Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 11, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Consultant: Kris Kuzmich

PART A

Item	Department	Page
6870	**California Community Colleges (CCC)**	
Proposed "Vote Only" Items		
Item 1	Elimination of the Community College Fund for Instructional Improvement	2
Item 2	Budget Protections for Estimates of RDA- and Proposition 30-related Revenues	3
Proposed "Vote Discussion" Items		
Item 3	Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations	4
Item 4	Deferral Buydown	7
Item 5	Expanding the Availability of Courses Through Use of Technology	8
Item 6	Changes to Census Accounting Practices	11
Item 7	Unit Cap on State-Subsidized Courses	13
Item 8	Community College Financial Aid Program Changes	15
Item 9	Economic and Workforce Development Program Expenditure Plan	17
Item 10	Enrollment Prioritization for Students Receiving CalWORKs	18
Item 11	Community Colleges Degree Offerings	19
Item 12	Federal Sequestration: Community College Impacts	21
	Public Comment	

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 1:	Elimination of the Community College Fund for Instructional Improvement

Governor's Budget Proposal. The January budget proposes budget trailer bill language to repeal statute authorizing the Community College Fund for Instructional Improvement and sweep the remaining fund balance of $863,000 to the GF.

Background. The Fund for Instructional Improvement (FII) was established in 1977 to support alternative educational programs and services within the community colleges, including, among others, programs addressing special learning needs of educationally disadvantaged students, bringing visiting scholars to local districts, and instruction involving internships and experiential learning opportunities. It consists of a revolving loan program and a competitive grant program. Since its creation, the FII has made available a total of $31.6 million in grants and loans to carry out the purposes of the original legislation. In 2004, due to the state budget constraints, the grant category was zeroed out; no state funding has been provided since.

The Chancellor's Office reports that the FII has not been used in recent years due to the lack of availability of grant funds. Historically speaking, the grant and loan funds were used together. Loan funds were used to purchase equipment in conjunction with grant projects due to a Title 5 prohibition on the use of grant funds to purchase equipment. Without any grant funds available since 2004, the combination of grant/loan applications vanished.

The Chancellor's Office reports that the FII contains $800,000 in loan funds and $200,000 in unexpended previous grant funds.

Staff Comment. The FII appears to have served its purpose during its operation; however, it has effectively been suspended since 2004. In the ensuing years, the conversation has evolved. For instance, there is the work of the Student Success Task Force to improve student outcomes, which resulted in 22 specific recommendations to be accomplished through regulatory changes, system-wide administrative policies, local best practices, and legislation. Additionally, the Legislature has enacted several pieces of legislation specifying a number of priorities to fund once new resources become available, such as a common assessment instrument for incoming students, additional academic counselors to help students identify and make progress toward their educational goals, and a system for electronic student transcripts to improve campus record-keeping and efficiencies. As such, staff finds no compelling reason to continue the FFI.

Staff Recommendation. Approve budget trailer bill language to repeal the Community College Fund for Instructional Improvement and sweep the fund balance of $863,000 to the GF.

VOTE:

6870 CALIFORNIA COMMUNITY COLLEGES

Item 2:	Budget Protections for Estimates of RDA- and Proposition 30-related Revenues

Governor's Budget Proposal. The January budget proposes budget trailer bill language to ensure that the CCC budget is held harmless and provided with a GF backfill should revenues related to either Proposition 30 [Education Protection Account (EPA) Funds] or the dissolution of Redevelopment Agencies (RDA) be less than estimated in 2013-14. With regard to EPA Funds, the language also applies to 2012-13.

Background. Apportionment funding, which districts use for general purposes, comes from three main sources: (1) enrollment fee revenues; (2) local property taxes; and (3) the GF, with local property taxes and the GF accounting for CCC funding under Proposition 98. The enacted budget assumes a specified amount of fees and property taxes that will be collected and retained by districts that year. The assumption about fee revenue is based on estimates of the number of students who will pay fees and the number of students who, because of their financial need, will receive a Board of Governor's (BOG) Fee Waiver. Based on these estimates, the enacted budget provides the necessary GF support to meet the system's apportionment amount.

Generally speaking, when systemwide fee revenues or local property tax receipts fall short, the total amount of apportionment funding available to districts that year similarly falls short. Unlike K-12, there is no automatic mechanism to backfill a community college shortfall. Therefore, the system must contend with lower total funding that year unless the Legislature and Governor decide to provide a GF backfill.

The Budget Act of 2012 provided for the first time a partial "backfill" to the CCC budget. Budget trailer bill language was adopted to ensure that the CCC budget is held harmless and provided with a GF backfill should offsetting local property taxes available to districts due to the dissolution of RDAs not materialize in both 2011-12 and 2012-13.

Staff Comment. Given the continued "unwinding" of RDA and resulting uncertainties about local property tax estimates, providing continued protection to the community college budget is warranted.

With the passage of Proposition 30, an additional EPA revenue-related uncertainty has emerged that warrants similar legislative consideration. With regard to timing, it is also worth noting that Proposition 30 created a cash flow problem in 2012-13 due to the fact that funds will not be transferred until June 2013, so districts will have to "front" cash to operate their programs. In 2013-14 (and future years), EPA funding will be provided on a quarterly basis, which is only a minor change to cash flow (districts currently receive most of their state funding through smooth monthly payments).

Staff Recommendation. Approve placeholder budget trailer bill language to provide a backfill of EPA Funds in both 2012-13 and 2013-14, and of RDA revenues in 2013-14.

