Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Anthony J. Portantino, Chair
Senator Hannah-Beth Jackson
Senator John M. W. Moorlach

Thursday, April 19, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultant: Anita Lee

Items for Discussion

Public Comment

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6980 California Student Aid Commission

Since its creation by the Legislature in 1955, the California Student Aid Commission (CSAC) has continued to operate as the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The mission of CSAC is to make education beyond high school financially accessible to all Californians by administering state-authorized financial aid programs.

CSAC is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, two members are appointed by the Senate Rules Committee and two members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, who are appointed by the Governor, and serve two-year terms.

Issue 1: Financial Aid Overview and Budget

Panel:
- Bijan Mehryar, Department of Finance
- Lupita Alcalá, Executive Director, California Student Aid Commission
- Jason Constantouros, Legislative Analyst's Office

Background.
In 1955 the Legislature established a merit-based, competitive State Scholarship program for financially needy students attending public or private institutions. In the late 1970s, the Legislature consolidated the State Scholarship program and other aid programs into the Cal Grant program. In 2000, the Legislature restructured the Cal Grant program into an entitlement program for students meeting certain criteria, as well as a relatively small competitive program for students not meeting the entitlement criteria, which are described below.

Cal Grant Eligibility Criteria. To qualify for the entitlement and competitive programs, students must meet certain income and asset criteria. In addition to financial criteria, the programs have certain age requirements. To qualify for the entitlement program, students must be recent high school graduates or transfer students under age 28. The competitive program generally is designed for older students. Both programs require a minimum grade point average (ranging from 2.0 to 3.0), except for the competitive Cal Grant C award.

2017-18 Cal Grant Eligibility Criteria

Financial Eligibility Criteria[a]
Cal Grant A and C ● Family income ceiling: \$88,900 to \$114,300, depending on family size. ● Asset ceiling: \$76,500. **Cal Grant B** ● Family income ceiling: \$41,500 to \$62,800, depending on family size. ● Asset ceiling: same as A and C.
Other Major Eligibility Criteria

High School Entitlement (Cal Grant A and B)
- Graduated from high school within the last year.
- Minimum high school grade point average (GPA) of 3.0 for A award and 2.0 for B award.

Transfer Entitlement (Cal Grant A and B)
- CCC student under age 28 transferring to a four-year college.
- Minimum college GPA of 2.4.

Competitive (Cal Grant A and B)
- Not eligible for entitlement award because of time lapsed since high school graduation.
- Minimum GPA same as high school entitlement A and B.

Competitive (Cal Grant C)
- Must be enrolled in a career technical education program at least four months long.
- No minimum GPA requirement.

[a]Reflects criteria for dependent students. Different criteria apply to independent students (generally those over age 24).
GPA = grade point average.

Award Amounts. The Cal Grant program offers three types of awards. The Cal Grant A covers full systemwide tuition and fees at the public universities and up to a fixed dollar amount toward tuition costs at private colleges. The Cal Grant B covers tuition in all but the first year of college and provides additional aid to help pay for non-tuition expenses, including books, supplies, and transportation. The Cal Grant C covers up to a fixed amount for tuition and provides aid for non-tuition expenses for eligible students enrolled in CTE programs. A student generally may receive a Cal Grant A or B award for up to the equivalent of four years of full-time study, whereas a Cal Grant C award is available for up to two years.

2017-18 Cal Grant Award Amounts

Cal Grant A
- Tuition awards for up to four years.
- Full systemwide tuition and fees ($12,630) at University of California (UC).
- Full systemwide tuition and fees ($5,742) at California State University (CSU).
- Fixed amount ($9,084) at nonprofit and Western Association of Schools and Colleges-accredited for-profit colleges.
- Fixed amount ($4,000) for other for-profit colleges.

Cal Grant B
- Tuition coverage comparable to A award for all but first year.
- Up to $1,672 toward non-tuition expenses for up to four years.

Cal Grant C
- Up to $2,462 for tuition and fees for up to two years.
- Up to $1,094 at CCC and $547 at private colleges for non-tuition expenses for up to two years.

In addition to Cal Grants, CSAC administers various other financial aid programs, including:

- **The California Dream Act.** The Dream Act was implemented in 2013-14, and allows undocumented and nonresident documented students who meet AB 540 (Firebaugh), Chapter 814, Statutes of 2001, requirements to apply for and receive private scholarships funded through public universities, state-administered financial aid, university grants, community college fee waivers, and Cal Grants. The Dream Act application is similar to the process of filing a Free Application for Federal Student Aid (FAFSA) and GPA verification. Applicants who meet the Cal Grant eligibility requirements are offered a Cal Grant award. Below are charts from CSAC displaying Dream Act applications, and award offers and payments by segments.

New Dream Act Applications by Academic Year
Data as of February 1, 2018

	2015-16 Counts	2016-17 Counts	2017-18 Counts*	2018-19 Counts*
On Time (met March 2 deadline)	30,775	34,207	36,129	20,111
After March 2	12,909	14,077	12,977	0
Total Applications	**43,684**	**48,284**	**49,106**	**20,111**

*Not the final counts for 2017-18 and 2018-19

Dream Act Award Offers and Payment by Segment
Data as of February 1, 2018

Segment	2016-17			2017-18*			2018-19*		
	Offered Awardees	Paid Recipients	Paid Rate	Offered Awardees	Paid Recipients	Paid Rate	Offered Awardees	Paid Recipients	Paid Rate
Community College	4,745	2,667	56%	4,847	1,915	40%	1,545	0	0%
UC	1,290	1,181	92%	1,284	1,023	80%	80	0	0%
CSU	2,871	2,221	77%	3,039	1,936	64%	1,962	0	0%
Priv. 2-Yr Non-Profit	-	-	0%	-	-	0%	0	0	0%
Priv. 4-Yr/ Priv. Grad	224	156	70%	235	133	57%	319	0	0%
Vocational/ Hospital Ed.	51	23	45%	45	16	35%	26	0	0%
Total	**9,181**	**6,248**	**68%**	**9,450**	**5,023**	**53%**	**4,657**	**0**	**0%**

*Not the final counts for 2017-18 and 2018-19

- **Middle Class Scholarships.** This program started in 2014-15 and is only available to students attending public universities. Under the program, students with household incomes and assets each under $171,000 may qualify for an award that covers a portion of their tuition and systemwide fees (when combined with all other public financial aid). CSAC provides these scholarships to eligible students who fill out a federal financial aid application, though the program is not need-based. Unlike Cal Grants, the program is not considered an entitlement and the program funding level is capped in state law. If funding is insufficient to cover the maximum award amounts specified in law, awards are pro-rated downward. Current state law appropriates $96 million for 2017-18, increasing to $117 million in 2018-19, with funding capped at $117 million thereafter.

Governor's Budget Proposals

The Governor proposes an $80 million (3.6 percent) increase for CSAC over the revised 2017-18 level. The largest increase is for Cal Grants ($71 million). The two main fund sources for CSAC are state General Fund and federal Temporary Assistance for Needy Families (TANF) funds. Under the Governor's proposal, General Fund spending increases by $28 million (2.4 percent) and TANF funds increase by $52 million (five percent). This amount does not account for the proposed tuition increases at UC or CSU.

CSAC Estimates Cal Grant Caseload Based Largely on Previous Trends. Each fall and spring, CSAC estimates Cal Grant participation for the current year and budget year. For the current year, CSAC looks at how many awards have been offered to date and then assumes a certain percentage of these awards are paid based on recent paid rates. For the budget year, CSAC takes the current-year estimate and projects it forward using various assumptions, such as the expected share of new awards converting into renewal awards and the attrition of existing renewal awards. For current- and budget-year estimates, CSAC also includes the effects of any policy or administrative changes. For instance, CSAC includes the effects of any adopted or proposed tuition increases at the public universities as well as any administrative efforts to increase the number of awards that are paid.

Middle Class Scholarship. The Governor revises estimated Middle Class Scholarship costs upward in 2017-18 by $3.9 million (four percent). Compared to the revised 2017-18 level, the Governor projects a $2.2 million increase in 2018-19 to reflect an estimated two percent increase in program participation. In total, an estimated 53,250 students will receive grants in 2018-19 (9,600 at UC and 43,650 at CSU). The Governor's proposed trailer bill modifies state law to match the Governor's budget estimates in 2017-18 and 2018-19, but the cap of $117 million is left in place for future years.

California Student Aid Commission Budget
(Dollars in Millions)

	2016-17 Revised	2017-18 Revised	2018-19 Proposed	Change From 2017-18	
				Amount	Percent
Expenditures and Local Assistance					
Cal Grants	$1,948	$2,090	$2,162	$71	3.4%
Middle Class Scholarships	74	100	102	2.2	2.2
Assumption Program of Loans for Education	10	7	7	-0.5	-6.8
Chafee Foster Youth Program	13	14	15	—[a]	2.0
Student Opportunity and Access Program	8	8	8	—[a]	2.3
National Guard Education	2	2	2	—	—

Assistance Awards					
Other Programs[b]	1	1	1	—[a]	-26.0
Subtotals	**($2,056)**	**($2,223)**	**($2,297)**	**($73)**	**(3.3%)**
State Operations	$16	$16	$22	$7	44%
Totals	**$2,072**	**$2,239**	**$2,319**	**$80**	**3.6%**
Funding					
State General Fund	$1,126[c]	$1,172[c]	$1,201	$28	2.4%
Federal TANF	926	1,043	1,095	52	5.0
Other federal funds and reimbursements	17	18	18	—[a]	0.2
College Access Tax Credit Fund	4	6	6	—[a]	1.5

[a]Less than $500,000.
[b]Includes Cash for College, Child Development Teacher/Supervisor Grants, Graduate Assumption Program of Loans for Education, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.
[c]Reflects correction to remove double-counting of College Access Tax Credit funding.
TANF = Temporary Assistance for Needy Families.

Governor's Budget Assumes Lower Spending in 2016-17 and 2017-18, Higher Spending in 2018-19. The budget revises 2016-17 Cal Grant spending down by $33 million (1.7 percent) and 2017-18 spending down by $15 million (0.7 percent) to reflect updated cost estimates. Compared to the revised 2017-18 level, the budget provides a $71 million (3.4 percent) increase for 2018-19. The increase primarily is due to a projected 4.2 percent increase in participation. (Growth in participation tends to be higher than growth in overall costs because community college students receive a large share of the grants and their grant costs are relatively low.) The Administration's estimate for 2018-19 does not assume any changes in tuition and fees, except for a $54 increase (4.8 percent) in UC's Student Services Fee. Since the release of the Governor's budget, CSAC has provided an updated Cal Grant estimate indicating costs in 2018-19 could be $38 million higher than the Governor's estimate. Additionally, the Administration's budget proposal does not account for the pending tuition increase at UC or CSU, which would increase Cal Grant costs by $26.2 million and $22.8 million, respectively. The Administration likely will update its estimates to match the latest CSAC estimates in the May Revision.

