

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

Assemblymember Julia Brownley, Chair

**WEDNESDAY, MAY 2, 2007
STATE CAPITOL, ROOM 126
4:00 P.M.**

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PROPOSED CONSENT CALENDAR (VOTE ONLY)

ITEM 6120 CALIFORNIA STATE LIBRARY (CSL)

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| ISSUE 1: APRIL 1ST DOF LETTER: CALIFORNIA CULTURAL AND HISTORICAL ENDOWMENT RE-APPROPRIATION AND TECHNICAL CORRECTION |
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In an April 1st letter, DOF proposes the following amendments to the January 10th budget:

Amendment to Budget Bill Item 6120-011-0001, Support, and Addition of Item 6120-490, Re-appropriation, California State Library.

6120-011-0001, Support, California State Library (Issue 958)

Issue 958: Technical Correction to Distributed Administration—It is requested that the administration and distributed administration schedules be increased by \$69,000. This adjustment is necessary to properly budget for the State Library's support as a result of various baseline adjustments which were inadvertently not reflected on the administration schedule in the Governor's Budget, such as employee compensation (no new policy). This is only a scheduling issue and is not a request for additional funding.

6120-490, New Re-appropriation Item, California State Library (Issue 959)

Issue 959: Re-appropriation of Expenditure Authority for California Cultural and Historical Endowment— It is requested the balance of Proposition 40 funds be re-appropriated for the California State Library for purposes of administering grant awards for the California Cultural and Historical Endowment. Grant agreement delays have caused the need for a re-appropriation so that projects may be appropriately reviewed and ultimately completed. According to the California State Library, the final round of the grant process will be awarded in May 2007 and projects will be completed by 2010. This action will restore those funds so that the grant process can be completed.

It is requested that Item 6120-490 be added to the Budget Bill to conform with this action, as follows:

6120-490—Re-appropriation, California State Library. The balance of the appropriation provided in the following citation is re-appropriated for the purposes provided for in that appropriation and shall be available for encumbrance and expenditure until June 30, 2010.

6029—California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund

(1) Item 6120-101-6029, Budget Act of 2003 (Ch. 157, Stats. 2003) as re-appropriated by Item 6120-490, Budget Act of 2004 (Ch. 208, Stats. 2004)

ITEM 6440 UNIVERSITY OF CALIFORNIA (UC)

ISSUE 1: CAPITAL OUTLAY PROJECTS (ATTACHMENT 1)

The Governor's proposed budget includes \$573.2 million in bond funds to support UC capital outlay projects in the budget year. The proposed spending would support new phases of 15 projects previously funded by the state at a cost of \$216.9 million. The budget also proposes 13 new projects, costing \$356.3 million in 2007-08 and \$95.5 million in future costs.

ISSUE 2: HEALTH CARE BENEFITS FUND EXPENDITURE AUTHORITY

In an April 1st letter, DOF proposes the following amendments to the January 10th budget:

Amendment to Budget Bill Item 6440-001-3054, Support, University of California

It is requested that Item 6440-001-3054 be increased by \$1,886,000 to allow the University of California to spend the revenues remaining in the Health Care Benefits Fund from fiscal year 2006-07. These funds were not appropriated in the current year because the California Health Benefit Review Program was set to expire on January 1, 2007, but subsequent legislation, Chapter 684, Statutes of 2006 (SB 1704), extended the sunset date of the program until January 1, 2011. This request would augment the funding level proposed in 2007-08, which reflects the Fund's anticipated revenues.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$1,886,000 is provided in one-time funds to support the California Health Benefit Review Program.

ITEM 6610 CALIFORNIA STATE UNIVERSITY (CSU)

ISSUE 1: CAPITAL OUTLAY PROJECTS (ATTACHMENT 2)

The Governor's proposed budget includes \$346 million in bond funds to support 27 CSU capital outlay projects in the budget year. Most of the proposed spending would go for new phases of 19 projects previously funded by the state. The budget also proposes eight new projects, costing \$54 million in 2007-08 and \$134.6 million in future costs.

ISSUE 2: APRIL 1ST DOF LETTER: CSU MONTEREY BAY LIBRARY EQUIPMENT AND SYSTEMWIDE MINOR CAPITAL OUTLAY PROJECTS

In an April 1st letter, DOF proposes the following amendments to the January 10th budget:

Monterey Bay Campus, Library—Equipment. This project has experienced delays resulting from a July 2005 bid failure, coupled with California State University's (CSU) efforts to secure new bidders in a rising construction market. Consequently, the library equipment funding was deferred until a construction contract could be awarded and a timeline for completion established. The construction contract was awarded June 2006 and the project is now on track for completion by September 2008. Therefore, it is requested that equipment funding be provided in 2007-08 so the library building can be ready for occupancy in late 2007-08.

To meet CSU's request:

Add Item 6610-301-6028 to provide funding of \$4,228,000 from the Higher Education Capital Outlay Bond Fund of 2002 for the equipment phase of the Monterey Bay Library project.

Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction. The proposed 2007-08 Governor's Budget includes \$20.0 million in bond funds for Systemwide Minor Capital Outlay Projects. CSU requests adding \$7.0 million in bond funds for additional minor capital outlay handicapped accessibility projects on campuses. In conjunction with this effort, CSU is also working with the Division of State Architect (DSA) to develop a pre-approved path of travel plan on each campus in an effort to expedite the capital outlay plans through the DSA review process and move the projects to bid faster.