VOTE:

6870 CALIFORNIA COMMUNITY COLLEGES

Item 3:	Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations

Governor's Budget Proposal. Under the January budget, the CCC would receive a $197 million increase in base apportionment funding, with the allocation methodology to be determined by the BOG. This is roughly a five percent increase over 2012-13; the CCC budget is expected to then grow significantly over the subsequent three years of the four year multi-year budget plan. This funding is linked to an expectation that the CCC will improve their performance in the following four areas:

- ✓ Increased graduation and completion rates;
- ✓ Increased CCC transfer students enrolled at UC and CSU;
- ✓ Decreased time-to-degree; and
- ✓ Increased credit and basic skills course completion.

Details regarding what the system of performance expectations for the four identified priorities would look like, including how to evaluate performance towards achieving goals, remain outstanding. The Administration's current focus is UC and CSU; however, the overall intent is to have the performance improvements also apply to the CCC. At the time of the writing of this agenda, the Administration is still developing its proposal for UC and CSU and indicates that further information will be forthcoming at a future date.

Background. Multi-year "funding agreements," or "compacts" as they have been previously called, are not a new idea. Similar agreements between prior administrations and UC and CSU generally took the form of uncodified agreements between the Governor and the university systems. The Legislature was not a party to those earlier agreements. However, in the case of the CCC, a funding agreement is a new idea, as prior agreements *did not* include the CCC.

The state provides two primary types of funding to the CCC system: (1) apportionments, which are intended to fund basic operating costs (such as employee compensation, utilities, and supplies); and (2) categorical programs, which collectively support a wide range of supplemental activities that the state views as critical statewide priorities, including child care, support services for underprepared students, and financial aid advising, among others. The January budget proposes approximately $5.68 billion in apportionment funding and $408 million in categorical funding for the CCC in 2013-14.

The per full-time equivalent student (FTES) rates have been frozen since 2007-08, the last year a cost-of-living adjustment (COLA) was provided. The current rates are as follows: (1) $4,565 for credit FTES; (2) $3,232 for enhanced non-credit FTES, also known as Career Development and College Preparation; and (3) $2,745 for non-credit FTES. The January budget proposes a *K-12* COLA of 1.65 percent. If applied to the community colleges, a 1.65 percent COLA would translate to $91 million of the $179 million base apportionment increase.

Item 3: Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations, Continued

The Budget Act of 2009 reduced ongoing Proposition 98 GF support for categorical programs by $263 million (about 37 percent). To help districts better accommodate the reduction, the Budget Act of 2009 combined over half of CCC categorical programs into a "flex" item. Through 2014-15, districts are permitted to use funds from categorical programs in the flex item for any categorical purpose. By contrast, funding for categorical programs that are excluded from the flex item must continue to be spent on specific associated statutory and regulatory requirements.

LAO Comments/Recommendations. It is unclear whether the Governor's approach would ensure that the state's highest CCC priorities would be addressed. For instance, the Legislature has enacted several pieces of legislation specifying a number of priorities to fund once new resources become available, such as a common assessment instrument for incoming students, additional academic counselors, and a system for electronic student transcripts to improve campus record-keeping and efficiencies. In addition, the state has a number of outstanding CCC-related liabilities, including over $300 million that is owed for past mandate claims.

If more funding is provided than needed to meet existing funding obligations, the Legislature should link the additional funding with an expectation that the community college develop and implement strategies to improve legislatively specified student outcomes and meet identified cost-containment goals. Broad consensus already exists on some key outcome goals, including improving student persistence, transfer, and graduation; reducing costs; and maintaining quality. Moreover, the Legislature last year passed legislation (SB 721) outlining a process that would enable the state to measure progress and promote improvement in these areas through budget and policy decisions. Building on this foundation, the Governor and Legislature could establish specific improvement targets and a system for reporting on the segments' performance relative to these targets.

The Governor also proposes to continue to fund CCC districts based on enrollment (though he proposes to change the way enrollment is calculated, as discussed in Item 6). Despite keeping CCC base funding linked with enrollment, the Governor does not require the CCC to serve additional students in 2013-14 with the proposed base augmentation. The Legislature should establish enrollment targets for the CCC to ensure that student outcome improvements do not come at the expense of existing student access. These performance and enrollment targets would send a clear signal regarding the state's priorities and expectations.

Staff Comment. Unlike other state funds in the CCC budget, the January budget would allow the BOG to make its own decision about how the base apportionment increase would be distributed and for what purpose. This is a broad departure from past practice, whereby the Legislature made the decision in the annual budget act; i.e., any increase in

Item 3: Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations, Continued

base funding was provided for a specific purpose, such as for growth (unfunded FTES) or a COLA (increase in the per FTES amount).

With regard to the performance expectations, SB 195 (Liu) is the most recent iteration of this effort described by the LAO to create greater accountability for higher education. It is a positive development that the Governor is focusing on higher education, looking to improve outcomes, and identifying priorities such as reduced time-to-degree and increased graduations. However, without any specifics in the budget, or a linkage to a defined framework of broader policy goals developed in partnership with the Legislature and a system for reporting on the segments' performance relative to those targets housed in statute, the Governor's multi-year budget plan is incomplete.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the following questions of DOF and the Chancellor's Office:

1. DOF, what is the timeframe for when the Legislature will receive details about the "system of performance expectations" for the four identified priorities included in the January budget?

