

State Board of Career Colleges and Schools

House Higher Education Subcommittee

*Mary Morris, Budget Analyst
Legislative Service Commission*

March 28, 2007

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LSC Redbook
for the
State Board of Career Colleges and Schools

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State Board of Career Colleges and Schools

- Non-GRF agency; funding is entirely provided by fee revenue
- Funding for FY 2008 is 8.6% above FY 2007
- Funding for FY 2009 is 3.7% above FY 2008

INTRODUCTION

The Legislative Service Commission prepares an analysis of the executive budget proposal for each agency. These analyses are commonly called "Redbooks." This brief introduction is intended to help readers navigate the Redbook for the State Board of Career Colleges and Schools, which includes the following four sections:

- (1) **Overview:** Provides a brief description of the Board and summarizes the executive budget recommendations for the Board, including a discussion on the potential impact of the proposed statutory changes in student financial aid programs and the growth of schools registered with the Board in recent years.
- (2) **Analysis of the Executive Proposal:** Provides a detailed analysis of the executive budget recommendations for the Board, including funding and the program supported by the recommended funding.
- (3) **Requests Not Funded:** Compares the Board's budget request with the executive budget recommendations and summarizes the major differences, if any.
- (4) **Attachments:** Includes the catalog of budget line items (COBLI) for the Board, which briefly describes the Board's line item and the LSC budget spreadsheet for the Board.

OVERVIEW

Agency Overview

The State Board of Career Colleges and Schools monitors and regulates Ohio's private, for-profit post-secondary career colleges and schools in order to ensure compliance with state law. In FY 2006, 282 career colleges and schools registered with the Board. These schools offered 1,332 programs and enrolled over 66,000 students. The Board establishes the rules for the registration and operation of the schools, including standards to ensure a school's financial stability, sound business practices, and adequate programs and curricula. It also investigates and resolves consumer complaints and maintains funds and records to serve students when schools close. The Board receives no General Revenue Fund (GRF) money; its operations are completely supported by fee revenue.

The Board's governing authority consists of eight members: the Superintendent of Public Instruction or designee, the Chancellor of the Board of Regents or designee, and six members appointed by the Governor, one of whom (the member representing students) is nonvoting. The six members appointed by the Governor are eligible for pay at \$19.55 per hour for their time conducting Board business.

According to its five-year strategic plan, the vision of the Board is to enhance and assure the value of career colleges and schools as a quality option for career training, to develop a competitive workforce, and to improve the economic vitality of the citizens of Ohio. The Board's two-fold mission is to continuously improve standards of excellence, assuring the consumer of quality programs and services through a regulatory structure, and to provide advisory expertise to schools regarding the best career education practices and standards to enhance their effectiveness.

The Board is currently responsible for registering for-profit career colleges and schools that recruit or offer diploma, certificate, and associate degrees in Ohio, and out-of-state baccalaureate or master's degree programs that recruit in Ohio. Until FY 2002 the Board was also responsible for registering for-profit career colleges and schools with advanced degrees in the state. In that year, Sub. S.B. 116 of the 124th General Assembly (effective February 20, 2002) mandated that for-profit institutions that offer baccalaureate or master's degrees in Ohio must have their degree programs approved by the Board of Regents.

The day-to-day operations of the Board are the responsibility of an executive director, who is appointed by the eight-member governing authority. Including the executive director, the Board has four full-time staff members (see Table 1). In addition, the Board has five part-time school evaluators who are based around the state and perform the Board's fieldwork under purchased service contracts.

Table 1: State Board of Career Colleges and Schools Staffing Levels						
	Actual				Estimate	
Fiscal Year	2004	2005	2006	2007	2008	2009
Full-time Administrative Staff	3	3	4	4	4	4

Fee Revenue and Fund 4K9

As indicated earlier, the Board is completely funded by fee revenue, which is deposited in the Occupational Licensing and Regulatory Fund (Fund 4K9), a General Service Fund. Created by Am. Sub. H.B. 152 of the 120th General Assembly, Fund 4K9 serves as a repository for license fees and other assessments collected by the state's professional and occupational licensing boards, including the State Board of Career Colleges and Schools. Prior to FY 2004, the Board's fee revenue was deposited in the GRF and its operations were funded by GRF appropriations. Since FY 2004 the Board has received no GRF appropriations.

Fee Structure. With the transition from the GRF to Fund 4K9, the Board increased its fees on July 3, 2003, in order to cover its total operations. The fee schedule was restructured so that most of the increased fee burden was placed on those schools with gross tuition revenues above \$1.0 million. Tables 2a and 2b show current school registration fees as well as program authorization and agent permit fees charged by the Board. A school registration expires after two years except for the initial registration, which lasts only one year with a fee level equal to one-half of the amount listed in Table 2a. A program authorization certificate also generally lasts two years. In addition to school registration and program authorization fees, the Board charges an agent permit fee and some other miscellaneous fees, such as a school name-change fee and a program revision or name-change fee.