Therefore, it is requested to:

Add Item 6610-301-6028 to provide funding of \$7.0 million from the Higher Education Capital Outlay Bond Fund of 2002 to fund Systemwide: Minor Capital Outlay projects. This will be in addition to the funds already proposed in Item 6610-301-0574 to provide Systemwide: Minor Capital Outlay project funding.

ITEM 6870 CALIFORNIA COMMUNITY COLLEGES (CC)

ISSUE 1: CAPITAL OUTLAY PROJECTS (ATTACHMENT 3)

The Governor's proposed budget includes \$546.6 million in bond funds to support 77 CCC capital outlay projects in the budget year. Most of the proposed spending would support new phases of 32 projects previously funded by the state and 35 new projects.

ITEMS TO BE HEARD

ITEM 6440 UNIVERSITY OF CALIFORNIA (UC) / CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE

The subcommittee will hear a presentation by Susan Kelly, Ph. D. FAPS, President of Charles R. Drew University.

BACKGROUND

History. Located in the Watts-Willowbrook section of South Los Angeles, the Charles R. Drew University of Medicine and Science has evolved and grown, shaped by the needs of the community it serves. The institution benefits from its location and the corresponding diversity and complexity of its patient population by creating an academic environment unlike any other. Through innovative basic science, the University conducts education, patient care and research programs including training physicians and allied health professionals to provide care to underserved populations.

Founded in 1966 in response to the lack of adequate medical facilities in the area, the institution later became a University and changed its name in 1987 to reflect its expanded academic role and identity. The University is named in honor of Dr. Charles R. Drew, a brilliant African-American physician, famous for his pioneering work in blood preservation. His dedication to learning and the sharing of knowledge to benefit mankind is the inspiration for the University.

The 11-acre campus includes a day care facility, elementary school, high-school, biomedical library, central administration, educational & learning resources, (basic, clinical and population-based research facilities), and housing for postgraduate students. Based on the concept of the "educational pipeline," a child could conceivably start out in day care, complete all the necessary levels of schooling and graduate as a practicing physician all on one campus.

The University strives to improve the health status of under served communities through innovative biomedical research, and progressive health policies. By maintaining and expanding relationships with local medical schools, research institutions and community-based organizations, Drew is focused on eliminating the health disparities by providing access to and delivery of healthcare services to underserved populations.

Budget. Since 1973, the state has appropriated funds to Drew to support a program of clinical health science education, research, and public service

operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science. State General Funds are provided to Drew under two separate contracts, both administered by the University. One contract relates to state support for medical instruction, including the Postgraduate Medical Education Program and the joint Drew/UCLA Undergraduate Medical Education Program. The second contract covers a separate public service program operated by Drew to provide funding for a prescribed list of health science educational, research, and clinical public service programs in the Watts-Willowbrook community.

Drew University receives state funds for the training of 24 third-year and 24 fourth-year medical students, and for 170 of its 317 residents. State support for the resident training program is provided through the University of California's budget for Medical Education. The County of Los Angeles pays the salaries of all the residents (State-supported and non-state supported) and contributes to faculty salary support.

Drew also receives additional funding for research program and projects. In 2004, the combined research efforts at Drew were awarded in excess of \$35 million in funding. Of those funds, over \$24 million were from the National Institutes of Health.

Research. The Drew Research Enterprises are dedicated to closing the gap in health care disparities among underserved and ethnic minority populations. The important work done by researchers at the University brings attention to health issues and diseases that disproportionately affect minorities and the poor. Diabetes, hypertension, cancer, reproductive health, chronic kidney disease, neuro-psychiatric disorders and HIV/AIDS are just a few of the areas where Drew researchers, faculty and staff members make a difference.

ITEM 7980 CALIFORNIA STUDENT AID COMMISSION (CSAC)**ISSUE 1: ASSUMPTION PROGRAM OF LOANS FOR EDUCATION (APLE)**

The issue for the subcommittee to consider is the Governor's proposals related to specific APLE programs.

BACKGROUND:

The APLE is designed to increase the number of qualified teachers in disadvantaged schools and in high-priority subject areas. Toward that goal, the State issues agreements for annual loan assumptions to students, district interns, and out-of-state teachers pursuing careers in teaching. Through APLE, individuals who teach full-time for at least four consecutive years in a high-need subject area, as determined by the Superintendent of Public Instruction, or teach at low-performing schools receive up to \$11,000 in loan forgiveness. Having already targeted these high need areas, the program then provides up to an additional \$4,000 in loan forgiveness if the individual teaches science, math, or special education and up to another \$4,000 in loan forgiveness if the individual teaches in one of these high-need areas and serves in a school ranked in the bottom two-deciles of the Academic Performance Index (API).

APLE Awards

The Governor's budget proposes an increase of \$2.9 million in General Fund for the anticipated growth in costs of funding new and continuing APLE recipients. He also proposes to authorize 8,000 new APLE warrants, an increase of 600 from the current year.

Math and Science Teacher Initiative APLE Awards

The Governor proposes that the 600 new warrants be allocated exclusively to UC and CSU students participating in the Governor's Math and Science Teacher Initiative. This is the third consecutive time this subcommittee is considering this proposal.

The Legislature has continuously rejected this proposal because this would create a new program within the existing APLE system and would require the authorization of these warrants in statute. In addition, the LAO has also recommended the rejection of this proposal because not all APLE warrants are issued every year and, furthermore, the existing APLE program already creates strong incentives for students to serve as math and science teachers. There is no need to create a new program.