2. DOF, how does the Administration's approach ensure that the state's highest priorities for the CCC would be addressed?

3. Is the Chancellor's Office developing a proposal for the expenditure of the increase in base apportionment funding?

    a. What are the potential components of such a plan beyond generalities about a balanced plan to restore access, fund growth, and improve student success?

Staff Recommendation. Hold this item open pending receipt of the May Revision, further information from the Administration about the system of performance expectations, and further consideration of SB 195.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 4: Buydown of Existing Deferrals

Governor's Budget Proposal. The January budget proposes $179 million to buy down existing deferrals. This would lower total system deferrals to $622 million; the remaining deferred funding would be paid down by the 2016-17 fiscal year. The level of deferral "buy down" is consistent with, and proportional to, the payment of deferred funding in K-12 education; e.g., roughly a 50-50 split of new funding versus deferral buydown.

Background. The state currently has four large outstanding one-time obligations relating to schools and community colleges. The largest outstanding obligation involves deferred payments. The state also has a large backlog of unpaid mandate claims. The other two obligations, for the Emergency Repair Program (K-12 only) and Quality Education Investment Act (QEIA) (K-14), are connected with lawsuits.

The state relied heavily on deferrals during difficult fiscal times. The first Proposition 98 deferrals were adopted in 2001-02, when $1.1 billion in K-12 payments were deferred from late June 2002 to early July 2002. This delay, while only a few weeks, allowed the state to achieve one-time savings by reducing Proposition 98 GF spending in 2001-02. Schools continued to operate a larger program using cash reserves. In 2008-09, facing an even larger budgetary shortfall, the state delayed $3.2 billion in Proposition 98 payments to achieve one-time GF savings. The state adopted additional deferrals in each of the next three years. By 2011-12, a total of $10.4 billion in annual Proposition 98 payments were paid late (roughly 21 percent of total Proposition 98 support).

The Budget Act of 2012 began reducing the amount of deferred payments by providing $2.2 billion to pay down Proposition 98 deferrals, with $2.1 billion of that amount for K-12 schools and $159 million for community colleges.

LAO Comment. Over the next several years, as state GF revenue growth results in additional Proposition 98 resources, the Legislature will want to weigh the trade-offs between building up ongoing base support and retiring outstanding one-time obligations. Although no one right mix of spending exists, the Governor's generally balanced approach is reasonable. Using such an approach would allow the state to retire most school and CCC obligations by 2016-17, prior to the expiration of Proposition 30's personal income tax increases, while also dedicating a substantial portion of Proposition 98 funding for ongoing programs.

Staff Comment. From a fiscal and policy standpoint, it is prudent to reduce these inter-year deferrals, as they remain outstanding obligations on the state's books. Deferrals also come with borrowing costs for districts, in order to address cash flow concerns caused by the delayed state payments.

Staff Recommendation. Hold this item open pending receipt of the May Revision.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 5: Expanding the Availability of Courses Through Use of Technology

Background. The Chancellor's Office reports that currently roughly ten percent of all courses systemwide are delivered via distance education (DE). While there is still vast untapped potential in this educational model, the Chancellor's Office notes that future growth has been limited for the following reasons: (1) distance education requires a large, up-front technology investment by a local campus and community colleges are also unable to support 24/7 technical support to these local enterprises; (2) insufficient student support systems exist to ensure success in the online environment; (3) instructional design is often not at a level to deliver information in a clear and engaging manner; (4) there is not a single, uniform DE experience in the California Community College system; and (5) there is not a single source of all available online courses or programs and students must "shop" all 112 campuses individually to find them.

Similar to UC and CSU, the CCC does not currently have a seamless efficient process available to students for cross campus enrollment in distance education courses. Currently CCC students who identify a course of interest at another college in the system have to apply for admission at that college, receive a new student identification number and password, and register for the class. Students also are responsible for transferring credits earned from the course back to the home campus.

Governor's Budget Proposal. To expand the number of courses available to matriculated CCC students through the use of technology, the January budget provides a separate augmentation of $16.9 million Proposition 98 GF which is earmarked in the budget bill. A required expenditure plan that was developed by the Chancellor's Office and approved by the Administration was submitted to the subcommittee on March 26, 2013. Figure 1 below summarizes the CCC Online Initiative expenditure plan, followed by narrative descriptions of each component.

Figure 1: California Community College Online Initiative

Subcomponents of Plan	One-Time Expenditures 2013-14	Ongoing Annual Expenditures 2014-15 and Beyond
Common Learning Management System	$12,900,000	$7,250,000
Centralized 24/7 Support	500,000	500,000
Course Development Activities	1,000,000	750,000
Credit by Exam Enterprise	1,000,000	500,000
Professional Development Activities	1,000,000	5,000,000
California Virtual Campus Portal	500,000	500,000
Total	**$16,900,000**	**$10,000,000**

Common Learning Management System (LMS). Currently each institution individually selects and operates course management systems, duplicating administrative and support costs, foregoing possible economies of scale for purchasing, and creating a very non-

Item 5: Expanding the Availability of Courses Through Use of Technology, Continued

uniform student experience. This component seeks to bid out for the purchase and maintenance of a single LMS to service the entire system, thus dramatically reducing local costs and support burden, providing for a higher-quality learning management system environment that is customized specifically for the CCC using criteria developed by CCC faculty, all while providing a common learning "look and feel" for all students statewide. Ideally this system would be flexible enough to offer MOOCs (massive open online courses), traditional online, and on campus hybrid courses.

