administration seeks to fund the initiative at a higher level than the LAO's recommended amount, the LAO believes that there are opportunities to achieve similar levels of programmatic activity through efficiencies. For instance, the LAO found significant overlap among the initiative's numerous grant categories – for example, grants for career exploration and other outreach-related activities aimed at K-12 students are included in two different grant categories. There are also two additional grant categories related to career exploration and other outreach-related activities aimed at K-12 students are included in two different grant categories. There are also two additional grant categories related to career development just in health-care fields. There are also numerous grant categories related to professional development.

In addition, we note that the Career Technical Education Pathways Initiative's 2008-09 Annual Report (submitted by the CCC Chancellor's Office and CDE to the Legislature in November

2009) has identified cases where grantees have failed to provide the State with complete and accurate information about their funded activities (such as the number of students served). The Legislature may wish to restrict grants to only those recipients which fully comply with program requirements.

CATEGORICAL FLEXIBILITY REPORT

The 2009-10 Budget Act required the California Community Colleges Chancellor's Office to report by April 15, 2010 on the amount of funding, if any, districts redirected from each of the categorical programs that fall under this "flexibility" provision.

The spreadsheet developed by the Chancellor's Office presents information related to community college district utilization of the categorical flexibility provided in ABX4 2.

Highlights are as follows:

- 33 of the system's 72 community college districts exercised the flexibility provisions by transferring funds among the various categorical accounts.
- A total of \$1,984,610 was transferred, representing 1.8 percent of the funding available for redirection.
- Two categorical programs represented over 90 percent of all funds "moved out" of the flexibility programs: \$918,751 from Part-Time Faculty Compensation and \$862,204 from Economic Development.
- The two categorical programs receiving most of the redirected funds were Matriculation and Disabled Students Programs & Services.

STAFF COMMENTS

When the Governor first proposed to flex all the categorical programs and reduce them by 50 percent, the Legislature took a compromised approach to reduce non-direct student service programs by a higher percentage than direct student support services and only provide flexibility to certain programs, while protecting essential programs that assist students to successfully navigate the community college system.

The Chancellor's report demonstrates that districts have re-directed funds to key programs that help students navigate college including Matriculation, Disabled Students Program, and Nursing Support Program. A key part of student success is the support students receive from campus support services and programs. These programs help students navigate the system to achieve their educational goals through proper assessment, on-going counseling, tutoring, etc. These support programs save the State costs in the long run by ensuring students get their educational goals accomplished and move out into the workforce. If the Legislature considers re-opening and rearranging the "flex items," it will be important to take into consideration successful outcomes of students navigating and transitioning out of the State's complex higher education system.

Community Tax Bill Out	2	3'320'000	2	542	2	-
Categorical Programs		2009-10 Budget	2009-10 Total	Amount	Amount	Amount

MAY 12, 2010

S U

Number of Districts that used categorical flexibility (as of 4/12/10)

33

Total Number of Community College Districts

55

2009-10 Statewide Report
Utilization of Categorical Flexibility Provision: April 12th Report
CALIFORNIA COMMUNITY COLLEGES

ISSUE 10: LAO RECOMMENDATION – MODIFY 50 PERCENT LAW

The issue before the Subcommittee is a Legislative Analyst's Office recommendation to modify the 50 percent law.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Community Colleges

BACKGROUND

The law, which dates back to 1959, was created presumably to ensure that non-instructional functions (such as administrators' salaries) do not squeeze out course section offerings. Yet, districts already have a strong fiscal incentive to provide classes primarily on the number of students they enroll and instruct in classes. Moreover, districts can increase their instructional costs simply by raising faculty salaries rather than hiring more faculty.

Furthermore, most districts hover near the 50 percent threshold (the statewide average in 2008-09 was about 52 percent). This law can force core student-support services such as counseling and library services to be funded at a lower level than what a campus would otherwise desire. This is problematic because research in recent years consistently has concluded that support services outside the classroom are essential to student success. This is particularly true given that the vast majority of CCC students arrive unprepared for college-level work and often need extra one-on-one help and advising.

The law is arbitrary in many ways, as well. For example, the prorated costs of a counselor who teaches class on choosing a major and related subject matter "counts" toward the 50 percent law, but the portion of personnel costs for the same counselor who later that day advises a student in her office on the same issue does not.

LAO PROPOSAL

The LAO proposes modification to the **50 percent law** to enhance support services. Current law requires districts to spend at least 50 percent of their general operating budget on salaries and benefits of faculty and instructional aids engaged in direct classroom instruction. As the LAO figure below shows, spending on other faculty such as academic counselors and librarians is not counted as instructional costs. Costs for staff that provide services such as campus safety, facilities maintenance, and information technology services also excluded (as well as operating costs such as insurance and utilities). Districts that fall below the 50 percent mark can be subject to financial penalties by the statewide BOG.

