

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**

**Chair, Carol Liu**

**Member, Robert Huff**

**Member, Roderick Wright**

**Tuesday, February 1, 2011**

**10:00 a.m.**

**Room 3191, State Capitol**

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	<b>Higher Education</b>	
<b>6870</b>	<b>California Community Colleges (CCC)</b>	
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## ISSUE 1: California Community Colleges Main Budget Changes

### Speakers:

- Paul Steenhausen, Legislative Analyst’s Office
- Ed Hanson, Department of Finance
- Erik Skinner, Chancellor’s Office
- Dan Troy, Chancellor’s Office

**Issue.** The issue before the Subcommittee is an overview of the budget reduction proposed for the California Community Colleges (CCC).

**System Overview.** The California Community Colleges (CCC) are publicly supported local education agencies that provide educational, vocational, and transfer programs to approximately 2.8 million students. Constituting the largest system of higher education in the world, the California Community College system is comprised of 72 districts, 112 campuses, and 68 educational centers. The CCC advances California’s economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

**Funding Sources.** The California Community Colleges rely on State General Fund and local property taxes as their main sources of revenue. Unlike the K-12 system, CCC does not receive General Fund backfill when local property taxes fall below the Budget Act estimate.

### California Community Colleges Core Funding

*(dollars in millions)*

	2009-10 Actual	2010-11 Approved	2011-12 Proposed	Change from 2010-11 to 2011-12
General Fund	\$ 3,764.3	\$ 4,009.1	\$ 3,599.8	\$ -409.3
Student Fees	\$ 357.3	\$ 365.2	\$ 475.2	\$ 110.0
Local Property Taxes	\$ 1,999.8	\$ 1,913.3	\$ 1,873.5	\$ -39.8
ARRA	\$ 35.0	\$ 3.5	\$ -	\$ -3.5
Lottery	\$ 163.0	\$ 153.2	\$ 168.5	\$ 15.3
<b>Totals</b>	<b>\$ 6,319.4</b>	<b>\$ 6,444.3</b>	<b>\$ 6,117.0</b>	<b>\$ -327.3</b>

**Governor’s Budget.** The Governor’s main proposals are:

1. \$400 million unallocated reduction to the CCC apportionment
2. New deferral of \$129 million
3. \$110 million for system growth for 22,700 Full-Time Equivalent Students (FTES)
4. \$10 per unit increase to student fees to raise an additional \$110 million in student fee revenue (discussed in Issue 3)

## **\$400 Million Unallocated Reduction**

**\$400 Million Reduction to Apportionment Funding.** The Governor proposes to reduce General Fund support for CCC by \$400 million, 6.9 percent of base apportionments. While the Governor offers no specific proposals for allocating the \$400 million apportionment reduction, he suggests that changes to allocation formulas (including a change in how and when the number of students to be funded at each campus is counted) could better align campus incentives with state objectives. This policy proposal will be further discussed in the agenda under Issue 2.

**What \$400 Million Buys.** Currently, each \$10 million at CCC is sufficient to pay for 2,063 Full-Time Equivalent Students (FTES). Thus, \$400 million is enough funding for 82,520 FTES. If viewed as headcount, the amount of the reduction could fund 185,720 students. Another way of thinking of the funding is the number of courses that can be offered, and \$400 million is sufficient for 27,520 new courses (or 245 classes per CCC campus).

## **New Deferral of \$129 Million**

**Impact of Deferral.** The deferral has no programmatic effect; it simply delays into the next fiscal year a state payment of \$129 million to cover CCC costs incurred in 2011-12. This new deferral would bring CCC's ongoing inter-year deferrals up to \$961 million, or about 17 percent of its annual Proposition 98 apportionment. The CCC also has another \$300 million in intra-year deferrals, which influence cash management during the fiscal year.

## **Growth Funds**

**Funding Increase.** The Governor's budget proposes a \$110 million augmentation to increase funded enrollment by 1.9 percent (or about 22,700 FTES). The Governor has proposed budget bill language that would limit the allocation of these funds to growth in FTES on a district-by-district basis.

**Increase Not In Addition to New Fee Revenue.** Though the \$110 million in FTES growth funding is written into the Budget, it should be noted that the Governor's proposed budget also decreases apportionments to the community colleges by \$110 million with the anticipation that student fee revenues will make up the difference.

**Community Colleges Already Overenrolled.** The community colleges are already enrolling more students than they are funded to serve, approximately 90,000 FTES, making it unlikely to expect an increase in system-wide community college enrollment under the Governor's budget.