In past years, the Legislature has adopted alternative actions to address this issue including:

- In 2005-06, the Legislature rejected the Governor's proposal and instead approved that priority for 300 new APLE warrants be given to individuals training to become math, science, and special education teachers regardless of the institutions they are attending. The intent of the language was to conform to current statute, which already grants priorities for teachers in these specialty areas. Furthermore, the language recognized that math and science teachers are produced by higher education institutions other than the UC and CSU.
- In 2006-07, the Legislature rejected this proposal but retained the number of authorized new APLE warrants at 8,000. The Governor vetoed the number of awards down to 7,400 and set-aside 600 warrants specifying that these would be allocated to UC and CSU students participating in his initiative pursuant to Legislation. This legislation has yet to be enacted.

State Nursing- APLE (SNAPLE) Program

In 2005-06, the Legislature established the SNAPLE program through trailer bill language, which authorized 100 loan assumption warrants for individuals who obtain a graduate degree in nursing and become nursing faculty at a California Community College or University. Along with the warrants, the Legislature authorized \$100,000 and one position to administer the program. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a SNAPLE participant teaches nursing. Under this program, the state will assume up to \$25,000 in outstanding student loans if the participant teaches nursing for three consecutive academic years.

In 2006-07, the Governor's budget excluded continued authority for new loan assumption warrants despite the Legislative intent that this be an ongoing program. In response, the Legislature authorized CSAC to issue new 100 warrants for the program in the current year.

The Governor's proposed budget, once again, excludes authority to issue new SNAPLE warrants in the budget year. This is the same proposal submitted last year with the exception that CSAC report on the SNAPLE program by April 1, 2008.

State Facilities-Nursing APLE (SNAPLE-SF)

Established by SB 1309, Chapter 837, Statutes of 2006, this program provides up to \$20,000 in loan forgiveness to nursing program graduates who work for four years in a 24-hour state nursing facility with a vacancy rate that exceeds 10 percent.

The current-year budget includes \$30,000 in base funding for the Commission to implement the program, and authorizes the Commission to issue up to 40 awards.

The Governor's 2007-08 budget proposal does not authorize the Commission to issue any additional awards under these programs despite the ongoing nature of this program and the ongoing operational support of staff, which was provided to process these warrants.

SB 139 (Scott), currently moving through the legislative process, would clarify that this program applies to new state employees and not existing state employees.

Public Interest Attorney Loan Repayment Program

AB 935, Chapter 881, Statutes of 2001 established the Public Interest Attorney Loan Repayment Program to encourage licensed attorneys to practice in public interest areas of law, which includes, but is not limited to, legal services organizations, prosecuting attorney's offices, child support agency offices, and criminal public defender's offices. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a Public Interest Attorney practices law in specified arenas. Under this program, the state will assume up to \$11,000 in outstanding student loans if the participant practices public interest law for four years. While this program has been in statute since established by the Legislature in 2001, it has yet to become operational due to an absence of state funding and authority for the Commission to issue loan assumption warrants.

AB 171 (Beall), currently moving through the legislative process, would restructure the program to more closely align it with the existing APLE programs and add county counsel offices as an eligible "public interest" area for purposes of loan forgiveness. Related legislation includes Assembly Bill 1267 (Feuer), which would establish a new Civic Service Loan Assumption Program that would pay back student loans incurred by UC and CSU students who enter "civic" service, as defined.

COMMENTS:

LAO RECOMMENDATION:

Once again, the LAO recommends that the Legislature reject the Governor's proposal to restrict 600 APLE awards exclusively for UC and CSU students participating in the Math and Science Initiative for the following reasons:

- About 10 percent of the authorized warrants have gone unclaimed in recent years
- No evidence has been provided that students participating in the Math and Science Initiative experience any difficulty in receiving an APLE warrant
- Even if the number of students seeking APLE warrants began to exceed the number of authorized awards, statute already directs the Commission to give priority to students seeking mathematics or science credentials

Therefore, the LAO recommends that the Legislature reject the Governor's proposal to restrict 600 APLE awards to UC and CSU Math and Science program participants. Specifically, the LAO recommends that Item 7980-101-0001, Provision 1 (d) be amended as follows:

(d) The purchase of loan assumption warrants under Article 5 (commencing with Section 69612) of Chapter 2 of Part 42 of the Education Code. The Student Aid Commission shall issue 8,000 new warrants. ~~Of this amount, and notwithstanding any other provision of law, the commission shall allocate a total of 600 new warrants to the University of California and the California State University as determined in consultation with those segments, to be awarded to participants in the Science and Math Teacher Initiative. Expenditures associated with these warrants shall not count towards the maximum expenditures specified in Education Code Section 69613.8(c).~~

Budget staff concurs with the LAO recommendation. Further, both Budget staff and the LAO have expressed concern that a set-aside of awards within the existing APLE program will only create confusion for students and administrators and further restrict an already underutilized program. In addition, the development of a new APLE program has traditionally been viewed as a policy issue that should be contained in separate legislation.

The UC and CSU once again will contend that having 600 loan assumption warrants at their disposal is crucial to recruiting UC and CSU students to become math and science teachers, and critical to the ultimate success of their Math and Science Teacher Initiative. They believe that students participating in this initiative will likely have higher completion rates in both the teacher preparation programs and their math/science teaching commitment.

In regards to SNAPLE, Budget staff would like to reiterate that this program was established by the Legislature as an ongoing program. Although the program has had a slow start due to the time consuming process of adopting regulations, CSAC intends to issue at least some of the 100 warrants in the current year. Since these warrants were authorized for 2006-07, the authority will expire June 30, 2007. The Legislature needs to explicitly authorize additional warrants in 2007-08.