As with the full-time faculty requirements, the LAO finds no evidence that this policy, which sets arbitrary restrictions on how colleges can allocate resources, improves student outcomes. Indeed, by limiting districts flexibility to respond to local needs, they can impede the ability of community colleges to provide adequate support services that improve student performance. In order to provide colleges with the flexibility they need to provide the best mix of services for their students, the LAO recommends amending statute to include expenditures on counselors and

librarians as part of instructional costs. Alternatively, the Legislature could take the same approach as recommended for the 75/25 law and suspend it until 2012-13.

The 50 Percent Law Limits How Much Districts Can Spend on Non-Instructional Costs

Counts Toward 50 Percent Target	Does Not Count	Outside the 50 Percent Calculation
<p>Salary and Benefit Costs of:</p> <ul style="list-style-type: none"> Classroom faculty Instructional aides 	<p>Salary and Benefit Costs of:</p> <ul style="list-style-type: none"> Counselors (faculty) Librarians (faculty) Faculty coordinators (such as nursing) Faculty directors (such as EOPS^a) Release time for department chairs Non-faculty in departments Deans and other administrators Board of Trustees Admissions and records staff Business services staff Campus safety staff Facilities and maintenance staff Human resources staff Computer technical support staff <p>Operating Costs:</p> <ul style="list-style-type: none"> Utilities Insurance Legal Audit fees Travel and conference expenses Materials and supplies Replacement equipment 	<ul style="list-style-type: none"> Costs funded by categorical programs Building and equipment leases New equipment Community education

^a Extended Opportunity Programs and Services.

STAFF COMMENTS

There are no State savings associated with this proposal. Given that this proposal amends current law, it would be imperative that any major policy change be directed to the policy process for a full vetting of the implications of the proposed changes.

6440 UNIVERSITY OF CALIFORNIA**ISSUE 11: CHARLES DREW UNIVERSITY OF MEDICINE AND SCIENCE**

The issue for the Subcommittee to consider is a request from Charles Drew University of Medicine and Science for additional state support for its programmatic activities.

PANELISTS

- Dr. Richard Baker – Dean – College of Medicine (CDU)
- Dr. Ron Lau – V.P. Finance (CDU)
- Dr. Mervyn Dymally – Urban Health Institute (CDU)

BACKGROUND

After the Watts riot, then Governor Pat Brown appointed a commission to study the cause of the riot. That commission became known as the McCone Commission, headed by John McCone, former Director of the CIA. The commission made several recommendations; including recommendations around transportation which resulted in the creation of the Los Angeles County Metropolitan Transportation Authority and recommendations around health disparities and services which resulted in the creation of the Los Angeles County Martin Luther King Hospital.

Inspired by the construction of the Martin Luther King hospital, the Charles R. Drew Medical Society of Los Angeles conceived of a post graduate medical school to train doctors to practice in underserved communities. Out of this notion was born the Charles R. Drew Postgraduate Medical School which was subsequently renamed the Charles Drew University of Medicine and Science (CDU).

Over 2500 health professionals have been trained and practice in the underserved areas, by CDU which is a 501(C) 3 tax exempt institution. CDU is the smallest and most diverse Medical School in the country, and ranks in the top ten (of 131) in NIH research. Charles Drew University currently consists of three (3) colleges:

- College of Medicine with UCLA
- College of Science and Health (BA, MPH)
- College of Nursing (Graduate MA level)

A relationship between CDU and the University of California was created by the Legislature and the Governor with the passage of Senate Bill 1026 in 1973. CDU now receives \$8.7 million dollars from the Legislature through an allocation to the University of California. This funding is channeled through UCLA for a medical program consisting of 28 students who spend their first two years at UCLA, and the last two years at CDU. UCLA supplements the medical training program with \$2 million dollars for instructional services. It should be noted that in all of the years of state funding for CDU, CDU has never received a cost of living (COLA) adjustment. In addition, UCLA retains the fees charged to the 28 students who spend their first two years at UCLA.

During the operation of Martin Luther King Hospital, students completed their residency at the hospital. When the hospital closed, students were then placed all in other hospitals primarily in Los Angeles County. The closing of the hospital resulted in a loss of forty percent of revenue for Charles Drew University. Charles Drew University is requesting an additional \$2 million in its base funding and \$2 million for instructional services for the nursing school.