## **LAO Recommendation**

**Enrollment Prioritization.** The LAO recommends changes to the community colleges' enrollment policies as funding is decreasing:

In recent years, community college enrollment has been constrained by two major factors: (1) reductions in course-section offerings as a result of state budget cuts, and (2) strong demand for CCC services by adults seeking retraining and other skills at a time of weak state and national economic growth. The CCC system reports that many students--particularly first-time students--have not been able to enroll in the classes they need to progress toward their educational goals. Thus, in effect, CCC enrollments are currently being "rationed." This access problem will become even more serious in 2011-12 to the extent that budget reductions further reduce enrollment slots.

The LAO recommends the Legislature: (1) adopt statewide registration priorities that reflect the Master Plan's primary objectives, (2) place a limit on the number of taxpayer-subsidized credit units that students may earn, and (3) restrict the number of times that a student may repeat physical education and other classes at taxpayers' expense.

The LAO envisions an approach that:

1. Assigns the highest registration priority to continuing students who are fully matriculated (participated in assessment, orientation, and counseling, as well as completed an educational plan) and are making satisfactory progress toward their educational goals (for example, as defined in federal financial-aid rules).
2. Next-highest priority could be granted to new students--particularly recent high-school graduates--who have completed matriculation requirements and other key steps, such as applying for federal financial aid.
3. Lowest priority would go to nonmatriculated new and continuing students, students with a declared goal of personal enrichment, and students who are not making satisfactory progress toward their goals. These students would not be allowed to register for classes until open registration.

The LAO's recommendation on enrollment prioritization would not result in state savings per se; rather it would help to ensure that state resources are first directed to the highest-priority students under the Master Plan.

**Cap on State-Supported Units.** The LAO also recommends changes to state-supported instruction for students that have more than 100 completed units at a community college or who keep repeating the same course. The LAO argues that these students should pay for the full cost of their instruction. The LAO estimates that there are about 120,000 (headcount) such students currently in the CCC system.

Under this recommendation, students with more than 100 units would still be eligible to attend CCC. However, since a state subsidy would no longer be provided, the Legislature could authorize colleges to charge these students up to the full cost of instruction. The LAO's recommendation would result in a CCC workload reduction of up

to 38,000 full-time equivalent (FTE) students in 2011-12, for a savings to the state of as much as **\$175 million**.

**No State-Funded Repeated Courses.** The LAO recommends that the Legislature eliminate state funding for any repeats of the same or similar (that is, part of the same sequence) activity class. (The LAO recommendation would exclude intercollegiate athletics and “adaptive” physical education classes, which are designed for individuals with physical disabilities, as well as students who are majoring in physical education or the fine arts.)

Under this recommendation, colleges would be permitted to allow students to repeat these classes, though these enrollments could not be counted for purposes of calculating apportionments. Alternatively, colleges could provide opportunities for students to repeat these activities through CCC “community service” classes, which statute requires to be fully supported by student fees. The precise amount of savings generated by our recommendation is unknown. Based on available data from 2009-10, it appears that CCC’s workload could be reduced by an estimated 15,000 FTE students in 2011–2, generating state savings of **roughly \$60 million**. (This estimate takes into account students with more than 100 units who repeated an activity class in 2009-10.)

### **Staff Comments**

The total cut to the community colleges is about \$290 million, plus the deferral. This is because the \$400 million is alleviated by new student fee revenue (discussed in issue 3).

Staff thinks that expecting the community college system to absorb a \$290 million funding reduction while simultaneously serving more students is unrealistic. The colleges will have trouble taking a reduction of this magnitude to their state apportionment without reducing class offerings and other services to students. Staff recommends that the Legislature consider eliminating the growth requirement and instead adding the growth funds into the base apportionment.

Staff encourages the Legislature to consider easing certain restrictions on community college expenditures for a year or two as the campuses adjust. These restrictions include the “75-25 Faculty Ratio”, which requires 75 percent of course units be taught by permanent faculty; “50-50”, which requires that 50 percent of the district budget be for instruction; and “contracting out”, which restricts the districts’ ability to contract out for small maintenance services.

### **Suggested Questions:**

1. In real dollar terms, what is the magnitude of the budget reduction for the community colleges once all the proposed adjustments are accounted for?
2. Can the community colleges grow in enrollment at this time?
3. Considering that the majority of community college districts’ budgets are salaries and benefits, what measures will colleges have to take to shrink their budgets by \$290 million?