Concerning the SNAPLE-SF, Budget staff recommends the authorization of an additional 40 new warrants in 2007-08. As established by the Legislature, this is an ongoing program and new warrants need to be available to be awarded in the budget year.

Budget staff reiterates that although the Public Interest Attorney Loan Repayment Program has been established in statute since 2001, the state has yet to provide the funding and authority to issue the warrants. Budget staff further notes that the

cost of receiving a legal education has increased significantly as professional students fees continue increase year after year. Faced with increasing debt burdens, many law school graduates opt to practice in private firms rather than to go into public interest law due to the lower-paying salaries inherent in those positions.

Pending May Revise and the status of the General Fund, Budget staff recommends that the subcommittee consider the possibility of providing start-up costs for the program including one position and \$100,000 to promulgate regulations and begin implementing this program.

**ISSUE 2: EDFUND AUDIT RECOMMENDATIONS FOLLOW-UP
(INFORMATIONAL ITEM ONLY)**

EdFund President, Sam Kipp, will brief members on the status of the implementation of the State Auditor recommendations.

BACKGROUND:

The Joint Legislative Audit Committee (JLBC) requested that the Bureau of State Audits (BSA) review CSAC's governance and oversight of its auxiliary organization, known as EDFUND, including EdFund's financial management and business practices. The audit committee was interested in ensuring the proper use of State assets in maximizing support for financial aid purposes. The report titled: "California Student Aid Commission: *Changes in the Federal Family Education Loan Program, Questionable Decisions, and Inadequate Oversight Raise Doubts About the Financial Stability of the Student Loan Program*", was released in April 2006.

Audit Highlights

BSA's review of the Commission and EdFund's administration of the FFEL Program revealed the following:

1. Changes in federal laws governing the FFEL Program raise doubts that the State will be able to sustain the program.
2. Ongoing tensions between the Commission and EdFund have hampered the Commission's ability to renegotiate a revenue agreement with the U.S. Department of Education, which may have cost the State at least \$24 million in federal fiscal year 2005. These tensions also have delayed attempts to expand and diversify EdFund's financial services.
3. The Commission approved sizeable bonuses for EdFund executive staff even when the FFEL Program had an operating deficit.
4. The Commission has maintained poor oversight over EdFund. For example, the Commission has not ensured that EdFund travel and business policies are fiscally conservative, which results in less funding available for the Commission to fulfill its mission.

COMMENTS:

REPORT: Implementation of State Auditor's Recommendations, Audits Released in January 2005 through December 2006. *Special Report to Assembly Budget Subcommittee #2 on Education Finance (February 2007).*

The report includes the major findings and recommendations, along with the corrective actions the auditees reportedly have taken to implement the BSA's recommendations.

CSAC's response in regards to the corrective actions taken as of December 2006 include:

Finding #1: Federal changes will affect Student Aid's ability to earn surplus funds from the FFEL Program.

Student Aid's Action: Partial corrective action taken.

The Student Aid Commission (Commission) stated that many large lenders have decided to pay the federal default fee for the remainder of the academic year (October 1, 2006 through September 30, 2007) on behalf of borrowers whose loans it guarantees. However, the Commission was unable to provide the State Auditor with documentation to support this statement. Specifically, the Commission stated that it does not require any legal documents such as contracts or agreements from the lenders specifying their commitment to pay the fee and the circumstances under which they will pay the fee for the borrower. The Commission also stated that the Commission and EdFund are actively pursuing a multi-year default fee strategy for new loans guaranteed after July 1, 2007. Further, the Commission stated that EdFund is projecting significant increases in revenues net of expenses for the federal fiscal year 2007 budget and annual forecasts through federal fiscal year 2011. According to BSA's review of EdFund's unaudited data, on average, roughly 25 percent of its projected increases are the result of a change to the federal law that is aimed at expanding graduate and professional student borrowing, which took effect on July 1, 2006. Finally, Student Aid stated that EdFund's chief financial officer regularly reports financial data to its staff, commissioners, and the EDFUND board. BSA's review of EdFund's unaudited data found that it has shifted its collection strategy and has moved away from a focus on consolidation.

Finding #2: Tensions between Student Aid and EdFund have delayed critical activities, resulting in lost revenue.

Student Aid's Action: Partial corrective action taken.

The Commission stated that as of December 8, 2006, the Commission and the U.S. Department of Education had not renegotiated a new VFA. The Commission also stated that, the EdFund board, and California administrative officials are aware of the ongoing efforts by the EdFund president to renegotiate and finalize the new VFA. In addition, the Commission stated that its commissioners and EdFund board members agreed that available capital should be used to invigorate core guarantee business because this focus could produce greater and more immediate revenue returns. However, according to the Commission, it also agreed that EdFund would continue to be alert to potential opportunities to partner

with other entities and to present these options to the Commission. Finally, the Commission hired a consultant in November 2006 to assist in further delineating the roles and responsibilities between the Commission and EdFund.

Finding #3: Student Aid's process for establishing executive salaries and bonuses for EdFund requires improvement.

Student Aid's Action: Partial corrective action taken.

EdFund's Personnel, Evaluation, and Nominations (PEN) Committee developed a draft comprehensive executive compensation policy that incorporates the general principles recommended by the consultant hired to assist it with the evaluation of the existing policy. The Commission stated that the EdFund board would review and approve the draft policy by February 2007 and forward it to the Commission's PEN Committee and commissioners for approval. The Commission also stated that EdFund has retained legal counsel to determine whether or not the draft policy fully complies with all applicable federal and state regulations. According to the Commission, it used the same consultant hired by EdFund to review its policy statement and guidelines memorandum titled EdFund Incentive Compensation Plans and recommend changes. The Commission stated that the EdFund board would review and approve its draft policy statement and guidelines by February 2007 and forward it to the Commission's PEN Committee and commissioners for approval.