Staff Comments

The 2017-18 budget required CSAC to report by February 1, 2018, on options to consolidate existing programs that serve similar student populations in order to lower students' total cost of college attendance, including: tuition and fees, books and supplies, transportation, and room and board. The intent is to identify: (1) similarities between the state's nine grant and scholarship programs and the four loan assumption programs, including similarities in student and family eligibility requirements; (2) options for how programs could be streamlined or consolidated; and (3) any technology or systems barriers, or other challenges to streamlining or consolidating programs. CSAC may convene a group of stakeholders, including high school and college students, to provide input in the development of the recommendations

CSAC contracted with the Century Foundation, and released a report *Expanding Opportunity, Reducing Debt: Reforming California Student Aid*, on April 3, 2018. The report recommended substantial overhaul to the existing system, including: combine major CSAC programs into one Cal Grant entitlement that would be available without regard to students' age, time out of high school, high school GPA, revise the expected family contribution, and create a standardize methodology to determine the cost of attendance that takes into regional cost of living.

CSAC recognizes that this would be a significant undertaking of CSAC, the Legislature and other relevant stakeholders. As a result, during the April 3rd commission hearing, the commission took action to develop an incremental approach to consider the proposal in three stages. For the first stage, under the 2018-19 budget, CSAC is requesting to (1) increase the Cal Grant B Access Award over three years to a maximum access award of $6,000, with a net cost increase of approximately $1 billion, (2) provide greater outreach and early information by creating a dedicated outreach unit with three to five positions, and (3) provide innovation grants to campuses that have innovating new ideas for enhancing college affordability. At CSAC's June 21 and June 23, 2018 meeting, Commissioners will consider the proposal to consolidate existing state grant programs into a unified Cal Grant and will be presented to the Legislature and Administration in 2019-20. CSAC notes that major changes to the states system of allocating, funding and delivering student financial will require extensive engagement and input.

The subcommittee may wish to ask:

1. CSAC: What is the timeline for considering changes to the financial aid system?
2. What is the Administration's perspective on the recommendations outlined in the report?

Staff Recommendation. Hold Open.

Issue 2: Cal Grants for Students at Private Nonprofit and Private For-Profit Institutions

Panel

- Bijan Mehryar, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Lupita Alcalá, Executive Director, California Student Aid Commission
- Kristen Soares, President, Association of Independent Colleges and Universities

Background

The state provides financially needy students attending Western Association of Schools and Colleges (WASC) accredited nonprofit and for-profit colleges with Cal Grant awards to help them cover the costs of their education. The state originally had various goals in offering these Cal Grant awards. First, the state wanted to provide low-income students with the choice to attend private college. Second, having some students select private colleges eased up capacity issues at UC and CSU. (This was of particular concern during certain decades, such as the 1960s, when the state was seeing large growth in the number of college-age students.) Lastly, the awards potentially provided state savings because the Cal Grant cost less than what the state would have paid had the student attended a public college.

Prior to the restructuring of the Cal Grant program in 2000, state law called for the maximum WASC-accredited private award to be set by adding together (1) 75 percent of the state General Fund cost per CSU student and (2) the average of the tuition and fees charged by UC and CSU. (The state pays tuition and fees for low-income students attending UC and CSU.) The policy served as an aspirational goal against which to measure state funding. In 1997-98, for example, the state met 97 percent of the statutory goal. As part of the Cal Grant program restructuring in 2000, the Legislature removed these provisions from state law.

Prior Budget Acts. As a savings measure, the 2012-13 budget amended state law to lower the WASC-accredited private award from $9,084 to $8,056 starting in 2014-15. Subsequent budget actions have postponed the reduction. Most recently, the 2017-18 budget delayed the reduction until 2018-19 and added statutory language that WASC-accredited private colleges participating in the Cal Grant program make a good faith effort to enroll more low-income students, enroll more transfer students, and offer more online courses. The budget requires these institutions to report on progress towards meeting these goals by March 15 of each year.

The Association of Independent California Colleges and Universities (AICCU) is comprised of 78 private nonprofit colleges and universities, which make up the independent California colleges and universities sector. The AICCU sent surveys to all 70 undergraduate-serving AICCU institutions regarding five-year trend of enrollment of low-come students, transfer students, and students enrolled in online classes. Approximately, 91 percent of institutions completed the survey by February 2018. The survey found that AICCU institutions experienced an increase of 3.9 percent in Cal Grant recipients, even though overall enrollment only increased 1.2 percent; 56 AICCU have articulation agreements with at least one community college, and AICCU institutions have seen an increase of 12 percent in undergraduate students enrolled in at least one online course for credit.

Governor's Proposals

Transfer Students. The budget includes $7.9 million to maintain the private nonprofit award at $9,084 ($1,028 higher than the otherwise reduced level of $8,056). To be able to receive the $1,028 differential in 2019-20, the Governor proposes trailer bill language to require the sector in 2019-20 accept at least 2,500 transfer students who have earned an associate degree for transfer (ADT). This would equate to almost one-third of the total transfers that private nonprofit institutions currently accept. The Governor proposes to increase the expectation to 3,000 in 2020-21. Beginning in 2021-22, the target changes to become based on the percent change in the number of total transfers the sector admitted in the prior year. For example, if the sector increases overall transfer enrollment by three percent in 2021-22, then it would be expected to grow ADT enrollment by three percent in 2022-23. The Governor indicates that this proposal is part of a broader effort to make transfer easier across all segments and improve timely completion rates for transfer students.

Proposal Reduces Award for Students at WASC-Accredited For-Profit Colleges. The Governor proposes to reduce the Cal Grant award for students attending WASC-accredited for-profit institutions—providing $8,056 for those students instead of the higher $9,084. This proposal would likely affect five institutions. The Governor's budget recognizes $600,000 in total associated savings.

Legislative Analyst's Office Comments

One Very Specific Goal. The proposal to tie a portion of the Cal Grant to a very specific transfer-focused goal represents a significant policy change. Additionally, this one very specific goal may not be compatible with the mission of some nonprofit colleges. For example, some nonprofit colleges focus on specific disciplines, such as art or music, and rely on small four-year cohort approaches. These programs do not intend to focus on transfer, yet they can provide low-income students access to types of college programs not offered within the public system. Additionally, the private sector was not part of the ADT authorizing legislation or included in the ADT development efforts. Years later, tying the Cal Grant for low-income students attending the private sector to ADT requirements could be viewed as arbitrary.

Poor Approach to Accountability. Even if data showed a problem did exist and tying strings to the award were deemed reasonable, some nonprofit colleges might increase their ADT enrollment significantly yet still lose Cal Grant funding because the sector overall does not meet its ADT target. Conversely, some colleges might not increase their ADT enrollment yet continue receiving Cal Grant funding. Institutions are very diverse and do not have a central governing body that can hold them accountable for not meeting certain state requirements. Of equal concern is that if the overall sector does not meet its ADT target, all financially needy students attending private nonprofits will lose a portion of their Cal Grant award. Although the Governor proposes to grandfather in higher grant awards for students that enter the institutions in a year that the sector meets its targets, students that enter in a year that the sector does not meet its target would receive a lower grant amount. The LAO believes these types of repercussions could be viewed as unreasonable. The LAO recommends the Legislature reject the Governor's proposal to place conditions on a portion of the Cal Grant award for financially needy students attending private nonprofit institutions.

No Clear Rationale for Reducing Cal Grant Award for Students Attending WASC-Accredited For-Profit Colleges. The Administration was unable to provide justification for reducing the Cal Grant award for WASC-accredited for-profit colleges. The LAO compared graduation rates and student loan default rates for the five WASC-accredited for-profit colleges with the averages for nonprofit colleges and CSU campuses. The WASC-accredited for-profit colleges' graduation rates are on average lower than nonprofit colleges but higher than CSU campuses. Regarding default rates on student loans, their rates on average are about one percentage point higher than nonprofit colleges and CSU campuses. The LAO questions why financially needy students attending these institutions should have their state financial aid reduced. The LAO recommends the Legislature maintain the existing Cal Grant award amount for financially needy students attending WASC-accredited for-profit institutions.

Recommend Using Former State Policy to Set Award Amount. The Cal Grant award amount for students attending WASC-accredited private colleges has been flat at $9,084 for six years. As the real value of the award amount has eroded, student choice also appears to be eroding. Cal Grant data show that nonprofit awards as a share of total Cal Grants has been declining in recent years. Whereas over 20 percent of all Cal Grant recipients attended a nonprofit college in 2001-02, 11 percent attend today. To improve students' buying power and choice, the LAO recommends the Legislature increase the Cal Grant award for students attending these institutions. In setting the award amount, the LAO recommends the Legislature use the state's historic Cal Grant formula for private colleges, which would be $16,500. If the state wanted to reach the target of $16,500 in five years (making equal progress each year), the 2018-19 award amount would be $10,300—at an additional state cost of $43 million relative to the Governor's budget.

Staff Comments

Staff notes that currently, the state nor the AICCU collect information on the number of overall transfer students or ADT students that private nonprofit institutions currently accept, so it is unclear how far the segment is to reaching the target goal. The AICCU supports the Governor's proposal and notes that seven AICCU institutions accept some ADTs, these institutions are: Azusa Pacific, Bradman University, California Lutheran University, Menlo College National University, San Diego Christian College, and University of La Verne. Additionally, AICCU indicates they are working with the Community College Chancellor's Office to develop a memorandum of understanding on outreach to community college students about transferring to private non-profits.

Staff is concerned about the potential impact on students. Under the proposal, one cohort of students could receive the higher award amount, and the next cohort could receive the lower amount. Regardless of future changes to the programs, the cohort would receive the same award amount. This structure could lead to inconsistencies in award amounts by cohorts. Should the Legislature wish to approve this proposal, additional monitoring and oversight may be needed.

The Subcommittee may wish to ask:

3. What is the rationale to reduce the awards for WASC accredited for profit institutions?
4. How will the state verify the number of transfers to this sector? What type of tracking mechanism will be developed?