## **ISSUE 2: California Community Colleges Census Policy Change**

### **Speakers:**

- Ed Hanson, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, Chancellor's Office
- Dan Troy, Chancellor's Office

**Issue.** The issue before the Subcommittee is the Governor's proposal to change the census date policy.

**Current Census Policy.** Currently, the CCC apportionment (which is the majority of the General Fund received by the districts) is divided between the districts by FTES. The current census measures the number of FTES at each campus during the beginning of the third week of classes. This measurement may overestimate the number of students that actually stay in the course, because the students at CCC can drop a class until the end of the third week without penalty to their transcript, and many courses have their first exam during the fourth week of classes (which causes some students to drop out). The LAO estimates that 16 percent of students on average do not finish credit courses they have enrolled in.

**Census Date Change.** As part of the Governor's budget reduction proposal of \$400 million for the California Community Colleges, the Administration proposes to change the allocation formulas for fiscal year 2011-12, including a change in how and when the number of students to be funded at each campus is accounted.

**No Trailer Bill Language Available Yet.** Trailer bill language is usually completed on February 1<sup>st</sup>, and since this hearing is taking place on February 1, 2011, there has not been enough time for staff to analyze the specifics of this proposal.

**Proposal Outline.** The Administration is still working out the specifics of their proposal, however, it is apparent that this policy change requires a full vetting process. Changing the census date actually generates \$800 million in savings, but the Administration has indicated that they would redirect half of the funds to reinvest in districts with high attrition rates that serve low-income communities, while rewarding colleges for providing "high priority transfer courses." This new figure of savings with intent to redirect is new information that was not provided in the Governor's Budget, and which requires more time to analyze and assess.

**Legislative Process.** SB 1143 (Liu, 2010), requires the CCC Board of Governors to adopt a best practices plan for promoting and improving student success after convening a taskforce to examine funding options and effective models. The first workgroup meeting convened on Wednesday, January 19, 2011. The CCC Board of Governors, prior to implementation of this plan, has to report to the Senate Education Committee and Assembly Higher Education Committee at a joint hearing no later than March 1, 2012.

**Governor Proposes Workgroup.** The Governor's Budget Summary states:

*The Administration proposes to work with the Chancellor and the Board of Governors, as well as stakeholders (including representatives of students and employees), to develop specific census date reforms and other changes to apportionment funding that result in equitably spreading reductions while rewarding colleges for ensuring necessary prerequisites to enrollment are met, assisting students in completing courses they enroll in, and prioritizing course offerings needed for transfer and vocational skills.*

The first of these workgroups took place on Friday, January 21, 2011, and involved the Chancellor's office, stakeholders, executive, and legislative staffers. The objective of these sessions was to gather a wide range of alternative saving solutions with the intent to minimize impact to student fee increases and enrollment reductions. As this was the initial meeting and a first step, below are a few examples of ideas for generating savings:

- Provide flexibility from state mandates to enable campuses to redirect funds to student success programs and courses.
- Increase accountability of administrative and executive expenditures for all segments of higher education.
- Move to a two-year funding model to provide increased direction and guidance to facilitate campuses' academic and budgeting cycles.
- Allowing for long term solutions to take place with legislative and executive direction as to what the state considers high priority programs and objectives.

**Staff Comment.** Since legislative staff has yet to review the Administration's proposal, and given that SB 1143 was fully vetted through the legislative process to generate solutions, such as this one, it would be imperative to provide a full vetting of this proposal, once it is finalized, in order to allow the California Community Colleges the opportunity to weigh in as to how they would implement such a change in funding, as well as stakeholders who will be impacted.

**Suggested Questions:**

1. Would the Governor's proposed policy change take effect on July 1, 2011? Does that leave sufficient time for the community colleges to adjust their internal policies to the new system-wide policy?
2. What incentives does this new policy create for the community colleges?
3. What unintended consequences could result from this new census policy? For example, could the community colleges start banning students with basic skills needs from registering for classes?
4. How does the Administration see the proposed census policy change interacting with the SB 1143 effort to create comprehensive change based on student success?

### ISSUE 3: California Community Colleges Student Fee Increase

**Speakers:**

- Paul Steenhausen, Legislative Analyst’s Office
- Ed Hanson, Department of Finance
- Erik Skinner, Chancellor’s Office
- Dan Troy, Chancellor’s Office

**Issue.** The issue before the Subcommittee is the Governor’s proposed \$10 per unit student fee increase (from \$26 per unit to \$36 per unit).

**Governor’s Proposal.** The Governor’s budget proposes \$110 million in new student fee revenue for the CCC system, for a total of \$475 million in student fee revenue. Even with this increase, the CCC student fees will still be lowest in the nation.