Finding #4: The method used to determine non-executive bonuses needs to be reevaluated.

Student Aid's Action: Partial corrective action taken.

The Commission stated that the commission's executive director and EdFund's president have reached agreement on EdFund's federal fiscal year 2006 performance goals except for one issue that addresses the credit to be given for the turnover rate and recovery rate metrics.

Finding #5: More funds would have been available if Student Aid had required EdFund to follow more fiscally conservative policies.

Student Aid's Action: Corrective action taken.

On September 7, 2006, the Commission approved EdFund's revised travel policy, which became effective on October 1, 2006. The travel policy adopts by reference the State's short-term travel reimbursement for all exempt, excluded, and represented employees. However, the travel policy includes certain exceptions such as EdFund's use of the U.S. Internal Revenue Services' per diem rates for meals and incidental expenses and its allowable rate for personal vehicle mileage. According to EdFund, these exceptions were necessary to reflect its status as a nonprofit public benefit corporation and its need to remain competitive with similar corporations in the industry. Also, on September 7, 2006, the Commission approved EdFund's new employee-wide events spending policy,

which became effective on October 1, 2006. The spending policy requires EdFund to prohibit the use of corporate funds for employee-wide benefits, except as approved by its board. However, the Commission approved the policy with the understanding that EdFund's annual budget should reflect a separate line item to highlight any funds to be used for employee-wide events. Finally, EdFund's spending policy prohibits it from using corporate funds to subsidize the costs of guests participating in its employee-wide events.

Finding #6: EdFund did not always comply with its contracting policies.

Student Aid's Action: Corrective action taken.

On September 7, 2006, the Commission approved EdFund's revised procurement/contracts policy, which became effective on October 1, 2006. The policy appears to address the concerns raised by the bureau.

Finding #7: Student Aid needs to improve its oversight of EdFund.

Student Aid's Action: Partial corrective action taken.

On June 22, 2006, the Commission rescinded its delegation of the approval authority of EdFund's detailed operating budget to the EdFund board. In addition, according to the Commission, except for three items, EdFund has addressed the operational issues raised by Commission staff presented in its 2006–07 Loan Program Business Plan and Budget. The unresolved items relate to the multi-year default fee strategy for new loans guaranteed after July 1, 2007, and the Commission's executive director's and EdFund president's resolution of EdFund's federal fiscal year 2006 performance goals involving the credit to be given for the turnover rate and recovery rate metrics. Further, the Commission informed the BSA that it hired a consultant in November 2006 to assist it in further delineating the roles and responsibilities between the Commission and EdFund and that this consultant will also be responsible for evaluating the activities of its oversight division including, but not limited to, the verification of reports submitted by EdFund. Finally, the Commission has been unable to demonstrate that it has addressed three of the six tasks cited in the BSA's report, which are to reexamine the basic assumptions of the current business model, reassess existing strategies, and undertake a thorough organizational risk assessment in relation to the existing portfolio and future growth strategies. Although the Commission stated that these are activities EDFUND has historically addressed and continues to do so, the Commission stated that it would provide the BSA with this information in April 2007.

Finding #8: The EdFund board has violated state law governing closed-session meetings.

Student Aid's Action: Partial corrective action taken.

The Commission reported that EdFund began keeping confidential minutes of its closed sessions as of the beginning of 2006. However, according to Commission,

a policy/procedure for conducting closed sessions and maintaining the confidential minutes book has not been finalized.

Budget staff recommends that that the subcommittee Chair and members request an update on the BSA's recommendations, for which only corrective action has been taken by the Student Aid Commission and EdFund as of December 2006.

ITEM 6440-6610-6870 UNIVERSITY OF CALIFORNIA (UC) / CALIFORNIA STATE UNIVERSITY (CSU) / CALIFORNIA COMMUNITY COLLEGES (CCC)**ISSUE 1: NURSING ENROLLMENT EXPANSION**

The issue for the subcommittee to consider is the Governor's proposals related to nursing enrollment expansion for the UC, CSU and CCC.

BACKGROUND:**UC / CSU**

In 2005-06, the Legislature appropriated \$4 million to begin expanding the master's degree enrollments in nursing at the CSU. The Governor vetoed all but \$560,000 of the funding because he felt that the level of funding provided would exceed the programmatic needs of that year. However, he set aside the vetoed amount of \$3.4 million pending legislation, which would propose different approaches to addressing the nursing shortage in the state and the possibility of including the UC as well.

Senate Bill 73 (Chapter 592, Statutes of 2005) appropriated \$1.7 million to the UC and \$1.7 million to the CSU for one-time costs related to expanding nursing programs in 2005-06 and for support of the actual expansion of nursing enrollments in 2006-07. The legislation states that both the UC and CSU will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07.

During the subcommittee budget process last year, both the Senate and Assembly adopted budget bill language that reduced the \$1.7 million allocation for the UC to \$963,000. Of this amount, \$860,000 are appropriated to fund the full cost of a minimum of 65 FTES in entry-level clinical nursing programs and ELM degree programs in nursing and \$103,000 are appropriated to support an additional 20 master's degree level nursing students. This funding is intended as a supplement to marginal cost support provided to the University within the enrollment growth funding in recognition of the higher costs associated with master's degree level nursing programs. The budget bill language also requires that the UC provide an annual report due by May 1 on the progress towards achieving this enrollment goal.