Centralized 24/7 Support. In support of the common LMS, a centralized technology support function/call center will be operated 24/7/365. Currently, CCC campuses have little ability to handle this level of support for distance education, which negatively impacts student retention.

Course Development Activities. This component will focus on SB 1440 (Chapter 428; 2010) transfer degree courses/programs and expanding Basic Skills course availability.

- With regard to SB 1440, an inventory of SB 1440 courses will be developed, including the option to complete a SB 1440 degree fully online. The courses will be offered by a consortium of existing CCC campuses, with students statewide being able to supplant their schedules in this delivery mode.

- With regard to Basic Skills, high-quality courses focused on Math and English remediation will be developed and made available for students in an online environment. More than 70 percent of students entering the community colleges are unprepared for college level work; an estimated 650,000 students took night courses at the community colleges demonstrating the need for flexibility in course scheduling. Distance education offers one possible option for creating the scheduling flexibility needed by the community college student.

Credit by Exam Enterprise. Campuses already have the option of allowing students to challenge a course based on prior learning experience. Under this component, an expanded credit by exam enterprise would be developed to allow California students to test for many common courses needed for degree attainment (including many core SB 1440 courses) and submit information from a variety of sources to be evaluated for college credit. This credit would be transcriptable to all community colleges, CSU, UC, and, in most cases, also accepted at private institutions throughout the state.

Professional Development Activities. This component will focus on expansion of a single distance education portal and further integration of existing education technology infrastructure. With regard to the portal, this component would establish an integrated course design and staff development function that any faculty member statewide can utilize to create engaging and effective courseware. This will also help ensure a standard of quality across the system for the students in distance education courses delivered in

Item 5: Expanding the Availability of Courses Through Use of Technology, Continued

this consortium. Further integration into existing technology infrastructure will result in the creation of two new categories of Online Teaching Certifications that will be available to ensure that faculty are prepared to operate effectively in the distance education environment.

California Virtual Campus Portal. This component will create a robust course catalog encompassing all campuses under a single distance education umbrella/portal. Using the existing California Virtual Campus domain (www.cvc.edu), the Chancellor's Office would build out a "gateway" portal where all students can access these courses, while allowing all campuses to leverage the centralized resources at www.cvc.edu for their own local distance education enterprises. This component will also result in the coordination of existing distance education services in support of the initiative.

Staff Comment. If the investment bears fruit as the Administration envisions, the net result will be increased productivity and lower cost per degree for students and the state, as well as increased access for other students. Unlike the subcommittee's consideration of the Governor's online education proposals for UC and CSU, the CCC online initiative expenditure plan is both comprehensive and detailed.

However, given the relatively recent date of submittal of the plan to the Legislature, subcommittee staff and the LAO have not had sufficient time for analysis. For instance, while the LAO has previously expressed support for a LMS, the LAO has recommended against providing a funding augmentation because the Chancellor's Office has estimated that colleges could save roughly $100,000 each per year if they were to leverage economies of scale this way. Yet the plan before the subcommittee would allocate 75 percent of the total funding available in 2013-14 for this purpose.

The LAO has also raised a number of questions for the Chancellor's Office about the plan. These questions include: (1) why the one-time costs of the LMS are higher in year one as compared to the out-years; (2) if the 24/7 support includes such activities as tutoring, how this can be accomplished with only $500,000 in funding; and (3) detail of any plan to roll out the common assessment mentioned in the plan summary but is not included in the detailed component descriptions. Staff also notes that the *January Budget Summary* stated that the Governor's proposal would result in increased "*student access to 250 new courses delivered through technology*," yet that target is not specifically defined in the plan.

Given these outstanding questions, the subcommittee may wish to consider delaying action on this item until such time as a full analysis has been completed and all outstanding questions answered.

Staff Recommendation. Hold this item open, including the budget bill provisional language earmarking the funding, to allow time for further analysis of the expenditure plan.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 6: Changes to Census Accounting Practices

Governor's Budget Proposal. The January budget proposes trailer bill language to institute a five-year phase-in of funding apportionments on completion rather than on census date enrollment. The BOG will determine how to phase in the change and requires that by 2017-18, 100 percent of FTES will be computed based on the number of students enrolled at the end of the term. Any enrollment monies that districts "lose" due to this policy change would be transferred to district categorical programs that fund student support services. After an unspecified number of years (to be determined by the BOG), funds would be redirected away from districts that fail to increase completion rates over a reasonable time period.

Background. Currently, the annual budget drives statutory formulas and calculations which result in enrollment targets for each of the state's 72 community college districts. The amount of apportionment funding received by each district depends on the number of students it enrolls, up to (but generally not beyond) that enrollment target. The "census date" currently is in the third or fourth week of each semester. Although not specifically included in the annual budget act, an overall enrollment target for the entire system is calculated by DOF.

LAO Recommendation. The Legislature should reject the Governor's proposal to change the census date. The Legislature could achieve the overarching objective of improving college and student outcomes by developing a more robust funding model that balances student access (enrollment) with student success (as measured by specific performance indicators). In effect, a disconnect exists today between the state's message to CCC and its funding mechanism which values both access and achievement but only get compensated for successfully providing access.