Staff Recommendation. Hold Open

Issue 3: Grant Delivery System

Panel

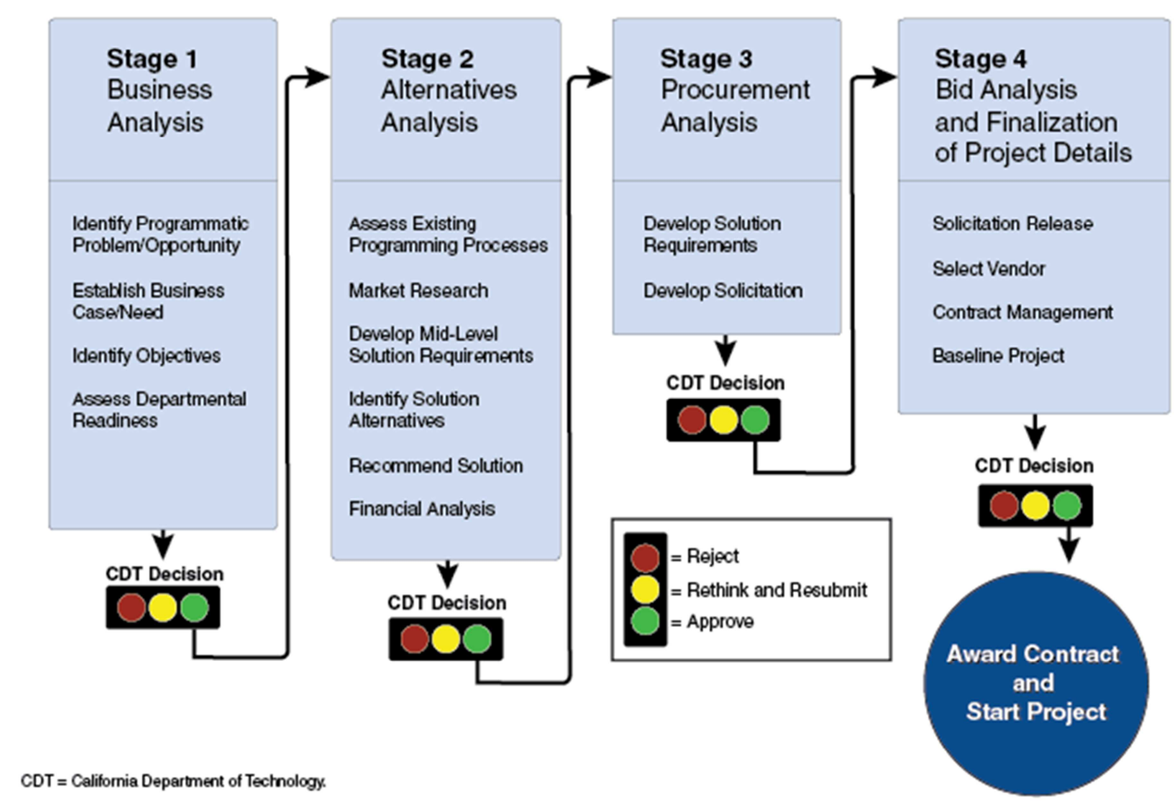
- Bijan Mehryar, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Lupita Alcalá, Executive Director, California Student Aid Commission

Background

The CSAC uses an information technology (IT) platform known as the Grant Delivery System to process student financial aid applications, make aid offers to students, and manage aid payments. Students and campus administrators also use the system. Most notably, students use the system to submit financial aid applications and administrators use it to process financial aid payments on behalf of students. The CSAC has used its current IT system for 30 years. The annual average cost of operating and staffing the current system is \$9.9 million—consisting of \$8.1 million in staff (81 full-time equivalent positions) and \$1.8 million in other operating costs. Most state IT projects are required to go through the Project Approval Lifecycle (PAL), a four-stage planning process overseen by the California Department of Technology (CDT). The process begins with an agency identifying a programmatic problem or opportunity and ends with bidding the project and finalizing IT project details. Once a project has completed the fourth stage, the agency may execute the project. The CDT continues to provide project oversight during and after project execution.

Figure 1

Project Approval Lifecycle Has Four Stages



CDT = California Department of Technology.

Grant Delivery System Replacement Project. The Grant Delivery System replacement project recently completed stage three of PAL. The CSAC indicates the project will enter stage four in spring of 2018. The CDT estimates that CSAC is on schedule to execute the project beginning in July 2018. Recent budgets have provided a total of $1.8 million in one-time funding to CSAC for staff to help develop and navigate the project. Of this amount: (1) the 2015-16 budget included $842,000, (2) the 2016-17 budget included $396,000, and (3) the 2017-18 budget included $546,000 (see Figure 2). Additionally, CSAC has shifted about ten staff from working on the current Grant Delivery System to assisting in planning the new system. The CDT indicates that shifting some existing staff resources during the planning phases is common with PAL.

Grant Delivery System Replacement Project[a]
(In Thousands)

	New Funding	Redirected Funding[b]	Total
2015-16 Budget Act	$842	$1,207	$2,049
2016-17 Budget Act	396	1,526	1,922
2017-18 Budget Act	546	1,579	2,125
2018-19 proposed	7,435	1,190	8,625
2019-20 to be requested	8,144	1,306	9,450
Totals	**$17,363**	**$6,808**	**$24,171**

[a] Reflects data underlying Governor's January budget. The Governor indicates the May Revision likely will modify cost estimates for the project. All funding shown is one time.
[b] Reflects costs of redirected California Student Aid Commission staff.

Governor's Budget Proposal

The Governor proposes $7.4 million in one-time General Fund for CSAC to begin the replacement of its Grant Delivery System. Of the $7.4 million, CSAC indicates $5.5 million would go to project vendors to (1) build, test, and pilot the new system; (2) conduct project management activities; and (3) provide training and materials for staff using the new system. The remaining $1.9 million would go to licensing fees, staffing and overhead costs, and fulfillment of certain CDT project requirements, such as independent project oversight. The $7.4 million would be the first-year cost of a two-year project. In 2019-20, the Administration anticipates that it will request a further $8.1 million in one-time funding to complete the project. After the project is completed, the Administration indicates that the estimated ongoing costs to support the system will be $11.1 million—consisting of $8.8 million in staff (about 90 full-time equivalent positions) and $2.3 million in other operating costs.

The CSAC would continue to dedicate about ten staff to the project during the two-year replacement project. Thereafter, CSAC would transition all GDS staff previously assigned to the old system to the new system. The responsibilities of shifted staff would be similar to their previous CSAC responsibilities, with IT staff working on the technical aspects of the new system and program staff assisting system users, performing accounting tasks, and undertaking research activities (such as analyzing system usage).

Spring Finance Letter. On March 29, 2018, the Administration submitted a letter to the Legislature requesting a $1.92 million decrease of its January request to reflect revised cost estimates for the project. The reduced price is due to the CSAC's decision to divide the project into multiple tasks and to use open source software for the project, which lowers vendor costs.

Legislative Analyst's Office Comments

Since the Grant Delivery System was developed 30 years ago, financial aid programs and technology have changed notably. The current system is unable to accommodate many of these changes without numerous work-arounds and manual processes. In addition, during the last year, CSAC reports that the system has experienced over 25 unplanned outages. During these outages, students could not submit applications or update their school information, high schools could not upload grade point average information, and colleges could not request Cal Grant payments.

The CDT has approved the project thus far and indicated that the project is on track to complete stage four and be executed in 2018-19. Moreover, the recent decision to break the project into smaller components likely will lower costs somewhat. The LAO recommends the Legislature review the Governor's modifications to project costs. If the modifications are reasonable, the LAO recommends the Legislature approve the project.

Staff Comments

CSAC indicates that the current GDS uses outdated technology that has not been able to fully and effectively support the required changes of programs, and meet processing demands. For example, CSAC has notified staff that currently it takes at least one week to process information; however a goal of the GDS replacement is to provide real time information to students, families, schools and colleges. Additionally, the core system is 30 years old, and has not been able to effectively administer certain programs, which are currently housed in excel spread sheets. During the last twelve months GDS experienced over 25 unplanned outages due to hardware and software data, and CSAC notes that the system is down about 40 percent of the time. Moreover, CSAC notes that a lot of processing is done manually by CSAC staff, and it is the goal for the new system to automate more services to provide faster delivery and more up-to-date information to students.

The subcommittee may wish to ask:

1. What types of features will the new GDS system have?
2. Should the Legislature make modifications to the financial aid system, will the new GDS be able to accommodate and make modifications?

Staff Recommendation: Hold Open

6870 California Community Colleges

The California Community Colleges (CCC) is the largest system of community college education in the United States, serving approximately 2.1 million students annually, with 1.2 million of these full-time equivalent students. The CCC system is made up of 114 colleges operated by 72 community college districts throughout the state. California's two-year institutions provide programs of study and courses, in both credit and noncredit categories, which address its three primary areas of mission: education leading to associates degrees and university transfer; career technical education; and basic skills. The community colleges also offer a wide range of programs and courses to support economic development and specialized populations.

As outlined in the Master Plan for Higher Education in 1960, the community colleges were designated to have an open admission policy and bear the most extensive responsibility for lower-division, undergraduate instruction. The community college mission was further revised with the passage of Assembly Bill 1725 (Vasconcellos), Chapter 973, Statutes of 1988, which called for comprehensive reforms in every aspect of community college education and organization.

The Board of Governors (BOG) of the CCCs was established in 1967 to provide statewide leadership to California's community colleges. The board has 17 members appointed by the Governor, subject to Senate confirmation. Twelve members are appointed to six-year terms and two student members, two faculty members, and one classified member are appointed to two-year terms. The objectives of the board are:

- Provide direction, and coordination to California's community colleges.
- Apportion state funds to districts and ensure prudent use of public resources.
- Improve district and campus programs through informational and technical services on a statewide basis.

Additionally, key functions include setting minimum standards for districts, maintaining comprehensive educational and fiscal accountability system and overseeing statewide programs.

Issue 4: Student Focused Funding Formula

Panel
- Maritza Urquiza, Department of Finance
- Christian Osmeña, Chancellor's Office of Community Colleges
- Edgar Carbal, Legislative Analyst's Office

Background

The current apportionment formula allocates funding to districts based on student enrollment. Apportionment funding is allocated primarily based on per student rates. In 2017-18, community colleges received $5,151 per credit and enhanced noncredit FTE student and $3,050 per regular noncredit full-time equivalent (FTE) student. Enhanced noncredit instruction consists of courses relating to career development and college preparation. Instruction includes some basic skills courses, English as a Second Language courses, and CTE courses. The state allows districts to claim the higher of their current year or prior year enrollment levels—effectively a one year hold harmless provision. District apportionments also include a base allocation determined by the number of colleges, state approved centers, and total enrollment in the district.