While the \$1.7 million allocation to support nursing enrollments at the UC was reduced to \$963,000, the Legislature approved the \$1.7 million allocation for the CSU. The *2006-07 Budget Act* includes \$560,000 to support 280 FTES in ELM degree programs in nursing and \$1.7 million to fund the full cost of a minimum of 130 FTES in ELM degree programs in nursing. This funding is intended as a supplement to marginal cost support provided to the CSU within the enrollment growth funding in recognition of the higher costs associated with master's degree

level nursing programs. The budget bill language also requires that the UC provide a report due by May 1, 2007 on the progress towards achieving this enrollment goal.

CCC

In 2005-06, the Legislature allocated \$10 million in Proposition 98 ongoing funds to provide additional support for nursing enrollment expansion and infrastructure development at participating community colleges. This is additional funding to the \$4 million in ongoing funds (a total of \$14 million), which have been appropriated for this same purpose since 2001 pursuant to AB 87 (Jackson), Chapter 514, Statutes of 2001.

The Legislature also approved budget bill language directing the community colleges Board of Governors (BOG) to develop a Request for Proposal (RFP) to allocate these funds as competitive grants for qualifying districts based on the following criteria:

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

The budget bill language also required that the CCC Chancellor's Office submit an annual report to the Legislature and the Department of Finance (DOF) on the allocation of these funds on or before March 1.

The 2006-07 Budget Act provides support for a number of nursing program expansions.

| Major Nursing-Related Appropriations in 2006-07 Budget Package | |
|--|----------------------|
| <i>(In Thousands)</i> | |
| Description | Appropriation |
| University of California | |
| Increase entry-level master's students by 65 FTE students | \$860 |
| Increase master's degree nursing students by 20 FTE students | 103 |
| California State University | |
| Fund startup costs to prepare for nursing program expansions in 2007-08 | \$2,000 |
| Increase entry-level master's students by 280 FTE students | 560 |
| Increase baccalaureate nursing students by 35 FTE students | 371 |
| California Community Colleges | |
| Fund new Nursing Enrollment Growth and Retention Program | \$12,886 |
| Fund enrollment and equipment costs for nursing programs | 4,000 |
| Fund new Nursing Faculty Recruitment and Retention Program | 2,500 |
| California Student Aid Commission | |
| Authorize 100 new SNAPLE awards | — ^a |
| Authorize 40 new nurses in State Facilities APLE awards | — ^a |
| ^a State will not incur costs for forgiving loans under this program until subsequent years. FTE=full-time equivalent; SNAPLE=Student Nursing APLE; APLE=Assumption Program of Loans for Education. | |

2007-08 Governor's Nursing Proposals

UC

The Governor's proposed budget includes a total of \$1.7 million General Fund for nursing enrollments. Of this amount, \$1,617,000 would fund the full cost of a minimum of 122 full-time-equivalent students (FTES) in accelerated Entry-Level Master's (ELM) nursing programs and \$103,000 would be used to support an additional 20 master's degree level nursing students. In addition, the UC intends to educate an additional 216 FTES in baccalaureate nursing degree programs, the cost of which will be absorbed within their normal growth targets.

CSU

The Governor's proposed budget includes \$2.7 million General Fund to continue to support nursing enrollment expansions at the CSU. Of this amount, \$560,000 is provided to support 280 FTES in ELM degree programs in nursing, \$1.7 million to support the full cost of a minimum of 163 FTES in ELM degree programs in nursing, and \$371,000 to support 35 FTES in baccalaureate degree nursing programs.

CCC

The Governor's budget proposes a total of \$25.9 million in Propositions 98 ongoing funds. Of this amount, \$14 million would continue to support nursing program enrollments and equipment needs, \$8.1 million would continue to be used for attrition-reduction services, and \$3.7 million would be used to support additional nursing pre-requisite courses in the areas of Anatomy, Physiology and Microbiology. In addition to the ongoing funds, the Governor's budget proposes a one-time \$9 million augmentation (current year funds) to do the following: (1) use \$5 million to create five new nursing programs, and (2) use \$4 million establish four nursing simulation laboratories.

The *2006-07 Budget Act* included \$16.8 million in funding for the expansion of nursing programs and enrollment at the CCC.

COMMENTS:**LAO RECOMMENDATIONS:*****Standardize Approach for Funding UC/CSU Nursing Enrollment Expansion.***

Over the past several years, nursing enrollment has been treated inconsistently and, at times, outside of normal enrollment growth. The result is an increasingly complicated and confusing set of expectations with regard to nursing enrollment. Accountability is uneven as well, with new funding sometimes tied to actual increases in enrollment, and, at other times, simply intended for additional enrollment. Consistent with this principle, the LAO recommends that the UC's and CSU's expansion of nursing programs be considered part of their regular enrollment growth.

Reject Current Year Augmentation for CCC. Reject the Governor's \$9 million in one-time funds proposal to establish five new nursing programs and four simulation laboratories as the need has not been justified. The LAO believes that existing programs still have room to grow and enrollment can be increased through more cost-effective means such as adding slots to existing programs. According to the LAO, Community college nursing programs already have laboratories and the administration has not made a case as to why the current laboratories are inadequate.