Table 2a: School Registration Fees	
Gross Annual Tuition Income	Fee
Less than \$100,000	\$300
\$100,000 to \$499,999	\$500
\$500,000 to \$999,999	\$800
\$1,000,000 to \$1,999,999	\$1,200
\$2,000,000 and over	\$1,600

Table 2b: Program Authorization and Agent Permit Fees	
Type of Program	Fee Amount
Certificate/Diploma	\$150
Associate Degree	\$225
Major within Degree Program	\$150
Learning Center	\$175 per year
Agent Permit	\$125

Fee Revenue. Table 3 below shows the Board's fee revenue from FY 2004 to FY 2009. As seen from the table, the Board's fee revenue has remained approximately between \$575,000 and \$625,000 per year over the last four years. The revenue decrease from FY 2005 to FY 2006 was due to a change in fee collection that allowed some institutions to pay after July 1, 2006. As a result, FY 2007 is estimated to be somewhat higher than the FY 2004-FY 2006 average revenue of approximately \$591,000 per year. As of January 25, 2007, the Board's current revenue for FY 2007 was \$406,535, slightly higher than normal for that point in the fiscal year. For the FY 2008-FY 2009 biennium, fee revenue is expected to remain close to \$600,000 per year.

Table 3: Fee Revenue for the State Board of Career Colleges and Schools, FY 2004-FY 2009						
	FY 2004	FY 2005	FY 2006	FY 2007 (Estimate)	FY 2008 (Estimate)	FY 2009 (Estimate)
Fee Revenue	\$576,617	\$628,287	\$568,819	\$625,000	\$600,000	\$600,000
Annual % Change	N/A	9.0%	-9.5%	9.8%	-4.0%	0%

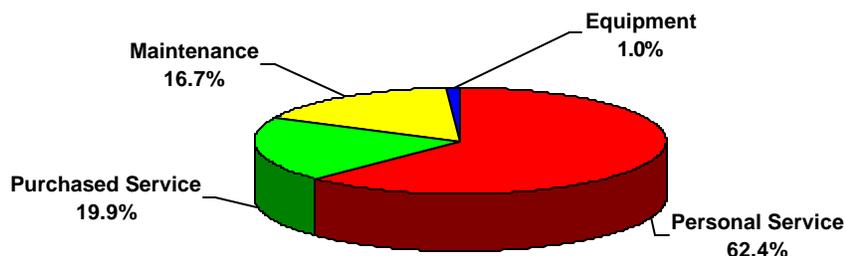
Summary of FYs 2008-2009 Budget Issues

Appropriation Overview

The executive budget recommends \$552,300 in FY 2008, an 8.6% increase over FY 2007 estimated expenditures, and \$572,700 in FY 2009, a 3.7% increase over the FY 2008 appropriation. For FY 2008 and FY 2009, the executive budget has completely funded the Board's budget request. Therefore, the Board will be able to maintain its current staffing level (four full-time staff members) for the FY 2008-FY 2009 biennium.

Appropriations by Expense Category. As a regulatory agency, the personnel cost is the biggest expenditure category of the Board. As seen from Chart 1, 62.4% of the executive budget recommendations for the biennium will go to Personal Service, 19.9% goes to Purchased Service, mainly for the five part-time school evaluators, and the remaining 17.7% goes to Maintenance and Equipment.

Chart 1: Biennial Executive Budget Recommendations by Expense Category



Appropriation Increases by Expense Category. Table 4 shows the executive budget's recommended appropriation increases by expense category. As seen from the table, Personal Service, the Board's biggest expense category, will also see most of the funding increases in FY 2008 and FY 2009, amounting to approximately 94.2% of the total increases. These additional funds will be used to fund estimated personnel (including health care) cost increases of 4.5% per year for the Board's four full-time staff members and to fund the complete phase-in of paid Board members. Prior to FY 2004, Board members were not paid; however, Am. Sub. S.B. 266 of the 124th General Assembly required that Board members appointed after FY 2004 be paid at an hourly rate for their time conducting Board business. Currently, five Board members receive pay and by FY 2009 all six members appointed by the Governor will be paid for their time conducting Board business. The increases in Purchased Service are used to address the need for additional on-site reviews due to the increases in the numbers of schools and programs.