Apportionment funding comprises almost three fourths of CCC Proposition 98 funding. Community college districts primarily receive their revenues through general purpose apportionment funding. The 2017-18 budget includes $6.2 billion for apportionments, representing 72 percent of all Proposition 98 CCC funding.

Colleges Must Spend Half of Apportionment Funding on Instruction. Current law requires districts to spend at least 50 percent of their general operating budget on salaries and benefits of faculty and instructional aides engaged in direct instruction. Spending on other instruction related staff, such as academic counselors and librarians, is not counted as instructional costs. Costs for staff that provide services such as campus safety, facilities maintenance, and information technology services also are excluded, as are operating costs for such things as insurance and utilities. Districts that fall below the 50 percent mark can be subject to financial penalties by the Board of Governors.

Remaining CCC Funding Is Through Restricted Categorical Programs. Each of these categorical programs has its own allocation formula and associated restrictions and spending requirements. The largest categorical program, the Adult Education Block Grant, distributes $500 million to consortia of community colleges and school districts that decide how funds are to be used to serve adult learners in their areas. The next two largest categorical programs are the Student Success and Support Program (SSSP), which received $306 million in 2017 18, and the Strong Workforce Program, which received $248 million. The SSSP provides various orientation and counseling services. The Strong Workforce Program requires consortia of community college districts to develop and operate workforce programs based on their regional labor markets.

Enrollment. Over the last few years, colleges are experiencing declining enrollment. The 2016-17 budget set a systemwide growth target of two percent; however, the actual growth was 0.67 percent. Moreover, of the 72 districts, 30 had declining enrollment, 12 are in restoration, and 30 are growing. Additionally, only six college districts met their growth targets. Regarding declines, the state allows districts to claim the higher of their current-year or prior-year enrollment levels—effectively a one-year hold harmless provision. After one year, the state lowers base funding for the affected districts but gives those districts three years to earn back (restore) funding associated with enrollment declines. Each year, some of these districts earn restoration funding. Technically, districts receive restoration funding first, then growth funding. That is, a district receives growth funding only if its actual enrollment exceeds its restoration target. The Administration notes that should this trend and framework continue, many districts risk receiving less funding.

CCC Tracks Low-Income Students Served. CCC defines low-income students primarily as those who meet one of two criteria: (1) they receive a Pell Grant (federal need-based aid) or (2) they receive a fee waiver (state need-based aid). In 2014-15, 22 percent of CCC students systemwide received a Pell Grant, and approximately one-half of all students received a fee waiver. As federal and state aid recipients do not overlap entirely, somewhat more than one-half of all CCC students systemwide are identified as low-income.

In 2015-16, the six-year completion rate for degree or certificate seeking low-income students was 45 percent, compared with 57 percent for other students. Federal data, also from 2015-16, show three-year CCC completion rates for first time, full-time Pell Grant recipients and non-Pell Grant recipients of 26 percent and 34 percent, respectively.

First-Generation College Students Served. To identify the share of first-generation college students, the CCC's application form asks for the highest level of schooling completed by an applicant's parents. If a student provides this information for two parents, CCC uses the highest education level of the two. CCC defines a first-generation college student as one for whom no parent or guardian has earned more than a high school diploma or ever attended college. Overall, CCC reports that 42 percent of students in the 2015-16 academic year were first-generation college students. CCC does not report outcomes specifically for first-generation college students. However, available national data consistently reflects poorer outcomes for these students.

CCC Student Success Initiative Seeks to Improve Completion Rates. The Board of Governors (BOG) has set specific goals for improving graduation rates and other student outcomes and eliminating achievement gaps among student subgroups over the next ten years. Under the umbrella of the CCC Student Success Initiative, the system has several statewide programs to help it meet these goals. The largest of these programs, the Student Success and Support program ($306 million in 2017-18), provides student orientation, assessment, and counseling services to all students. In 2017-18, the state also provided $150 million one time for the Guided Pathways Initiative, which is intended to develop better systems for helping all students choose, enter, and complete an academic program.

In addition to significant investments to broad-based support programs serving all students, CCC has several programs that specifically benefit low-income and first generation students. These programs are outlined in the following table.

State Funding for California Community Colleges' to Address Student Success
(Dollars in millions)

Program	Description	Funding (In Millions)
Student Success and Supportive Services (SSSP)	Core services include orientation to the college and assessment to place students in appropriate courses as well as counseling and advisement to assist them in identifying educational and career goals, preparing for transfer to a university or advanced training, and connecting with additional supportive services. SSSP services also assist students with early identification of academic difficulties and support for improvement. Colleges must ensure that their SSSP plans are coordinated with student equity plans. Colleges must conduct related research and evaluation of services to ensure their value and also to ensure that services are provided in a manner that supports all students.	285
Student Equity Plans	Funds activities to identify and address disparities in access and outcomes for various subgroups of CCC Students. Funding is distributed to districts based on various factors including: annual FTES, high need students, educational attainment of residential zip code, poverty rate, unemployment rate, and unduplicated Foster Youth headcount.	$160
Extended Opportunity Programs and Services (EOPS)	Provides various supplemental services, such as academic and support counselling, financial aid and other support services, for low-income and academically disadvantaged students (such as first generation college student or current/former foster youth), as well as welfare-dependent single parents. Funds are distributed based on a standard base allocation for each college, and the number of eligible students.	125
Basic Skills Initiative	Funds counseling and tutoring for academically underprepared students as well as curriculum and professional development for basic skills faculty.	50
Institutional Effectiveness Program Initiative (IEPI)	Established in 2014-15, this ongoing initiative provides technical assistance and professional development to colleges seeking to improve student outcomes and overall operations. The Chancellor's Office oversees the initiative and contracts with two districts (Santa Clarita Community College District and Chabot-Las Positas Community College District) to coordinate teams of CCC experts to consult with campuses, organize regional workshops, and perform other activities. To help identify institutions that may need assistance, the Chancellor's Office has developed a set of effectiveness indicators. Statute requires colleges to develop, adopt, and publicly post goals and actual results each year using these indicators.	27.5
CalWORKs Student Services	Provides child care, career counseling, subsidized employment, and other supplemental services to CCC students receiving CalWORKs assistance. These services are in addition to those provided to all CalWORKs recipients by county welfare departments.	44
Umoja	Provides professional development for faculty, staff, and students and	3

	augments instruction and student services. Purpose is to improve student experiences by promoting awareness of African and African-American culture.	
Campus Child Care Centers	Funds child care centers aimed primarily at low-income women studying at CCC at 25 community college districts.	3
Mathematics, Engineering, and Science and Achievement	Provides academic counseling, workshops, and community-building activities for educationally disadvantaged students seeking careers in math, science, and engineering fields.	2
Puente	Provides faculty and staff professional development and student mentoring and counseling to increase academic achievement for underserved students. Program is a partnership with University of California and emphasizes successful transfer to universities.	2
Middle College High School	Provides high school and community college instruction to high-potential, at-risk high school students. Instruction is provided on community college campuses.	2

In addition to the programs and initiatives to address student success, as described above, low-income students also receive financial aid through:

- **Promise Grant (formerly known as the Board of Governors Fee Waiver):** a state support grant to cover enrollment fees.
- **Pell Grant**: a federally support granted to cover cost of attendance.
- **Cal Grant**: a state funded financial aid program which includes tuition grant and cash stipends for cost of attendance.
- **Full-Time Student Success Grant**: a state funded grant for Cal Grant recipients to receive additional aid for enrolling at least 12 units per term.
- **Completion Grant**: a state funded grant for Cal Grant recipients enrolled in at least 15 units and maintaining academic progress to on-time degree completion

The state and the Board of Governors also adopted other reforms to help increase student success, including:

- **Associate Degrees for Transfer.** In an attempt to reform the transfer pipeline from CCC to the CSU system, the state enacted SB 1440 (Padilla), Chapter 428, Statutes of 2010. The legislation required community colleges to create two-year (60 units) degrees known as associate degrees for transfer (ADT) that are fully transferable to CSU. ADTs require students to complete (1) an approved set of general education requirements, and (2) a minimum of 18 units in a major or area of emphasis. Though students with an ADT are not guaranteed admission to a particular CSU campus or into a particular degree program, they receive priority admission to a CSU program that is "similar" to their major or area of emphasis. Once admitted, students need only to complete two additional years (an additional 60 units) of coursework to earn a bachelor's degree.

- **Vision for Success.** In July 2017, the Board of Governors adopted the *Vision for Success*, a document that sets specific goals in a number of key student performance areas and identifies key commitments of the Chancellor's Office to assist colleges in meeting those goals. The document was developed in collaboration with community college leaders and stakeholders across the state. Specifically, the *Vision for Success* sets goals in six areas: (1) number of degrees, certificates, and credentials issued; (2) transfers to UC and CSU; (3) number of units accrued upon associate degree completion; (4) employment in a related field; (5) equity gaps among student groups; and (6) achievement gaps among regions in the state. The goals set in the *Vision for Success* generally are aligned to the goals of the Legislature.

Modest Improvements in Student Outcomes in Recent Years. The six-year completion rate for the most recent cohort (students who began college in 2010-11) is 48 percent, one percentage point lower than the completion rate for the 2006-07 cohort (49 percent). Statewide performance, however, has improved in several other areas. For example, the most recent data show modest improvements in the proportion of students who complete a college-level course after being initially placed in remedial classes, complete a transfer-level math or English course within their first two years, and complete 30 units of coursework within six years.

Governor's Budget Proposal

The Governor proposes to increase apportionment funding by $396 million, of this $175 million is to hold districts harmless for the shift to a new funding formula, $161 million is for a 2.51 percent apportionment COLA, and $60 million is for one percent enrollment growth.

Student Focused Formula. The Governor proposes moving away from the almost entirely enrollment-based apportionment funding model to one that not only accounts for overall enrollment but also accounts for low-income student enrollment and student performance. The new formula would include three components as follows:

Components of Proposed Funding Formula

Base Grant ($3.2 Billion) - Enrollment-Based Funding, using current-year data
• $2,405 per credit and enhanced noncredit full-time equivalent (FTE) student.
• $1,502 per regular noncredit FTE student.
• Allocation determined by the number of colleges and state-approved centers in the district.
Supplemental Grant ($1.6 Billion) - Based on a district's number of low-income students, as defined, using prior year data.
• $1,334 for each financially needy student receiving an enrollment fee waiver.
• $2,128 for each first-time freshmen who receives a Pell Grant.
Student Success Incentive Grant ($1.6 Billion) - Performance based funding using prior year data
• $5,533 for each Chancellor's Office-approved degree, certificate, and award granted.
• $6,395 for each student who completed a degree or certificate and/or transferred to a four-year institution within three years.
• $976 for each associate degree for transfer awarded.