Reject \$3.8 million in additional funds for science prerequisite courses because an enhanced funding rate has not been justified. The LAO further recommends that the \$3.8 million proposal for science pre-requisite courses be rejected for two reasons:

- The rationale behind the requested supplemental funding is to improve student access to prerequisite courses. However, there are already thousands more eligible applications than enrollment slots. The large applicant pool has continued even with recent increases in nursing-

program capacity. To the extent the proposal achieved its stated goal, the result would be an even larger number of applicants turned away or placed on wait lists

- The LAO sees no justification for providing an enhanced funding rate. Unlike nursing courses, which incur unusually high costs and address a significant statewide shortage in registered nurses, the science prerequisite courses have not been shown to require such an enhancement.

Nursing Program Admissions Practices. Given the state's interest in reducing attrition, the LAO recommends that the Legislature direct the Chancellor's Office to report at budget hearings concerning the extent to which regulations could be changed to improve the selectivity of the admissions process, promoting fairness as well as student success. This could include, for example, implementing merit-based admissions policies that take into account applicants' academic performance as well as other skills and special circumstances such as the ability to speak a second language, community service, and life experiences.

ITEM 6440 UNIVERSITY OF CALIFORNIA (UC)**ISSUE 1: GOVERNOR'S SCIENCE AND INNOVATION INITIATIVE**

The issue for the subcommittee to consider is the Governor's \$95 million proposal for the Science and Innovation Initiative.

BACKGROUND:

On December 27, 2006, the Governor announced that he would be proposing \$95 million in the State budget to create the Governor's Research and Innovation Initiative. According to the administration, funding for the four major projects proposed by the Governor will grow California's economic strength in key innovation sectors, including clean energy technology, biotechnology and nanotechnology.

California Institutes of Science and Innovations. The Governor's proposed budget \$19.8 million in General Fund to support the operating costs of the California Institutes of Science and Innovation. The four institutes are a multidisciplinary research effort by the UC working in partnership with private companies in the areas of information technology, biomedical research and nanotechnology.

Assembly Bill 2883 (Villaraigosa) was signed by Governor Gray Davis on July 5, 2000. The bill authorized the UC Board of Regents to establish three California Institutes for Science and Innovation. Funding for these institutes was provided in AB 1740, which provided \$75 million (\$25 million per institute) to establish the centers. Every dollar appropriated by the state would be matched by at least \$2 of non-state funds, including but not limited to federal and private funds. The intent was that the state would provide \$75 million each year for four years. However, the state's share of operating and facilities costs would be subject for appropriation in the Budget Act.

The *2001-02 Budget Act* provided an additional \$20 million to support a fourth institute. According to UC budget staff, funding for the institutes changed from General Fund to lease-revenue bonds in the 2002-03 fiscal year.

The California Institutes of Science and Innovation now include:

- QB3 (UCSG, UCB, UCSC) California Institute for Quantitative Biomedical Research.
- Calit2 (UCSD, UCI) California Institute for Telecommunications and Information Technology.

- CNSI (UCLA, UCSB) California Nanosystems Institute.
- CITRIS (UCB, UCD, UCM, UCSC) Center for Information Technology Research in the Interest of Society.

Helios Project. The Governor's budget proposed \$30 million in lease-revenue bonds for the Helios Project, an initiative by the UC's Lawrence-Berkeley National Laboratory to create sustainable, carbon-neutral sources of energy. According to the administration, the four goals of the Helios Project are: 1) generate clean sustainable alternatives to hydrocarbon fuels; 2) develop new energy sources; 3) improve energy conservation; and 4) reduce greenhouse gas emissions.

Petascale Supercomputer. The Governor's budget proposes \$5 million in General Fund as State-matching funds to enhance the UC's bid to build a \$200 million Petascale computer. According to the administration, "the Petascale computer, named for the speed at which it can process information, will be the most powerful computer in the world." The UC is competing against institutions in other states to become the site for the new computer facility funded by the National Science Foundation. Lawrence-Livermore National Laboratory, Lawrence-Berkeley National Laboratory, and UC San Diego are in the running for the Petascale computer.

Energy Biosciences Institute. The Governor's budget proposes \$40 million in lease-revenue bonds to the UC in the event that either UC Berkeley or UC San Diego wins a global competition for the British Petroleum (BP) Energy Biosciences Institute Grant. The \$500 million grant would be used to build and operate the Institute, which would focus on long-term research into the production of alternative fuels. The UC's intention is to coordinate the Institute's work with the Helios Project.

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| COMMENTS: |
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LAO RECOMMENDATIONS:

- Reject the \$15 million proposed augmentation for the California Institutes for Science and Innovation because (1) neither the administration nor the University of California could provide adequate justification for the additional funds and (2) existing research funds could be redirected to expand these institutes.
- Reject the proposed \$5 million General Fund expenditure to enhance the University of California's bid for a Petascale supercomputer due to the lack of adequate justification for the proposal and the availability of existing research funds that could be redirected for this purpose.

- Recommend deletion of the Governor's request for \$70 million in lease-revenue bond proceeds to fund two alternative energy research projects, as the administration has not yet presented specific capital facilities proposals.

ISSUE 3: PROGRAM IN MEDICAL EDUCATION (PRIME)-TELEMEDICINE FACILITIES

The issue for the subcommittee to consider is the Governor's proposal to fund enrollment expansions for the PRIME program and the allocation of the funds for telemedicine facilities.

BACKGROUND:**PRIME Program**

The Governor's proposed budget includes \$570,000 for the next cohort of 38 students for the PRIME-LC program. The 2006-07 Budget Act included \$480,000 to support 32 FTES enrolled in the program. Total funding for the program in 2007-08 would be \$1,050,000. Budget bill language requires an annual report to the Legislature by March 15 on the progress of implementing the PRIME programs and the use of both, State and non-state funds, for this program.