Staff Comment. This proposal is intended to apportion funding by focusing on completion at the end of the term, thereby incentivizing districts to focus on outcomes. While the Governor raises a fair point about the benefit of moving to a funding model that is more outcome-oriented, legitimate concerns can be raised about unintended consequences in the classroom, such as grade inflation or reductions in course rigor. The LAO has also noted that by redirecting any "lost" funds to a district's categorical program, the budget presupposes that students do not complete their coursework because of inadequate support services. This may be a contributing factor, but it ignores the many other factors that could be at play such as a poorly designed or taught course. The LAO has suggested the Legislature consider changes to the funding model that would place greater emphasis on more meaningful outcomes, such as rewarding colleges for student learning gains and program completions (such as obtaining a degree or skills certificate) rather than course completion.

Given that the Student Success Task Force (SSTF) considered and rejected a similar proposal, the Subcommittee should consider the interaction of this proposal with the

Item 6: Changes to Census Accounting Practices, Continued

work of the SSTF which is already underway and could accomplish the same goal. For instance, the SSTF's approach was to encourage student success and completion through a number of cross-cutting initiatives. There are initiatives that provide incentives for students to complete courses and other initiatives that encourage colleges to support students in those efforts. These initiatives include more counseling and educational planning, enrollment prioritization, enhancement of professional development and course scheduling to align course offerings with educational planning. Additionally, the SSTF recommended a student success scorecard, which was released on April 9, 2013, so that communities can better assess the performance of colleges in meeting key success goals.

Staff Recommendation. Reject the budget trailer bill language; continue to support implementation of the recommendations of the Student Success Task Force.

VOTE:

6870 CALIFORNIA COMMUNITY COLLEGES

Item 7: Unit Cap on State-Subsidized Courses

Governor's Budget Proposal. The January budget proposes budget trailer bill language to cap the number of units the state would subsidize per student at the CCC, as follows:

- ✓ Starting in 2013-14, CCC students will be limited to 90 state-subsidized semester credit units (150 percent of the standard required to earn an associate's degree or credits for transfer).
- ✓ The following course units are specifically excluded from counting against the cap: (1) remedial courses; (2) advanced placement or international baccalaureate units that were obtained while in high school or another secondary school program; and (3) dual enrollment, college-level units obtained by the student prior to receiving a high school diploma.
- ✓ The BOG is required to adopt guidelines and criteria for granting waivers on a case-by-case basis to students who exceed the allowed cap "*due to factors beyond their control*."
- ✓ Any student granted a waiver will continue to pay state-supported systemwide tuition and fees, however districts would be ineligible to receive state apportionments for those classes. Students above the cap and not granted a waiver will be required to pay nonresident tuition.
- ✓ The unit cap applies to all students, including those attending and enrolled prior to 2013-14.

The Administration does not budget any savings from this proposal.

Background. In 2010-11 (the most recent data available), roughly 84,000 CCC students, representing roughly four percent of total enrollment, had earned 90 units or more.

In recent years, the BOG has adopted several regulations intended to reduce excess course-taking by students. In July 2011, the BOG approved a regulation that limits the number of times CCC are eligible to receive state support for students who fail to pass a course (or enroll but then drop the course). In July 2012, the BOG adopted regulations that prohibit districts from receiving state support for student re-enrollments in certain "activity" courses (such as physical education). The BOG also has adopted a regulation that establishes a systemwide enrollment policy. Under the new regulation, which goes into effect in fall 2014, community colleges are no longer permitted to give enrollment priority to students who have accumulated 100 or more degree-applicable CCC units.

SB 1440 (2010) improved the efficiency of transfer from CCC to CSU by requiring CCC to create two-year (60 unit) degrees (known as "associate degrees for transfer") that are fully transferrable to CSU. A student who earns such a degree is automatically eligible to transfer to the CSU system as an upper–division (junior) student in a bachelor's degree program. Though these students are not guaranteed admission to a particular CSU campus or into a particular degree program, SB 1440 gives them priority admission to a CSU program that is "similar" to the student's CCC major or area of emphasis, as

Item 7: Unit Cap on State-Subsidized Courses, Continued

determined by the CSU campus to which the student is admitted. Once admitted, SB 1440 students need only to complete two additional years (60 units) of coursework to earn a bachelor's degree. By guaranteeing full credit for courses taken at the CCC and limiting the number of additional units students may be required to complete, SB 1440 also reduces excess unit-taking.

LAO Recommendation. Because it creates positive incentives for students and motivates institutions to improve the efficiency of their academic programs, the Legislature should adopt a cap on the number of state-subsidized units students can accrue with the following specific provisions: (1) exclude from the cap units earned through other agencies, by internal evaluation, and for unsubsidized courses as long as they do not contribute to FTE student counts; (2) prohibit students from being allowed additional state-subsidized units for double majors; (3) cap the number of failed and dropped courses the state subsidizes; (4) provide additional guidance regarding waivers to avoid an excessive number of appeals; and (5) delay implementation until 2015-16 to provide adequate notice to students and permit the segments to develop systems to identify and monitor excess units as students enroll.

Staff Comment. The cap is intended to create an incentive for students to shorten their time-to-degree, reduce costs for the state, and increase access for other students. This is a worthwhile goal, but ignores some of the realities of the current situation, including the severe capacity issues brought on by state level budgetary reductions. Students should be able to take appropriate courses and earn degrees in a timely fashion, but there needs to be shared responsibility for doing so. For instance, campuses would need to enhance academic advising and ensure availability of required courses. Yet, the Governor's proposal contains no requirements or expectations of the CCC for any of these student services, but does create a hard penalty for students. It also changes the rules of the game midcourse for all students currently enrolled, which raises a question of fairness.