Hold Harmless Provisions. The Governor proposes multiple hold harmless provisions for the funding formula, including:

1. **Base Fund.** The Governor's proposal includes a hold harmless provision relating to overall per-student apportionment funding. For 2018-19 only, districts would receive the greater of (1) the amount calculated based on the new funding formula or (2) the amount of apportionment funding they received in 2017-18. For 2019-20 and future years, districts would receive the greater of (1) the amount calculated based on the new funding formula or (2) the district's FTE enrollment in that year multiplied by its 2017-18 per-student funding rate.

2. **Supplemental and Performance Funding.** The proposal also includes separate hold harmless provisions for each of the two elements of the supplemental grant and three elements of the performance grant. Specifically, if the amount calculated for any element of these grants is lower than the amount the district received in the previous year, the district would receive the amount calculated the previous year. These adjustments essentially provide districts with a one-year delay in reductions related to these elements of the formula.

Requires Educational Master Plans to Align with Vision for Success. As a condition of receiving supplemental and performance grants, districts would be required to align the goals in their educational master plans with the systemwide goals set forth in the Vision for Success. Districts also would be required to measure progress towards meeting those goals. In addition, districts would be required to align their budgets to their revised master plans by a date that would be determined by the Chancellor's Office.

Requires Low-Performing Districts to Receive Technical Assistance. If a district is identified as needing assistance to make progress towards meeting its goals, the Chancellor's Office could require a district to use up to three percent of its apportionment funding for technical assistance and training.

Requires Chancellor's Office to Monitor Implementation. The Governor's proposal requires the Chancellor's Office to develop processes to monitor the implementation of the funding formula. The Chancellor's Office is required to develop minimum standards for the types of certificates and awards that count towards the performance grant.

Requires Chancellor's Office to Report on Progress in Meeting Vision for Success Goals. The proposal also requires the Chancellor's Office to submit a report to the Legislature and Department of Finance by July 1, 2022 on the progress colleges have made in advancing the Vision for Success goals. The report also is to include an overview of any technical assistance or other actions the Chancellor's Office has taken to help districts improve outcomes for historically underrepresented populations.

Tasks Chancellor's Office with Developing Proposal to Consolidate Categorical Programs. In the Governor's Budget Summary, the Administration states its expectation that the Chancellor's Office consult with stakeholders over the next few months to develop a proposal to consolidate existing categorical programs and provide greater flexibility for districts. The proposal would be submitted for possible consideration in the May Revision.

Increases Apportionments for Growth and COLA – The budget proposes an increase of $161 million in apportionments to cover a 2.51 percent cost-of-living-adjustment, and $60 million to fund one percent enrollment growth.

Adjusts Prior Year and Current Year for Enrollment, Property Tax, and Fee Revenue Changes – The Governor’s budget reduces apportionments by $74 million in 2016-17 and $78 million in 2017-18 to reflect unused growth funding. Additionally, the budget adjusts 2016-17 and 2017-18 Proposition 98 General Fund for apportionments to account for updated estimates of local property tax and student fee revenue. These adjustments result in net Proposition 98 General Fund savings of $38 million in 2016-17 and $54 million in 2017-18.

Legislative Analyst’s Office Comments

The current funding formula does not have incentives for colleges to ensure students meet their educational goals and finish with a certificate or degree in a timely manner. Specifically, it discourages districts from adopting innovative approaches that help students if such changes result in fewer units taken. For example, districts are unlikely to implement competency-based programs, which require upfront spending and typically result in fewer units taken, as they would receive less funding. The LAO believes the Governor’s proposal to allocate about half of apportionment funding based on enrollment seems reasonable.

Proposal Does Not Incentivize Colleges to Help Increase Low-Income Students Outcomes. However, the LAO notes that ***s***everal components of the Governor’s performance-based funding formula raise concerns. In particular, the proposal does not provide additional incentives for colleges to help low-income students complete a certificate or degree or their educational goals. The LAO recommends basing at least 20 percent of CCC funding on student outcomes. A larger share of funding based on performance likely would produce greater changes in institutional behavior. The LAO recommends providing higher levels of funding for the outcomes of low-income students and expensive programs the Legislature considers a high priority (such as some CTE programs). Additionally, the LAO recommends the Legislature require districts to document clearly in their annual budgets how they intend to serve low-income students. Additionally, the Chancellor’s Office could monitor and report the performance of low-income students by college and offer institutional effectiveness support when colleges do not meet their goals.

Academic Standards. Additionally, by providing the same amount of outcome-based funding for any degree or certificate, the proposal incentivizes for colleges to offer shorter, less expensive programs that lead to a degree or certificate, and discourages colleges from offering more expensive CTE programs. Research on performance-based funding models also identifies concerns related to the possibility of weakening academic standards. Specifically, a formula based on performance could create incentives for faculty to inflate grades to ensure student completion. The LAO recommends the Legislature task the Chancellor’s Office with monitoring key aspects of implementation to identify if any problematic trends result from using the new funding model. In addition to monitoring the approval of new program awards (to ensure minimum standards are met), the LAO recommends requiring the Chancellor’s Office to also monitor data related to grades (to monitor for grade inflation) and changes in the types of degree and certificates awarded (to ensure districts do not shift to cheaper and lower-value certificates as a way to maximize funding). Tracking this information would help inform future legislative decisions regarding if the funding model should be modified or new laws should be passed to prevent these problems from reoccurring.

Hold Harmless Provisions May Dampen Effect of Shifting to Performance-Based Formula. By incorporating several hold harmless provisions, the Governor's proposal provides stability during the transition to a new formula. Such stability, however, could diminish the changes in behavior that the Administration is hoping will occur. In particular, districts whose allocations under the new funding formula are far below their hold harmless levels would have no financial incentives to focus on improving student outcomes.

Supplemental Funding and Many Categorical Programs Serve Same Purposes. The Governor's proposal distributes a quarter of apportionment funding based on the number of low-income students. This component of the formula acknowledges the higher costs involved in serving low-income students. Acknowledging these higher costs and responding to these issues is the same rationale underlying many existing categorical programs. How the supplemental grant under the Governor's proposal would complement existing programs is unclear, as is the rationale for having both types of grants. Moreover, the structure of the supplemental grant is very different than the structure of existing student support grants, with the Governor's proposed grant having no restrictions or reporting requirements and the existing grants typically having many restrictions and reporting rules. The LAO recommends the Legislature collapse these fund streams into one larger pot of funding intended to benefit these students. In doing so, one critical decision for the Legislature would be determining how much funding to provide for this purpose.

Staff Comments

Many states have instituted performance based funding models in higher education. These types of measures that other states are incorporating include:

- Completion (credential – with weights for type of credential earned, graduation rates, transfer rates, and completion for specific student populations)
- Progression (course completion, successful remediation, reaching credit milestones)
- Efficiency/Productivity (time to progression/completion, expenditures per completion, tuition, and debt)
- Graduation Outcomes (job placement, wages, and graduate school)

According to the National Conference of State Legislatures, about 32 states have funding formulas or policies in place to allocate a portion of funding based on performance indicators, and five states are currently transitioning to some type of performance funding. The following table provides a few examples of what other states are doing at their community colleges:

Performance-Based Funding For Higher Education

State	Status	Funding	Metrics
Indiana	In place at two-year and four-year institutions	Six percent of funding for FY 2014 and FY 2015	Metrics for two-year and four-year institutions include: ● Degree completion ● At-risk degree completion ● High impact degree completion ● Persistence ● Remediation success ● On-time graduation ● Institution selected measure
Ohio	In place at two-year and four-year institutions	Ohio is in the process of phasing in changes to the state's performance funding model	For FY 2015, two-year colleges are funded as follows: ● 50 percent course completions ● 25 percent Completion Milestones—defined as: o Associate degrees o Certificates over 30 credit hours o Students transferring to any four-year institution ● 25 percent Success Points—defined as: o Students earning their first 15 credit hours. o Students earning their first 30 credit hours. o Students earning at least one associate degree. o Students completing their first developmental course. o Students completing any developmental English in the previous year and attempting any college level English either in the remainder of the previous year on any term this year. o Students completing any developmental Math in the previous year and attempting any college level Math either in the remainder of the previous year on any term this year. o Students enrolling for the first time at a University System of Ohio main campus or branch this year and have previously earned at least 15 college level credits at this community college. Additional weights are applied to students who are Pell Grant eligible, Native American, African American, or Hispanic, or are 25 years of age or older when they first enroll at a state institution of higher education.
Tennessee	In place at two-year and four-year institutions	After a base amount is set aside for operational support, the remainder is allocated based on institutional outcomes.	Community College Metrics ● Student accumulating: 12, 24, and 36 hours ● Dual enrolled students ● Associated degrees ● Graduates placed in jobs ● Remedial and development success ● Transfers out with 12 credit hours ● Workforce training (contact hours)

			● Award per 100 FTEs
Texas	In place at two-year institutions	10 percent of their funding	Ten percent of formula funding is allocated based on points earned from a three-year average of student completion of the following metrics: ● Students completing developmental education in mathematics, reading, and writing ● Students completing first college level course in mathematics, reading intensive, and writing intensive courses ● Students completing 15, or 30 credit hours ● Students transferring to a General Academic Institution after completing at least 15 semester credit hours ● Number of degrees and certificates awarded ● Additional points are awarded for degrees in STEM or Allied Health fields

Student Outcomes. A 2016 report from Columbia University's Community College Research Center, *Looking Inside the Black Box of Performance Funding for Higher Education: Policy Instruments, Organizational Obstacles, and Intended and Unintended Impacts*, found that states with performance funding have failed to consistently improve student achievement. Even if student outcomes improve after performance funding is introduced, the report notes that these improvements could be tied to other factors, such as, changes in tuition and financial aid policies, initiatives by state governments, and institutional decisions. As noted above, the state has made significant investments to help improve student outcomes, and as a result has implemented or reformed several statewide initiatives and programs to improve student outcomes, including the Guided Pathways Program, Community College Completion Grant, Full-Time Student Success Grant, Basic Skills Initiative, Basic Skills and Student Outcomes Transformation Program Grant, and the Basic Skills Partnership Pilot Program. The impact of these reforms and programs on student outcomes is still unclear.

Moreover, the Legislature may also wish consider if community colleges will have the institutional capacity and ability to make additional reforms given the amount of work that is currently underway in the system. The Legislature may wish to consider whether there are alternatives to hold districts accountable for student performance. The Legislature may also wish to consider if the performance portion of the funding (25 percent) is correct amount for the formula, or if the metrics included (awards, certificates, transfers, and ADTs) are the appropriate measures to demonstrate success, such as those described in the previous chart.