**Legislative Control.** The Legislature sets the CCC student fee level (unlike with the UC and CSU, where the Regents and the Board of Trustees set the student fees). It should be noted that the campuses do not have an option of collecting a lower fee level than that set by the Legislature.

**CCC Fee History.** California has long had the lowest community college fees in the nation. Fees were increased from \$20 per unit (\$600 per year for a student taking a full course load) to \$26 per unit (\$780 per year) in 2009-10. Currently, CCC fees are less than one-fourth of the national average for community college fees. New Mexico, the state with the second-lowest fees, charges \$1,200 per year.

#### Student Fees for Resident Undergraduates

	California Community Colleges*	California State University	University of California
2006-07	\$ 690	\$ 2,520	\$ 6,141
2007-08	\$ 600	\$ 2,772	\$ 6,636
2008-09	\$ 600	\$ 3,048	\$ 7,126
2009-10	\$ 780	\$ 4,026	\$ 8,373
2010-11	\$ 780	\$ 4,440	\$ 10,302
2011-12	\$ 1,080	\$ 4,884	\$ 11,124

*\*For full time student taking 30 units*

## **Alternatives for Students with Low Income:**

**BOG Waiver.** In considering any fee increase, the Legislature should consider the potential effects on student affordability and access. For financially needy CCC students, affordability is preserved through the Board of Governors' (BOG) fee waiver program. This entitlement program is designed to ensure that community college fees will not pose a financial barrier to California residents. It accomplishes this by waiving enrollment fees for residents who demonstrate financial need. The program has relatively high income cut-offs. For example, a CCC student living at home, with a younger sibling and married parents, could have a family income up to approximately \$65,000 and still qualify for a fee waiver. The family's income cut-off would increase to roughly \$80,000 if the same student lived away from home. An older, independent student living alone could have an income up to about \$45,000, and a student with one child could have an income up to about \$80,000 and still qualify for a waiver.

Increasing CCC fees thus creates no additional out-of-pocket expense for financially needy students, since these students qualify for waivers no matter what the fee level. In recent years, about one-third of all community college students (representing up to 50 percent of all units taken) have received BOG fee waivers. In 2009-10, about \$365 million in fees were waived.

**Tax Deduction.** Students who do not qualify for the BOG Waiver can still qualify for federal tax credits, including the federal American Opportunity tax credit (AOTC), Lifetime Learning Credit, and tuition and fee tax deduction. The federal government recently extended AOTC through the 2012 tax year. Income thresholds for AOTC are high. For example, students (or their parents) with a family income of up to \$160,000 are eligible for a full federal tax credit equal to their fee payment for up to \$2,000 per year. (The amount of the tax credit is gradually reduced between \$160,000 and \$180,000 for joint returns; \$80,000 and \$90,000 for single filers.) Therefore, if the state were to increase fees to \$36 per unit (or \$1,080 for a full-time student), eligible students taking 30 units per year would still pay--after taxes--nothing for courses, and would still be eligible to receive over \$900 for full reimbursement of textbook costs. In addition, families or students with insufficient tax liabilities qualify for partial tax refunds (equivalent to 40 percent of qualifying expenses).

Students who do not meet AOTC's academic requirements (such as those who already hold a bachelor's degree or only take one course each term) can qualify for the federal Lifetime Learning tax credit, which provides a tax credit equal to 20 percent of fees. Finally, those not claiming the credits may be eligible for a tax deduction of up to \$4,000 of the cost of fees. The LAO estimates that roughly two-thirds of CCC students would qualify for full fee coverage through the BOG waiver program or AOTC. About 90 percent of CCC students would qualify for either a fee waiver or a full or partial tax offset to their fees.

**Staff Comment.** Given the current fiscal situation and the dramatic budget reduction proposed for the CCC, staff recommends that the Legislature approve a student fee increase for the CCC. If the Legislature chooses to approve a smaller fee increase than that proposed by the Governor, revenue can be calculated as each dollar of fee increase brings the system as a whole about \$11 million in new revenue.

**Suggested Questions:**

1. Last year this Subcommittee spent a great deal of time discussing how students with BOG waivers were not applying for Pell Grants. What steps have the community college campuses taken to get more students to fill out a Free Application for Federal Student Aid (FAFSA)?
2. How many students know about the federal tax credits and actually apply for those tax credits?
3. How much more student fee revenue could the CCC receive if students with more than 100 units paid for the full cost of their education?
4. What impact would making students with more than 100 units paying the full cost of their education have on continuing education?