The Chancellor's Office has also not carried out a systematic analysis to determine to what extent "*factors beyond a student's control*" have contributed to high numbers of units taken by some students. Given this, it is highly questionable that the BOG could adopt the guidelines and criteria for granting waivers on a case-by-case basis by the start of the upcoming fall term as proposed by the Governor.

This proposal also intersects with the work of the Student Success Task Force, including the recently adopted enrollment priorities and the maximum unit BOG fee waiver cap. Both of these policy changes address the Administration's core concern that students may not have sufficient incentive to complete their program in an efficient manner; i.e., these students may take more courses than necessary, creating a bottleneck at the college.

Staff Recommendation. Reject the budget trailer bill language; continue to support implementation of the recommendations of the Student Success Task Force.

VOTE:

6870 CALIFORNIA COMMUNITY COLLEGES

Item 8: Community College Financial Aid Program Changes

Governor's Budget Proposal. The January budget proposes trailer bill language to implement two changes to CCC financial aid programs, as follows:

- ✓ Require all students seeking financial aid, including BOG Fee Waivers, to fill out a Free Application for Federal Student Aid (FAFSA) form; and
- ✓ Require campuses to take both student and parent income into account when determining certain students' eligibility for a BOG fee waiver.

Background. The BOG Fee Waiver program waives enrollment fees for CCC students who demonstrate financial need. The cost of the program, which is covered by Proposition 98 GF monies, has grown rapidly in recent years with waiver costs projected to total $782.6 million in 2012-13. Under current law and regulation, there are three means of eligibility: (1) Part A, if students or their parents receive cash assistance from other need-based programs (such as CalWORKs); (2) Part B, if a student's or his/her family adjusted gross income is at or below 150 percent of the federal poverty level; and (3) Part C, if students have any financial need (cost of attendance exceeds their federally determined family contribution by $1,104 or more; $1,104 is the amount of annual fees charged to a full-time student taking 24 units).

Students can apply for a fee waiver by completing: (1) the FAFSA or (2) for Part A and B waivers, the BOG Fee Waiver application. Verification policies differ by which type of fee waiver is sought. For instance, under Part A, appropriate documentation includes copies of a student's benefits check. Under Part B, Chancellor's Office guidelines give districts flexibility to determine what "documentation" means; acceptable methods include verifying tax records or "self-certification," whereby students are taken at their word about their or their family's income level. All students signing the BOG Fee Waiver application form, as well as the FAFSA, do so under penalty of perjury.

The Chancellor's Office indicates that 80 percent of students currently receiving aid filled out a FAFSA. The remaining 20 percent received a fee waiver through the BOG Fee Waiver application because their income was below the federal poverty guidelines or they received public assistance; included in that 20 percent are also students who are not eligible for federal financial aid and therefore would not fill out a FAFSA.

In determining dependent students' eligibility for a Part B waiver, current Chancellor's Office guidelines require campuses to consider only the parents' income. This deviates from federal financial aid policies for dependent students, which includes both the parents' and students' income for purposes of determining financial need.

Anecdotal information gathered by the Chancellor's Office suggests that at least ten percent of fee waiver recipients who qualify under the state's current definition of independent but will not be able to meet the federal criteria and will therefore lose BOG

Item 8: Community College Financial Aid Program Changes, Continued

Fee Waiver eligibility. In some cases, loss of eligibility will result from parental income being too high for the student to qualify, but in more cases the loss will occur because parents are unwilling to provide the information or students are unable or unwilling to ask parents who may not have provided any housing or support since the student turned 18. Further, the Chancellor's Office reports that Extended Opportunity Programs and Services (EOPS) offices rely on the classification of a student as either a Part A or Part B fee waiver recipient. Requiring parental income for calculation of eligibility for the fee waiver would result in an unknown number of students who would lose EOPS eligibility for the reasons listed above.

LAO Recommendation. The Legislature should approve the Governor's proposals related to the FAFSA and to require the community colleges to count dependent students' income for purposes of determining eligibility for a BOG fee waiver.

Staff Comment. In recent years there has been a number of policy bills introduced pertaining to CCC financial aid programs. With regard to the FAFSA, these bills were intended to address the same goal the Governor identifies for his budget proposal – namely, to ensure that all financially needy students gain access to the full spectrum of allowable federal and state aid. However, the bills differ in that they did not *require* completion of a FAFSA but rather *authorized* the use a FAFSA, or they proposed carefully designed pilot projects in support of the general goal. These bills have been vetoed. The last iteration was AB 91 (2011), which was vetoed by Governor Brown because the proposed pilot project was "*a matter that each community college can handle on its own.*"

Examining the two budget proposals within the context of the recent legislation, it appears that while there are differences in approach, all efforts intend to address the same goal. One of the benefits of the pilot project is it would provide some analysis of the roughly 20 percent of students who do not currently fill out a FAFSA. Given this, and the fact a pilot project bill has been reintroduced (AB 606), it would appear the appropriate venue for these proposals is the policy process. Such a venue would allow for all considerations about changes in financial aid policy to be fully vetted. For instance, the Chancellor's Office reports that central to its outreach and in-reach messaging over the last ten years has been a focus on the FAFSA and the alternative BOG Fee Waiver form. To change that approach without any lead or preparation time, such as late as July after passage of the budget, would likely result in the potential for significant delays and misunderstanding for students both in school and those attempting to get into school.