The PRIME-LC program is a five-year program at the UC Irvine College of Medicine. It combines the Medical Degree and the Masters Degree programs to provide medical students with the training and experience required to meet the increasing demand of physicians and public health personnel who are sensitive to cultural and language barriers. PRIME-LC students are selected for admission to the program because of their academic achievement and demonstrated commitment to working with underserved Latino communities. The program provides its students with training in Spanish language and Latino culture as well as providing structured clinical experiences and research activities in the classroom, hospital and community. Program applicants come from all different backgrounds and ethnicities.

According to the UC, the PRIME initiatives, of which PRIME-LC is the first one, are intended to expand entering classes at medical schools throughout the system by 5 to 10 percent. Other PRIME initiatives include PRIME-US (Urban Underserved) at UC San Francisco, PRIME-RC (Rural California) at UC Davis, PRIME HEq (Health Equity) at UC San Diego and new PRIME program at UCLA, which is being developed at this time.

Telemedicine Facilities

Telemedicine basically involves teleconferencing so that medical diagnostic services—particularly by specialists—can be provided to underserved areas.

Proposition 1D, approved by the voters in November 2006, provides \$200 million to UC for telemedicine/medical education facilities. As a companion piece to the PRIME program enrollment expansion, the budget proposes to spend these bond funds in 2007-08 for five projects—one at each of the system's five medical schools (Davis, Irvine, Los Angeles, San Diego, and San Francisco). The State would contribute \$35 million to each project, with the campuses supplementing

these funds in some cases. As required by Proposition 1D, the proposed projects would “expand and enhance medical education programs with an emphasis on telemedicine.”

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| COMMENT: |
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LAO RECOMMENDATION:

At the time that their 2007-08 budget analysis was written, the LAO recommended deletion of \$59 million from the administration’s telemedicine proposal as: (1) the UC had not yet presented a specific facility proposal to the Legislature for the Los Angeles campus (\$35 million), and (2) the budget includes an unneeded contingency reserve (\$24 million).

The UC has already submitted their UCLA Telemedicine proposal. The subcommittee may want to ask the LAO for their feedback on that specific proposal.

In regard to the contingency fund, the LAO believes that the \$24 million should be rejected. Instead, the four projects, pending the UCLA proposal review, should be schedule out in the item. The LAO is also recommending that the proposed budget bill language be modified to limit the UC's authority over project changes, similar to language included for other higher education capital outlay items.

ISSUE 4: LONG RANGE DEVELOPMENT PLAN (LRDP)

The issue for the subcommittee to consider is the UC's current Long Range Development Plan (LRDP) process included in the LAO Analysis of the 2007-08 budget bill.

BACKGROUND:

Each campus of the UC and CSU prepare a Long-Range Development Plan or Physical Master Plan that guides the future expansion and development of the campus for the next 10 to 15 years. This document serves as an outline of the campus's priorities, including its academic goals and target or projected student enrollment levels. In developing these long-range plans, campuses consult with the local community in an attempt to develop mutually agreeable expansion plans. However, an agreement between the campus and local community does not always occur. A frequent topic of dispute is how both the campus and community will address potential impacts on the surrounding region.

In their review of the process, the LAO raised the following concerns:

Lack of State Accountability and Oversight. Generally, the state neither approves a Long Range Development Plan (LRDP) nor monitors the implementation of the mitigation measures identified in the accompanying Environmental Impact Report.

Lack of Standardization in Public Participation. The University of California (UC) Office of the President does not provide campuses with specific requirements for how local communities should be involved in the LRDP process. As a result, the degree to which local communities are involved in the planning process can vary across campuses.

Minimal Systemwide Coordination in Projecting Enrollment for Recent LRDPs. In 1999, UC developed systemwide enrollment projections through 2010-11, which were used to develop an enrollment plan for each campus. However, when a campus prepares an LRDP that goes beyond 2010-11, it independently develops its own enrollment projections for those subsequent years.

Campuses Want to Primarily Expand Graduate Enrollment. Much of the projected enrollment growth at UC will not be due to increases in freshman enrollment, but rather because of a desire to expand and create new graduate programs (such as in law and public policy). This is because the number of California public high school graduates is expected to decline.

Lack of Clarity in the California Environmental Quality Act (CEQA). The CEQA process can often be costly and time consuming for both the public and

private sectors. In part, this is because there are a number of provisions in CEQA where definitions and requirements are unclear or imprecise.

No UC Campus Has Reached a “Fair Share” Agreement. Although UC has a policy for campuses to work with local public agencies to contribute its fair share payments to mitigate off-campus impacts, no UC campus has been able to reach such an agreement with a neighboring jurisdiction.

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| COMMENTS: |
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LAO RECOMMENDATIONS:

Based on their review and findings, the LAO recommends (1) increasing legislative oversight over UC's LRDPs, (2) developing a more standard approach for soliciting public input, (3) projecting enrollment growth based on statewide goals, (4) making better use of the summer term, (5) clarifying and improving CEQA, and (6) requiring a report on UC's efforts to reach fair share agreements with neighboring jurisdictions.

In an attempt to address a portion of the above-noted deficiencies, the LAO has drafted Supplemental Reporting Language for both the UC and CSU requiring the systems to report on a variety of features related to campus-based long-range planning. The proposed language is included as an attachment to this document. Budget staff recommends that the committee discuss the language but defer adoption until the May Revision, pending possible modifications.

The LAO will present on findings and recommendations of their research on this issue.