Data Collection. For years, the community college system has struggled with low completion rates. Specifically, the six-year completion rate for degree or certificate seeking low-income students at community colleges was 45 percent, compared with 57 percent for other students. The current Student Success Scorecard does not measure performance for a cohort of students until six years after initial enrollment. This means data on students who enrolled after SSSP and student equity implementation will not be available until 2020-21. To permit the Legislature to evaluate these programs before 2020-21, the Legislative Analyst's Office previously recommended, as an interim measure, the Chancellor's Office produce a three-year scorecard. This three-year scorecard would contain the same performance measures as the existing six-year scorecard, disaggregated by whether students received each of the core SSSP services. In order to effectively evaluate the outcomes of various reforms, the Legislature may wish to modify the data collection timeline.

Unintended Consequences. Moreover, the Columbia University report notes that performance funding provides an unintended incentive to weaken academic quality and to restrict the admission of less prepared and less advantaged students, who are less likely to finish college and thus less likely to pay off for institutions, such changes arise when a public agency encounter difficulties in realizing the intended impacts of performance account, and instead resort to less legitimate means such as lower service delivery standards, or restricting the access of harder-to-service clients.

The Administration notes that there will be safeguards to prevent this, and trailer bill language requires the Chancellor's Office to develop minimum standards for the approval of certificates and awards that would count towards the funding formula. Moreover, the trailer bill language specifies that the Chancellor's Office shall develop processes to monitor the implementation of the funding formula, including monitoring the approval of new awards, certificates, and degree programs. However, not all community college students seek to transfer or earn a degree/certificate. Some students may wish to take a few courses in an effort to advance their career, and may not need to earn a certificate, it is unclear how these students would be considered under the formula.

Budget Impact. The Governor's proposal raises concerns about the potential impact on colleges overall budgets. Columbia University noted that based on a survey of Indiana, Ohio and Tennessee community colleges, performance funding program had little to no impact on their college budget. However, the report notes that several factors mitigated against a big financial impact, including: the use of three-year rolling averages rather than annual statistics; hold-harmless provisions in the first few years; rising tuition share of revenues; and the small proportion share of funding driven by performance indicators (until recently in Indiana and Ohio).

The circumstances of which performance funding was implemented in Indiana, Ohio, and Tennessee do not match California. For example, the Administration's proposal will be based on prior year data only, rather than a three year-rolling average. Moreover, the enrollment fee at the CCCs is the lowest in the country, at $46 per unit, and has not changed since 2012-13. Tuition and fees account for approximately five percent of California's community colleges overall 2016-17 budget. Whereas the enrollment fee per unit at Indiana, Ohio, and Tennessee is $138, $142, and $160, respectively. In these states, student tuition and fees accounts for approximately 76 percent and 54 percent of Indiana and Tennessee's community colleges operating budget. Therefore, these states are more dependent on tuition and less on state appropriations.

As the Legislature deliberates the Governor's proposal, it may wish to consider the budgetary impact the proposal has on a colleges operating budget, and its long-term budget implications. According to the Administration, spending under this new formula is consistent with existing law in that is to be used for any operating expense and would follow the 50 percent law, and would not be limited to serving specific student populations (i.e. low-income students). This would still provide colleges with flexibility in determining how to address local needs.

In February, the Administration released a data run based (attached) on the proposed formula using 2016-17 data for colleges, displaying a potential first year impact of the proposed formula. The data run showed that 38 out of 72 districts would be under the hold harmless provisions. However, the Administration has not released a data run on the out year impacts of the formula.

Non-Credit Courses. Colleges offer career development and college preparation (CDCP) noncredit and regular noncredit courses, which provides English as a Second Language (ESL), elementary and secondary basic skills, short-term vocational, and workforce preparation courses. In March 2017, the LAO released a report, *Effects of Increases in Noncredit Course Funding Rates*, and found that increasing the funding rate for CDCP to the credit rate led to some expansion of higher-cost noncredit programs, improving the organization and potentially the quality of CDCP instruction, and expanding enrollment in CDCP courses. These conclusions are preliminary, given that only one year of data is available following implementation of SB 860 (Committee on Budget), Chapter 34, Statutes of 2014. Moreover, legislative and budget developments (such as Strong Workforce Program (SWP), Student Success and Support Program, Adult Education Block Grant (AEBG), and Basic Skills Initiative) raise new questions about how best to support CCC noncredit instruction.

The Governor’s funding formula proposal reduced the funding rate for noncredit, which could be disincentive colleges from offering noncredit courses, particularly those that do not necessarily lead to a degree or certificate. Additionally, many of these noncredit courses overlap or are similar to courses provided through the AEBG, SWP, and the regional consortia. However, it is unclear the impact the proposed formula would have on courses and programs offered through the AEBG or SWP. The Legislature may wish to consider how the Governor’s proposal impacts noncredit course options to students, and whether noncredit courses are meeting the needs of the state, or if there are changes needed improve the effectiveness of noncredit instruction.

Targeted Student Populations. Moreover, the trailer bill language and governor’s budget summary notes that the intent of the new formula is to encourage access for underrepresented students, and provide additional funding in recognition of the additional support needed for low-income students. However, the funding is not required to be spent on this population, nor does it provide additional support services for low-income student. Moreover, it is unclear how the Administration defines underrepresented students, as the formula only considers the number of students who receive a fee waiver or Pell Grant. The Legislature may wish to consider if there are other definitions for underrepresented and low-income that the formula should consider. Additionally, the proposal uses fee waiver head count data, whereas it uses Pell Grant cohort data. The subcommittee may wish to seek clarification on rationale for this. If the intent is to help low-income students, or other specific populations, the Legislature may wish to evaluate and review the existing categorical programs that are outlined above.

Categorical Programs. As noted above, the state currently provides additional programs and support services for specific student populations, including low-income and first generation students. This approach to fund specific programs, known as categorical programs, help ensure colleges may not divert these funds to other purposes, and as a result, more funding than otherwise tends to be available for enhanced supplemental services.

As the Chancellor’s Office consults with stakeholders about the potential consolidation of categorical programs, the Legislature may wish to consider its role in this consultation. Many of the programs were created through legislation, or are priorities of the Legislature. While staff agrees that greater coordination and accountability is necessary, the Legislature may wish to consider if consolidation is the correct means to achieve this, or are there other alternatives to promote coordination. Additionally, the Chancellor's Office notes that many of these programs have overlapping reporting requirements and processes, which is could be a reason to promote consolidation. However, staff questions whether there are internal mechanisms and regulatory relief within the Chancellor's Office that could help alleviate this. Additionally, the Legislature also needs to consider what role categorical programs would play should a new apportionment formula be implemented.

The Chancellor's Office surveyed colleges on the possibility of consolidating categoricals. On April 3, 2018, the Chancellor's Office submitted a summary of responses to the Legislature. The Chancellor's Office notes that the survey had 1,585 respondents with more than 2,300 individuals who started but did not finish. Of this, about 51 percent of respondents were full-time faculty or directors/coordinators, with larger colleges tending to have more respondents. The survey found:

- Most respondents (55 percent) think the current system can serve Vision Goals.
- A large majority of respondents support the inclusion of the following characteristics in the allocation formula: student financial need had the highest support (87 percent) followed by districts with students from under-served ethnic and racial groups, first generation college students.
- About 90 percent of respondents believe it is extremely or relatively important to conduct budget monitoring, and developing planning documents, outcomes reporting.
- About 55 percent of respondents think that SSSP, BSI and State equity should be included in the consolidation effort, and that DSPS (65 percent), CalWORKs (53 percent) and EOPS (52 percent) should not be included.

Timeline and Implementation. Lastly, the Governor's proposal would implement the funding formula in 2018-19. Given the potential fundamental shift in how colleges are funded, staff questions whether this timeline provides colleges enough time to prepare their budgets. Should the Administration release an updated proposal in May Revision, the subcommittee may wish to consider if this provides the Legislature enough time to review and evaluate the impacts on colleges.

The subcommittee may wish to ask:

1. Has the Administration conducted data runs and modeling on the out-year impacts on colleges?
2. Who has been included in the Chancellor's Office and the Administration's stakeholder process on the formula?
3. How does the proposal help low-income and underrepresented students?
4. LAO and the Chancellor's Office: Do colleges have enough time to prepare their budgets for this fall under the new formula?

Staff Recommendation: Hold Open.

Issue 5: Community College Affordability and Financial Aid

Panel

- Michelle Nguyen, Department of Finance
- Jennifer Kuhn, Legislative Analyst's Office
- Christian Osmeña, Chancellor's Office Community Colleges

Background

At CCC, financially needy students have their fees waived under the California College Promise Grant (formerly known as the Board of Governor's Fee Waiver program). In 2017-18, the per-unit enrollment fee was $46, equating to an annual fee for a full-time student (taking 15 units per term) of $1,380. In 2016-17, the state spent $758 million on fee waivers. Half of students received fee waivers, accounting for two-thirds of all course units taken. Financially needy students get all fees waived regardless of the number of course units they take. That is, both part-time and full-time students receive awards covering all their enrollment fee costs.

AB 19 (Santiago), Chapter 735, Statutes of 2017, expanded the fee waiver program to students who do not demonstrate financial need. Specifically, it authorizes fee waivers for all resident first-time, full-time students during their first year of college. Though the cost of the expanded program is calculated assuming all these students obtain fee waivers, AB 19 allows colleges to use their program allotments for other purposes, such as providing more student support services. To receive funding, colleges must meet various requirements, such as participating in the Guided Pathways program.

Non-tuition Expenses. In addition to waiving enrollment fees for many community college students, the state traditionally has provided aid to cover a portion of some students' living costs. Specifically, the CSAC administers two Cal Grant awards that provide non-tuition coverage for certain financially needy community college students, and are funded with General Fund. The two types of awards are:

- **Cal Grant B.** This award provides low-income students with $1,672 annually to cover living expenses. The majority of Cal Grant B non-tuition awards are given to students who enroll in college within a year of graduating high school. Whereas these students are entitled to awards, older students compete for a fixed number of awards each year through the competitive Cal Grant. In 2016-17, about 74,000 community college students received entitlement awards and about 33,200 older students received competitive awards.

- **Cal Grant C.** This award provides low-income students enrolled in CTE programs with $1,094 for materials and other non-tuition expenses. Students of any age can receive the grant, but the state caps the number of awards offered annually. In 2016-17, about 5,200 community college students received these awards.

Additionally, the federal Pell Grant program provides financially needy students up to $5,920 annually, if enrolled in 12 or more units. The award amount is pro-rated downward for part-time students. As financially needy community college students get their enrollment fees waived through the Promise Grant, students may use Pell Grants for living expenses. In 2016-17, 450,000 community college students received Pell Grants.