Table 4: Biennial Executive Budget Recommended Increases by Expense Category

Object of Expense	FY 2008		FY 2009	
	Recommended Increase	% increase from FY 2007	Recommended Increase	% increase from FY 2008
10 – Personal Service	\$41,200	13.6%	\$15,900	4.6%
13 – Purchased Service	\$8,000	7.8%	\$2,000	1.8%
20 – Maintenance	-\$5,500	-5.6%	\$2,500	2.7%
30 - Equipment	\$0	0.0%	\$0	0.0%
Total	\$43,700	8.6%	\$20,400	3.7%

Financial Aid for Students Attending Career Colleges and Schools

The executive budget proposes statutory changes to Ohio College Opportunity Grant (OCOG) qualifications under section 3333.122 of the Revised Code. OCOG is the primary source of state-funded need-based aid available for students entering higher education after FY 2007. The OCOG program is currently being phased in, and will be fully implemented by FY 2011. The executive budget disqualifies students entering for-profit proprietary schools not authorized by the Board of Regents after the 2007-2008 academic year from receiving OCOG grants. This would affect all schools currently registered with the State Board of Career Colleges and Schools. The Board of Regents indicates that it is possible for for-profit career colleges and schools with associate degree programs to pursue authorization from the Board of Regents, even if they are registered with the State Board of Career Colleges and Schools. The Board of Regents also indicates that the authorization process can be costly and may require a significant amount of time and oversight. Approximately 26,000 students are currently enrolled in associate degree programs that are registered with the State Board of Career Colleges and Schools but not authorized by

the Board of Regents. As of March 19, 2007, 15,102 of them have received a total of \$30.0 million in need-based financial aid from the state.

The executive budget also eliminates Workforce Development Grants under sections 3333.04, 3333.38, and 3333.29 of the Revised Code. The Workforce Development Grants program provides financial support to eligible Ohio resident students attending for-profit private institutions registered with the State Board of Career Colleges and Schools. Awards under this program are not based on financial need. Rather, career colleges and schools that have job placement rates of at least 75% are eligible to make these grants available to qualifying students, who must be enrolled full-time and be successfully pursuing a 2-year or 4-year degree. The total funding provided for the program is \$2.1 million for FY 2007; so far 7,157 students have received grants amounting to \$1.4 million.

Growth of Registered Schools, Programs Offered, and Student Enrollment

Since FY 2001, there has been a steady increase in career colleges and schools registering with the Board, from 252 schools in FY 2001 to 282 in FY 2006, an increase of 11.9%. As Table 5 illustrates, FY 2006 was the first year in this period with a decrease in the number of schools. Though there were 24 new schools registered in FY 2006, 27 schools closed or failed to re-register. In-state student enrollment has also increased from 56,478 in FY 2001 to 61,629 in FY 2006, an increase of 9.1%.

Table 5: Registered Schools and Enrollment, FY 2001 - FY 2006

Activity	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Registered Schools	252	261	265	270	285	282
In-state Enrollment	56,478	62,805	56,460	56,135	58,831	61,629
Out-of-state Enrollment	5,701	4,344	4,349	4,675	5,475	4,706
Total Enrollment	62,179	67,149	60,809	60,820	64,306	66,335

The Board offers registration and authorization for four different types of programs: certificate, diploma, associate degree, and advanced degree. Certificate programs are short-term programs that provide certification in a single skill, such as a two-week course in bartending. Diploma programs also provide certification in a single skill, though the programs tend to last for a period of 12 to 18 months. Medical assistant and secretarial programs are examples of the diploma programs. Associate degrees are generally two-year programs that augment the diploma programs with general studies components. Advanced degrees include baccalaureate, masters, and doctoral degrees. All advanced degree programs currently registered with the Board are out-of-state institutions that recruit in Ohio. Table 6 indicates the numbers of each type of program registered with the Board in recent years. As seen from the table, the total number of programs registered with the Board increases from 1,193 in FY 2001 to 1,803 in FY 2006, an increase of 51.1%.

Table 6: Programs Offered by Registered Schools, FY 2001 - FY 2006

Program	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Certificate	351	424	484	562	701	572
Diploma	333	365	445	511	553	617
Associate Degree	435	429	463	499	577	565
Advanced Degree*	74	72	48	35	48	49
Total	1,193	1,290	1,440	1,607	1,879	1,803

* Advanced degree programs registered with the board are out-of-state institutions that recruit in Ohio.

ANALYSIS OF EXECUTIVE PROPOSAL

State Board of Career Colleges and Schools

Purpose: To support the activities necessary to monitor, regulate, and conduct investigations of career colleges and schools in accordance with Chapter 3332. of the Revised Code.

The following table shows the line item that is used to fund the State Board of Career Colleges and Schools, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Services Fund				
GSF: 4K9	233-601	Operating Expenses	\$552,300	\$572,700
General Services Fund Subtotal			\$552,300	\$572,700
Total Funding: State Board of Career Colleges and Schools			\$552,300	\$572,700

Regulation

The Board's only program is Regulation, which funds its monitoring, regulation, and investigation of career colleges and schools to ensure their compliance with the standards set by state law. As indicated earlier, the executive budget fully funds the Board's request. The Board will therefore be able to maintain its current operations to carry out its statutory responsibilities. Table 7 illustrates some activities the Board has completed in recent years.