Staff Recommendation. Reject the budget trailer bill language.

VOTE:

6870 CALIFORNIA COMMUNITY COLLEGES

Item 9: Economic and Workforce Development Program Expenditure Plan

Governor's Budget Proposal. The January budget proposes placeholder budget bill provisional language conditioning expenditure of $22.9 million in Economic and Workforce Development (EWD) program funds until the Chancellor's Office submits, by July 1, 2013, a proposed expenditure plan to DOF for approval.

Background. The EWD Program was codified in statute in 1991. This action formalized earlier efforts, dating from 1986, to coordinate statewide technical training and programs for small business and economic development. In 1996, economic development became part of the statutory mission of the CCC. EWD funds are issued through a competitive grant process. Some grants support a rapid response to industry needs, whereas others build longer-term capacity in the field to work with employers. The impact of the EWD funding in 2011-12 included: 929 people received jobs; 9,475 jobs retained; 2,388 businesses served; 7,409 industry certifications; 710 internships; and 77 apprenticeships.

Chapter 361 (Statutes of 2012) reauthorized the EWD program, for the period beginning January 1, 2013, through to January 1, 2018, and otherwise recast and revised the program. The revised program is intended to improve the functions of the EWD program in three primary ways: (1) making the program more nimble and better able to respond to changing economic conditions; (2) making the program more accountable for investments and performance by strengthening the evaluation framework for EWD grants and programs; and (3) encouraging better integration and communication of EWD programs with Career Technical Education (CTE) programs.

Staff Comment. The EWD program is a well-regarded program and the revisions contained in Chapter 361 will serve to further improve the program. Due to the timing and effective date of Chapter 361, it was not possible for the January budget to contain revised budget bill language providing for aligned EWD expenditures. However, the placeholder language is unacceptable because it precludes the Legislature from having any input in the expenditure plan. The Chancellor's Office has indicated that it plans to work with DOF to draft budget language for the EWD program in accordance with Chapter 361. At the writing of this agenda, the timeline for receipt of that language is uncertain.

Subcommittee Question. The key question before the subcommittee is what is the timeline for the Chancellor's Office to finalize the EWD program expenditure plan; i.e., when can the Legislature expect receipt of the expenditure plan?

Staff Recommendation. Hold this item open, including expenditure of the $22.9 million in EWD funds, pending receipt of an expenditure plan.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 10: Enrollment Prioritization for Students Receiving CalWORKs

Budget Issue. The Budget Act of 2012 made significant changes to CalWORKs welfare-to-work rules, including the creation of a 24-month time limit with more flexible welfare-to-work activities, including education, before it has been reached and stricter requirements afterward (up to 48 total months).

On March 21, 2013, Subcommittee No. 3 reviewed the implementation of these changes, focusing on whether the new flexibilities could be undermined if students receiving CalWORKs cannot access necessary CCC classes during the narrower 24-month time limit. Subcommittee No. 3 acted to coordinate with this subcommittee to determine if a statutory change to ensure priority enrollment for CCC students receiving CalWORKs is appropriate.

Background. In 2012, the BOG adopted enrollment priority regulations which are required to be fully implemented by fall 2014. Under the regulations, veterans, active duty military, and current and former foster youth are in the first level, consistent with current law. The second level of priority registration is for Extended Opportunity Programs and Services (EOPS) and Disabled Students Programs and Services (DSPS) students. The third level is continuing students not on academic probation and first time students. In all cases, a student has to complete orientation and assessment, and develop a student education plan, to receive priority for enrollment. The regulations allow districts the discretion to collapse the first two levels if the statutorily protected groups are not disadvantaged in the process and a district determines it has the capacity to do so.

Based on 2010-11 enrollment (the most recent year available), approximately 11,000 students receiving CalWORKs already have priority for enrollment because they also participate in the EOPS or DSPS programs. Another 29,000 (or one percent of students) do not currently benefit from priority for enrollment. It would be this universe of students that would be served by providing priority for enrollment standing similar to that provided for EOPS and DSPS students.

Staff Comment. The Chancellor's Office raises a general concern about precedent and whether other groups facing time constraints, such as student athletes, would also request to be added to the enrollment priorities. Staff also notes that if "priority" is granted too widely it effectively results in no prioritization. However, Subcommittee No. 3's concern here is legitimate; namely, the flexibilities with respect to educational opportunities become a hollow opportunity if students receiving CalWORKs cannot access community college classes during the new and narrower 24-month time clock. In this vein, making this statutory change could be viewed as a technical and conforming change to the broader changes made to the CalWORKs program in the Budget Act of 2012.

Staff Recommendation. Hold this item open pending further discussions with Subcommittee No. 3 and the Administration.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 11: Community Colleges Degree Offerings

Background. Existing law establishes the Master Plan for Higher Education, differentiating the functions of the public postsecondary segments. With a wide range of educational offerings, the community colleges provide workforce training, basic courses in English and math, certificate and degree programs, and preparation for transfer to four-year institutions. The community colleges, however, do not offer four-year degree programs or instruction beyond the second year of college.

Other States. In December 2012, Michigan granted its community colleges the legal authority to confer baccalaureate degrees, becoming the 21st state to do so. That figure has jumped from 11 states just eight years ago.