Recent Budget Acts. Due to concerns with low completion rates at CCC, the Legislature recently created two programs administered by the community colleges to provide more aid for students' living costs if they enroll in more units. In 2015-16, the Legislature created the Full-Time Student Success Grant (Full-Time Grant). The Full-Time Grant provides students who receive a Cal Grant B award with an additional $1,000 annually if they enroll in 12 or more units per term. Enrolling in 12 units per term typically would lead to graduation in 2.5 years. In 2016-17, about 78,000 students received a Full-Time Grant.

In 2017-18, the Legislature created the CCC Completion Grant. The Completion Grant provides an additional $2,000 annually to students receiving the Full-Time Grant if they enroll in 15 or more units per term. Enrolling in 15 units per term typically would lead to graduation in 2 years. The state funds both programs with Proposition 98 General Fund. Data is not yet available on the number receiving a Completion Grant.

According to the LAO, CCC students enrolled in 15 units per term currently may qualify for one federal grant and three state grants to help them cover living expenses. In total, they may qualify for about $10,600 annually if meeting the Cal Grant B eligibility criteria and almost $10,000 annually if meeting the Cal Grant C eligibility criteria. By comparison, CCC students enrolled in 12-14 units per term may qualify for about $8,600 annually if meeting the Cal Grant B eligibility criteria and almost $8,000 annually if meeting the Cal Grant C eligibility criteria.

Programs Help Financially Needy CCC Students Cover Living Expenses
Reflects Annual Awards, 2017-18

	15 Units Per Term	12-14 Units Per Term
Cal Grant B Students		
Pell Grant[a]	$5,902	$5,902
Completion Grant	2,000	—
Cal Grant B	1,672	1,672
Full-Time Grant	1,000	1,000
Total Maximum Aid	**$10,574**	**$8,574**
Cal Grant C Students		
Pell Grant[a]	$5,902	$5,902
Completion Grant	2,000	—
Cal Grant C	1,094	1,094
Full-Time Grant	1,000	1,000
Total Maximum Aid	**$9,996**	**$7,996**

[a]Assumes student has sufficient financial need to qualify for maximum award amount. Students with incomes under $50,000 typically qualify for an award.

Living Costs Vary Based on Students' Living Situations. About half of financially needy students enrolled in 12-15 units live at home. The LAO estimates that these students have on average $11,000 in annual non-tuition costs. Of the students enrolled in 12-15 units who do not live at home, the LAO estimates that about 60 percent are dependent students and about 40 percent are independent students. (Students generally are considered independent if they are 24 years or older.) The LAO estimates average annual living costs of about $15,700 for students who do not live at home. These estimates are based on averages, with any particular student potentially incurring notably higher or lower living costs.

Governor's Budget Proposal

Provides Funding for AB 19 Fee Waivers. The Governor's budget includes $46 million to fund the expansion of the California College Promise Grant program. The estimate is based on 2016-17 data of the number of first-time, full-time students enrolled at CCC who did not receive a fee waiver. The Governor's budget also includes $758 million to fund need-based fee waivers.

Combines Two CCC Aid Programs and Increases Funding by $33 Million. The Governor proposes to create a new program called the Community College Student Success Completion Grant that replaces the rules underlying the existing Full-Time Grant and Completion Grant. Instead of two tiers of funding based on the number of units a student takes per term, the new grant program would have four tiers. The maximum annual grant would be $1,000 for Cal Grant B recipients enrolled in 12 units per term, with incremental increases for recipients enrolled in 13 and 14 units, and a maximum of $4,000 for recipients enrolled in 15 units per term. The proposal includes language that funding must not exceed a student's demonstrated financial need (as calculated under the federal methodology).

The Administration's intent is to provide more funding to certain CCC students such that they could complete their degree more quickly by not working as much. The Administration indicates that the program is meant to simplify financial aid programs by consolidating two programs. The Administration estimates that the cost of the grant program would total $124 million in 2018-19, a $33 million increase over the combined cost of the Full-Time Grant and Completion Grant programs in the current year.

Comparing Grant Amounts Under Existing and Proposed Rules
Reflects Annual Awards[a]

Units Per Semester	Current Grant Amount	Governor's Proposed Grant Amount
12	$1,000	$1,000
13	1,000	1,250
14	1,000	1,900
15+	3,000	4,000

[a]A student would need to be enrolled full time in both fall and spring semesters to qualify for the amounts shown in the figure. Governor's proposed amounts reflect maximum amounts, as awards could not exceed students' financial need.

Program Would Have Annual Reporting Requirements. The proposal requires CCC to report by April 1, 2020 on outcomes for the first year of the program, including information about the number of grant recipients and their college goals, their GPAs, and how many are on track to complete college in two or three years.

Legislative Analyst's Office Comments

No Concerns with the Governor's AB 19 Cost Estimate. The Governor's estimate of the cost of the AB 19 fee waivers is based on the best available data. Though the data underlying the estimate comes from 2016-17, enrollment growth in 2017-18 and 2018-19 is likely to be negligible.

Recommend Rejecting Governor's Proposal to Combine Aid Programs. The LAO notes that the Governor's proposal makes the award rules more complicated by introducing four award tiers rather than the existing two. When financial aid programs are overly complicated, students might not understand them, so the programs might not have their intended effects on student behavior. In addition, complicated financial aid programs can be difficult for administrators to understand and convey to students. Lastly, overly complicated approaches to financial aid can result in policymakers being unable to identify the specific factors contributing to program outcomes, such that knowing how best to refine those programs is especially challenging

The Governor's proposal does not link grants specifically with financially needy students' unmet living costs. It also does not take into account how unmet need is likely to vary at different unit loads. The Governor provides no rationale for why $250 is an appropriate amount to provide for a student enrolled in one more unit. If taking 12 rather than 13 units per term, a student could work for the three hours a week they otherwise would have spent in class and on homework. At minimum wage, that student could earn over $1,000 more in the course of an academic year by working rather than receiving the grant to take one extra unit. The Governor's proposal, therefore, could be more closely linked to the incentives that students consider when deciding whether to work or take a higher course load.

The LAO's Alternative Proposal. The LAO recommends an alternative approach to consolidate all existing aid programs covering non-tuition costs for financially needy community college students. Specifically, the LAO recommend collapsing funding from the community college Cal Grant B non-tuition award ($158 million non-Proposition 98), the Cal Grant C non-tuition award ($5 million non-Proposition 98), the Full-Time Grant, and the Completion Grant (at the Governor's higher combined proposed funding level of $124 million Proposition 98). Thus, a total of $287 million would be available.

The LAO recommends the Legislature consider community college students' living arrangements as well as their expected family contributions and federal aid, and applying a reasonable work expectation. The LAO ran program estimates assuming 15 hours per week. After applying a work expectation of 15 hours per week, an average family contribution, and an average Pell Grant award, the LAO estimate that financially needy dependent students who live at home and enroll full-time on average already have their living costs covered. For full-time dependent students not living at home, the LAO estimates average unmet living costs of $2,700 annually, after applying the same work, family contribution, and Pell Grant expectations. For full-time independent students not living at home, The LAO estimates unmet living costs of $4,300 annually, after applying the same expectations. For all financially needy full-time students across all living arrangements, the LAO estimates covering unmet living costs would total about $500 million annually. This cost is significantly higher than current program costs because all financially needy full-time students' unmet living expenses would be covered.

As the $287 million for the new program would be insufficient to cover all unmet living costs for financially needy community college students enrolled full time, the Legislature could consider various options to prioritize available funding. Alternatively, the Legislature could pro-rate awards downward, covering a portion of unmet living costs for all financially needy students. The Legislature could also consider shifting funding from other Proposition 98 programs to cover the full estimated cost of the program. Yet another option would be to develop a statutory plan for gradually increasing funding until full program costs were covered, using any of the above rationing options during the interim.

Staff Comments

As noted above, financially needy students have their fees waived under the California College Promise Grant. AB 19 (Santiago), Chapter 735, Statutes of 2017, expanded the fee waiver program to students who do not demonstrate financial need. AB 19 allows colleges to use their program allotments for other purposes, such as providing more student support services. To that end, some colleges, such as Mt. San Antonio College, will use AB 19 funds to provide support to low-income students. For example, Mt. San Antonio College plans to use funding to establish textbook libraries in cohort support programs and success centers, provide emergency loans and grants to address food insecurity, emergency housing, childcare and transportation needs.

SB 539 (de León) of 2017 sought to create the Community College Completion Incentive Grant. This proposal was eventually adopted in the 2017-18 budget. Under the program, students must complete an education plan identify courses, milestones and other requirements needed to earn a degree, certificate or transfer. Under the Governor's proposal, the new Community Colleges Student Completion Grant will have a substantially similar requirement. The Chancellor's Office notes that colleges financial aid offices have been having difficulty verifying education plans, since their office do not hold the education plans. The Legislature may wish to consider options to help community college financial aid officers and counselors to effectively administer programs.

The Subcommittee may wish to ask:

1. How are colleges conducting outreach to raise student awareness of financial aid options?

Staff Recommendation: Hold Open

Issue 6: Innovation Awards

Panel
- Michelle Nguyen, Department of Finance
- Edgar Cabral, Legislative Analyst's Office
- Christian Osmeña, Chancellor's Office of the California Community Colleges

Background

2014-15 Innovation Awards for UC, CSU, and CCC. The 2014-15 budget provided $50 million in one-time funding to promote innovative models of higher education at UC, CSU, and CCC campuses. Campuses (or teams of campuses) that had undertaken initiatives to increase the number of bachelor's degrees awarded, improve four-year completion rates, or ease transfer across the segments could apply for awards. Because awards were based on initiatives already implemented at the campuses, they functioned more like prizes or rewards than grants for specified future activities. A committee of seven members—five Governor's appointees (one each representing the Department of Finance, the three segments, and the State Board of Education), as well as two legislative appointees selected by the Speaker of the Assembly and the Senate Rules Committee—made award decisions. The committee approved 14 of 57 applications, including 6 from community colleges. The winning applications were for strategies that included improving K-12 alignment with higher education expectations, redesigning curriculum and teaching practices to improve outcomes, and using technology to expand access to courses. Each winning applicant received from $2.5 million to $5 million in award funds. Award recipients are to report on their strategies by January 1, 2018 and January 1, 2020. As of this writing, the January 2018 compiled reports had not yet been released.