Activity	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Agent Permits Issued	685	639	595	689	850	946
New Schools Approved	39	50	27	48	35	24
New Programs, Degrees, and Majors Approved	355	283	355	559	352	388
School Registrations Renewed	123	100	115	123	141	146
Programs and Degrees Renewed	591	424	511	737	746	786

The Board's regulatory obligations also include on-site visits and investigative inquiries by consultants and staff. On-site visits are primarily conducted as part of the registration and review process. As seen in Table 8, the Board made ten additional on-site visits for a total of 260 site visits to various schools throughout the state in FY 2006. In FY 2006 there was nearly a 50% increase in complaints lodged against registered schools. Most of these complaints were resolved through voluntary compliance by the schools; however, the Board did conduct 13 investigative inquiries. Corrective measures available to the Board range from consent agreements and civil penalties to the revocation of a school's certificate of registration and closure.

Table 8: Investigation and Review Statistics, FY 2001 - FY 2006						
Activity	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Complaints	39	48	37	43	40	69
Investigative Inquiries	56	21	9	25	31	13
On-site reviews	250	225	225	235	250	260

Student Tuition Recovery. The Board is also responsible for maintaining the Ohio Student Tuition Recovery Fund. This Fund and its regulatory body, the Ohio Student Tuition Recovery Authority, were created in 1991 to protect students from career colleges and schools that default on payments of pre-paid tuitions after closure. The Board maintains the records of approximately 250,000 students who attended schools that are now closed and provides transcripts for the students who attended these schools.

The Board maintains the Fund through collections from all registered schools in the form of an annually assessed deposit of \$500 for the first five years of registration. The reimbursement of any loss of prepaid tuition due to a school closure is first to be paid from the surety bond each school is required to maintain. Reimbursement is made from the Student Tuition Recovery Fund only if the surety bond is not sufficient to cover the entire cost of a prepaid tuition loss. The Board has the authority to establish rules designating the period that a surety bond must remain in effect, as well as establish different bond amounts for different categories of schools if the Fund balance is significantly depleted. In FY 2006 three claims were made to the Fund for a total cost of \$2,657. As of June 30, 2006, the Fund had a balance of approximately \$1.2 million.

REQUESTS NOT FUNDED

The executive proposal completely funds the requests made by the State Board of Career Colleges and Schools for the FY 2008-2009 biennium.

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General Revenue Fund

GRF 233-100 Personal Services

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$1,164	\$0	\$0	\$0	\$0	\$0

Source: GRF

Legal Basis: Discontinued line item (originally established in ORC 3332)

Purpose: This line item provided funds for personal services including payroll and benefits for the State Board of Career Colleges and Schools.

GRF 233-200 Maintenance

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$789	\$0	\$0	\$0	\$0	\$0

Source: GRF

Legal Basis: Discontinued line item (originally established in ORC 3332)

Purpose: This line item provided funds for maintenance for the State Board of Career Colleges and Schools.

General Services Fund Group

4K9 233-601 Operating Expenses

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$369,400	\$418,078	\$500,771	\$508,600	\$552,300	\$572,700
	13.2%	19.8%	1.6%	8.6%	3.7%

Source: GSF: Registration fees received from the various career colleges and schools, which are deposited into the Occupational Licensing and Regulatory Fund (Fund 4K9).

Legal Basis: ORC 3332.04

Purpose: The funds from this line item are used to pay the expenses of operating the State Board of Career Colleges and Schools. The Board monitors and regulates Ohio's private, for-profit post-secondary career colleges and schools, in order to ensure compliance with the standards set by state law. This line item was originally created in FY 2004 to replace GRF line items 233-100, Personal Services, 233-200, Maintenance, and 233-300, Equipment.

LSC Budget Spreadsheet by Line Item, FY 2008 - FY 2009

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2006</i>	<i>Estimated 2007</i>	<i>Executive 2008</i>	<i>% Change 2007 to 2008</i>	<i>Executive 2009</i>	<i>% Change 2008 to 2009</i>
SCR Career Colleges and Schools, State Board of								
4K9	233-601	Operating Expenses	\$ 500,771	\$508,600	\$ 552,300	8.6%	\$ 572,700	3.7%
General Services Fund Group Total			\$ 500,771	\$ 508,600	\$ 552,300	8.6%	\$ 572,700	3.7%
Total All Budget Fund Groups			\$ 500,771	\$ 508,600	\$ 552,300	8.6%	\$ 572,700	3.7%