According to a 2010 report from the American Association of State Colleges and Universities (AASCU), community colleges typically add baccalaureate programs in locations where nearby four-year colleges either do not exist or cannot meet demand. The AASCU's research found 465 baccalaureate programs at community colleges around the country. Given the recent action in Michigan, it is likely that number has increased since the report was published in 2010. AASCU also found that a smattering of community colleges have fully transformed into four-year institutions, including the University of Arkansas at Fort Smith, Utah Valley University, and West Virginia University at Parkersburg.

Another analysis of states with community college baccalaureate degree programs found the primary reasons for offering these programs are to address workforce needs, respond to economic pressures from employers, increase access to populations underserved by traditional baccalaureate degree-granting institutions, and maintain college affordability.

Existing Partnerships. Authorized in 2005, the CCC Baccalaureate Partnership Program (Program) was established for the purpose of offering baccalaureate degree programs on participating CCC campuses. The Program authorizes the Chancellor's Office to award annually two grants, not to exceed $50,000 each, to a collaborative, consisting of at least one CCC and at least one baccalaureate-degree granting institution, formed for the purpose of offering a baccalaureate degree program at participating CCC. Current examples of these partnerships include: (1) Cañada College partners with SFSU and CSU East Bay to provide bachelor's degrees at the University Center located on the Cañada College campus in Child and Adolescent Development, Nursing, and Health Sciences; (2) The city of Stockton receives baccalaureate-level instruction provided by CSU Stanislaus at an off-campus site in Stockton; and (3) CSU Fullerton maintains a branch campus in El Toro, serving approximately 1,140 full-time equivalent students annually.

Staff Comment. Legitimate concerns have been raised about access to four-year degrees and the price of that education exceedingly slipping out of the grasp of younger

Item 11: Community Colleges Degree Offerings, Continued

generations. Allowing the CCC to offer baccalaureate degrees could be one way to help improve retention and graduation rates, while providing otherwise place-bound students an opportunity to get a high-quality education close to home.

However, allowing the CCC to offer baccalaureate degrees represents a significant expansion of the CCC mission, with an unknown impact on the ability of CCC to complete its *existing* missions. As reported by the Institute for Higher Education Leadership & Policy, of the 60 percent of CCC students seeking a degree or certificate, only about one-fourth succeed in transferring to a university and/or earning an associate's degree or certificate within six years. In recent budget acts, the Legislature has declared intent that the CCC implement workload reductions (a decrease in funded FTES) in courses and programs outside of those needed for students to achieve their basic skills, workforce training, or transfer goals, consistent with the primary missions of the CCC.

This "mission" concern is exacerbated by significant budget reductions since 2007-08, with the CCC asserting during budget debates that they do not receive adequate funding for their *existing* responsibilities and student enrollment levels. This dynamic will begin to be addressed given the passage of Proposition 30 and projections of increased revenue to the system over the next several fiscal years. However, the depth and breadth of reductions to *existing* programs and enrollment levels raise feasibility questions about the community colleges expanding into degree offerings beyond the second year of college.

Subcommittee Questions. Based on the above comments, the subcommittee may wish to ask the following questions of the Chancellor's Office, LAO, and DOF:

1. To what extent has private post-secondary institutional enrollment increased in recent years due to the public institutions inability to meet the growing demands of the job market?

2. This is not a new issue; since at least the early 2000s, there have been bills introduced to authorize community college districts to offer baccalaureate degrees. The most recent iterations of this effort have focused on authorization of a pilot to allow selected districts to offer baccalaureate degrees. Has the Chancellor's Office studied the pilot concept or otherwise examined the process by which such a pilot could be implemented?

3. Is the Chancellor's Office aware of any studies of CCC capacity to offer bachelor's degrees?

4. What studies or analysis has been undertaken of the "lessons learned" from grants provided since 2005 under the CCC Baccalaureate Partnership Program?

    a. Has the Chancellor's Office examined the potential of expanding the existing CCC Baccalaureate Partnership Program?

Staff Recommendation. This is an informational item.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 12: Federal Sequestration – Community College Impacts

Background. The federal sequester is automatic, across-the-board, spending reductions on many federal programs, intended to ensure $1.2 trillion deficit reduction over 10 years. Generally speaking, the reductions are half from defense and half from non-defense programs. The first set of reductions took effect March 1, 2013, impacting mostly federal discretionary spending ($71 billion in cuts) and some mandatory programs ($14 billion in cuts). Certain programs were exempted from the sequester, including entitlements and Pell grants for college students, among others.

Due to the sequester, all federally-funded education programs (other than Pell grants) are subject to an automatic across-the-board reduction of roughly 5.3 percent. Students will also see an increase in the origination fee charged for new federal student loans taken after July 1, 2013. Additional reductions to education programs (including Pell grants) will likely occur in Fiscal Years 2014 through 2021 due to stringent "caps" on so-called discretionary-funded programs, which include all education programs (other than student loans).

Staff Comment. The full impacts of the March 1 reductions are not yet known.

The Chancellor's Office currently estimates that Carl D. Perkins/VTEA (vocational education) funds will be reduced by eight percent in 2013-14 and another seven percent in 2014-15. Funding for 2012-13 was $124,509,075; funding for 2013-14 is $113,966,121, a reduction of $10,542,954. This funding level represents the total allocation to the California Department of Education and the Chancellor's Office. The split of the funding between the two entities will be determined in the next couple of weeks, and each community college will then be notified of their actual award. The split is based upon an enrollment formula and historically is close to 50/50.

Information on other federal funding will be provided at the hearing if it becomes available.

Staff Recommendation. This is an informational item.