2016-17 Innovation Awards for CCC. After rejecting the Administration's proposal for more awards in 2015-16, the Legislature accepted a revised proposal the following year. The 2016-17 awards program, funded with $25 million one-time Proposition 98 funds, differed from the 2014-15 program in three ways: (1) only community college districts could apply for awards; (2) awards were based on proposed activities instead of initiatives applicants already had implemented; and (3) the Governor had more discretion in selecting his appointees to the awards committee. The program that year authorized awards for curriculum redesign (such as the implementation of three-year bachelor's degrees), competency-based programs (such as efforts to award credit for military education and training), and financial aid access (such as increasing the number of students applying for aid). The program gave preference to projects that focused on improving outcomes for students from underrepresented groups or using technology in ways that are not common in higher education. In the spring of 2017, the committee awarded funds to 14 colleges, with 11 awards of $2 million each and three awards of $1 million each.

2017-18 Innovation Awards for CCC. The 2017-18 budget provided $20 million one-time Proposition 98 funding for a third round of innovation awards. Like the 2016-17 awards, the 2017-18 program focuses on innovations at the community colleges, with awards for addressing specified groups of underrepresented students and using technology to improve instruction and support services. The 2017-18 program is different, however, in that it eliminates the award committee appointed by the Governor and Legislature and tasks the Chancellor's Office with making award decisions directly. The Chancellor's Office is to submit interim and final reports on these awards by January 1, 2020, and

2022, respectively. Applications for these awards are due March 19, 2018, with winners to be announced by May 14, 2018.

Governor's Budget Proposal. The Governor's budget includes $20 million one-time Proposition 98 funding for an additional round of innovation awards to community colleges. As with the awards funded in 2017-18, the Chancellor's Office would set award criteria and select winners. The 2018-19 awards are to focus on innovations that reduce regional achievement gaps across the state and gaps for students from traditionally underrepresented groups. In particular, the proposal emphasizes interest in closing gaps related to degrees and certificates awarded, the number of excess units taken by students attaining associate degrees, and the number of CTE students who become employed in their field of study.

Legislative Analyst's Office Comments

Reject Governor's Proposal to Provide $20 Million for CCC Awards. The LAO is concerned that the awards might provide relatively large sums to a small number of community colleges to implement local initiatives that would not necessarily have statewide impact. This is because the proposal does not provide for dissemination of innovations to other colleges across the state nor does it do anything to promote buy-in among other colleges to implement the innovations. The LAO is also concerned that the awards add yet another program to the state's numerous existing efforts to improve CCC student outcomes. The current plethora of student support and success initiatives is already challenging for colleges to coordinate. Moreover, these existing initiatives, as well as the proposed changes to the CCC apportionment funding formula, are designed to have much broader statewide impact. The state should focus on effectively implementing systemwide CCC initiatives. For these reasons, the LAO recommends the Legislature reject this proposal. The Legislature could instead target the funding to other priorities, like deferred maintenance, that are one-time in nature.

Staff Comments. In addition to the concerns raised by the LAO, staff notes that the Legislature has not received a report on the effectiveness of the 2014-15 awards, which was due on January 1, 2018. Staff questions whether the state should fund additional rounds of innovation awards if it does not have outcomes from previous awards. The Chancellor's Office indicates applications would undergo a rigorous selection process, however, it is unclear what the process is, and trailer bill language does not specify what the structure would be. Additionally, it is unclear if this would fund new or existing innovations that colleges are already implementing. The subcommittee may wish to consider whether the state should fund programs and practices that colleges are already doing independently, or if this is something that could be locally funded or through private funding. In recent years, colleges have expressed concerns about grant fatigue, and the subcommittee may wish to consider whether there is demand from colleges for these grants, or if there are other one-time priorities that colleges that these funds may be utilized for. Lastly, as the LAO noted, numerous programs and initiatives have been implemented over the years seeking to reduce achievement gaps, and staff questions if the innovation award is the most effective method or if better coordination of existing programs should be considered instead.

The subcommittee may wish to ask when the Legislature should expect to receive the report regarding the 2014-15 awards.

Staff Recommendation: Hold Open.

Issue 7: State Operations

Panel

- Mollie Quasebarth, Department of Finance
- Edgar Cabral, Legislative Analyst's Office
- Christian Osmeña, Chancellor's Office of Community Colleges

Background

The 17-member CCC Board of Governors, appointed by the Governor, sets policy and provides guidance for the 72 districts and 114 colleges that constitute the CCC system. The board selects a chancellor for the system. The chancellor functions as the chief executive officer of the Chancellor's Office. The Chancellor's Office conducts a formal consultation process with CCC stakeholder groups and brings recommendations to the board for action. The Chancellor's Office also administers dozens of CCC programs, carries out oversight required by statutes and regulations, and manages the day-to-day operations of the system. In addition, the Chancellor's Office provides technical assistance to districts and colleges and conducts regional and statewide professional development activities—a role that has expanded in recent years with state funding for the Institutional Effectiveness Partnership Initiative. Altogether, the Chancellor's Office has 172 authorized positions, of which 144 (83 percent) are filled.

Chancellor's Office Involved in Implementing Several New Initiatives. In 2017, the state adopted several community college initiatives that require administrative support from the Chancellor's Office. The 2017-18 budget plan included $150 million one-time Proposition 98 for colleges to adopt guided pathways, an initiative that provides a comprehensive framework for improving student outcomes. The Chancellor's Office assists colleges in implementing the initiative by running workshops and reviewing college plans, among other activities. (Though implementing guided pathways is optional, all colleges have chosen to participate.) The state also enacted Chapter 745 of 2017 (AB 705, Irwin), which prohibits a college from placing students into remedial coursework unless placement research indicates they otherwise would be unlikely to succeed in college-level coursework. The Chancellor's Office is currently developing guidance to clarify how colleges can comply with the new law. In addition, the state adopted Chapter 735 of 2017 (AB 19, Santiago), which expanded the fee waiver program to all resident first-time, full-time students during their first year of college, regardless of financial need. To receive funding for these "AB 19 fee waivers," colleges must meet certain requirements, including participation in the federal loan program and guided pathways. The Chancellor's Office is currently working with colleges to ensure they meet AB 19 requirements.

Previous Budget Acts. The 2017-18 budget included six new positions and $1.1 million in additional resources to help implement new initiatives and improve the Chancellor's Office's overall capacity to provide leadership and expertise to colleges. The augmentation was based on a comprehensive review of central operations conducted by staff from the Department of Finance and Chancellor's Office over the course of spring 2017. Of the total augmentation, $618,000 was General Fund to support: two additional information technology specialists, a new administrator to oversee guided pathways implementation, and a second deputy chancellor (converting an existing vice chancellor position that had a lower salary range and had been vacant for some time). The remaining $454,000 was reimbursement authority for two research specialists and an attorney. Colleges and third parties (such as research organizations) will be able to use the services of these three staff positions on a fee-for-service basis.

Governor's Proposal

The Governor's budget includes $2 million General Fund to fund 15 new positions at the Chancellor's Office. The funding for eight of the positions—those for a new online community college, a new community college apportionment funding formula, and a new K-12 career technical education (CTE) program embedded within the community colleges' Strong Workforce Program—is tied to proposals included in the Governor's 2018-19 budget. Funding for another five positions is tied to recently enacted initiatives (AB 19 fee waivers, guided pathways, and changes to remediation and placement). The remaining two positions are for accounting and human resources.

Governor Proposes 15 New Positions in Chancellor's Office
(Dollars in Thousands)

Purpose	Number of Positions	Cost	Type of Workload
Online community college	6	$822	New proposal
AB 19 fee waivers	2	268	Recent initiative
Guided pathways	2	268	Recent initiative
Accounting and human resources	2	199	Other
K-12 career technical education	1	152	New proposal
New funding formula	1	134	New proposal
Remediation and placement	1	134	Recent initiative
Totals	15	$1,977	

Legislative Analyst's Office Comments

Lack of Detail and Justification for Seven Requested Positions Tied to Existing Workload, Recommend Rejecting. Last year, the Administration and Chancellor's Office undertook a comprehensive review of the office and requested several new positions. The Legislature funded those positions. Neither the Administration nor the Chancellor's Office has explained clearly why new positions for existing workload are now needed. For example, neither the Administration nor the Chancellor's Office has explained why two additional positions are necessary for implementing the guided pathways initiative, especially given one position was added last year. If the Administration continues to believe that even more positions are required than the ones the state authorized last year, then it could compile more detailed information showing those specific workload increases. If the Administration were to submit a more robust proposal next year, the Legislature could reconsider any requested positions at that time.

Need for Two Positions Depends on Policies Adopted, Withhold Recommendation Pending Final Decisions. The need for positions associated with a new CCC funding formula and a new K-12 CTE program ultimately will depend upon whether these proposals are included in the final budget and how these proposals are structured. For example, if the Legislature were to enact a more complex CCC funding formula and require substantial ongoing monitoring and reporting, the Chancellor's Office may need more than the one position included in the Governor's proposal. On the other hand, if the Legislature were to streamline several categorical program requirements in tandem with adopting a relatively simple new funding formula, the Chancellor's Office likely would see a reduction in overall administrative workload, thereby freeing up staff positions that could be used in new ways. As the details of these policy decisions could have substantial ramifications for associated administrative workload at the Chancellor's Office, the LAO recommends the Legislature hold off on approving positions related to the formula and CTE program until final policy decisions have been approved.

Need for Chancellor's Office Positions for Online College Also Depends Upon Final Policies, Withhold Recommendation Pending Final Decisions. Much of the workload described for the six new Chancellor's Office online college positions would be more appropriately funded through the online college's funding. The Governor's budget includes $120 million Proposition 98 funding for the online college—$100 million one-time over seven years and $20 million ongoing. For example, program development, hiring, management of information technology, professional development, and accreditation efforts typically would be considered college responsibilities. To the extent the online college were to request assistance from the Chancellor's Office in undertaking these types of administrative tasks, the LAO believes this workload could be covered using the college's $120 million appropriation. If the Chancellor's Office were to incur other costs to oversee the college, the Administration could better detail those costs and then the Legislature could consider increasing non-Proposition 98 General Fund accordingly at that time.

Staff Comments

Staff agrees with the LAO as a majority of the requested positions are related to pending Governor's budget proposals that the Legislature has not acted on. Staff recommends revisiting the Governor's budget request to fund positions when the Legislature makes final budget decisions.

The subcommittee may wish to ask:

1. Please clarify why two additional positions are necessary for implementing the guided pathways initiative, given the one position was added last year for this purpose.
2. What was the results of the comprehensive review of the Chancellor's Office positions?
3. Why is the online college's $120 million appropriation not enough to cover the expected workload?

Staff Recommendation: Hold Open