## ISSUE 4: California Community Colleges Categorical Flexibility

### Speakers:

- Ed Hanson, Department of Finance
- Paul Steenhausen, Legislative Analyst’s Office
- Erik Skinner, Chancellor’s Office
- Dan Troy, Chancellor’s Office

**Issue.** The issue before the Subcommittee is an extension of CCC categorical flexibility until 2014-15 (previously ending in 2012-13).

**History of Categorical Flexibility.** In 2009-10, General Fund support was reduced for the California Community Colleges’ categorical programs by a total of \$263 million, or 37 percent, compared to 2008-09 levels. Ten of the CCC’s 21 programs received base cuts of 50 percent, with 8 other programs cut between 30 and 40 percent. Eleven of CCC’s categoricals were moved a “flex item” to improve college districts’ ability to contend with the cuts.

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate	Basic Skills Initiative
Apprenticeship	CalWORKs Student Services
Campus Child Care Support	Disabled Students Program
Economic and Workforce Development	Extended Opportunity Programs and Services
Equal Employment Opportunity	Financial Aid Administration
Matriculation	Foster Care Education Program
Part-Time Faculty Compensation	Fund for Student Success
Part-Time Faculty Health Insurance	Nursing Grants
Part-Time Faculty Office Hours	Telecommunications and Technology Services
Physical Plant and Instructional Support	Career Technical Education Initiative
Transfer Education and Articulation	

Source: LAO

**Governor’s Proposal.** The Administration proposes to extend the sunset date for the categorical programs funding flexibility until 2014-15, in order for districts to better accommodate reductions, permitting the transfer of funds from categorical programs in the flex item to any other categorical spending support. Under current law, categorical flexibility ends 2012-13.

**Categorical Funding.** The Governor’s budget proposal keeps the categorical funding levels the same as in 2010-11, except for Financial Aid Administration which would receive \$1.7 million more in 2011-12 than in 2010-11.

**Staff Comment.** Staff recommends the Legislature reject the extension of categorical flexibility, because it is premature to extend this program when it does not expire until June 30, 2013.

## ISSUE 5: Career Technical Education

### Speakers:

- Erik Skinner, California Community Colleges
- Dan Troy, California Community Colleges
- Ed Hanson, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office

**Issue.** The issue before the Subcommittee is an update on the Career Technical Education (CTE) categorical.

**Career Technical Education Background.** SB 70 (Scott, 2005) created the CTE Pathways Initiative. SB 70 established a program to “improve linkages and career technical education pathways” between K-12 and community colleges. These “pathways” are designed to help K-12 students develop vocational skills sought by employers in the area, while also preparing students for more-advanced academic or vocational coursework at a community college or university.

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

**Funding History.** As the chart below illustrates, the CTE Pathways Initiative program was funded only with Proposition 98 funds during the first two years of operation (2005-06 and 2006-07). Chapter 751, Statutes of 2006 (SB 1133, Torlakson), included additional annual funding for the initiative as part of the Quality Education Investment Act (QEIA).

### CTE Pathways Initiative (SB 70)

*(dollars in thousands)*

	2007-08	2008-09	2009-10	2010-11	2011-12
Proposition 98	\$ 10,000	\$ 20,000	\$ 48,000	\$ -	\$ -
QEIA	\$ 32,000	\$ 38,000	\$ -	\$ 48,000	\$ 48,000
<b>Total</b>	<b>\$ 42,000</b>	<b>\$ 58,000</b>	<b>\$ 48,000</b>	<b>\$ 48,000</b>	<b>\$ 48,000</b>

**Governor's Budget.** The Governor's proposal provides CTE with \$48 million from QEIA funding in 2011-12.

**Staff Comment.** The CTE Pathways Initiative is a program that holds a lot of promise to provide career technical education to high school students. The CTE Pathways Initiative works with community colleges and high schools to establish courses that provide career technical education to students. There have been some difficulties in getting the high

school level CTE courses approved as prerequisite courses to the UC and CSU, thus placing high school students who take CTE courses at a disadvantage to starting as freshmen at a California four-year public university. There may be opportunities to expand high school CTE courses that meet the UC's A-G course requirements, through initiatives such as increased teacher training on how to incorporate CTE into a traditional classroom.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open.

**Suggested Questions:**

1. How does CCC measure success in the CTE Pathways Initiative?
2. How did the funding allocation between the various projects in the CTE Pathways Initiative Five-Year Plan get determined?