California Community Colleges
Advisory Workgroup on Fiscal Affairs
August 15, Meeting Notes

❖ Actions Taken

- Members voted to accept the June 23rd meeting notes with some minor changes. The revised notes will be posted to the Chancellor's Office website under the "Workgroup on Fiscal Affairs" section of the Finance and Facilities Division homepage.
- Theresa Matista will now be the representative on the workgroup for the Los Rios District. Jon Sharpe retired from the District. Rita Mize and Ryan McElhinney from the Community Colleges League of California will be attending the workgroup meetings until further notice as a result of Theresa Tena transitioning into her new role at the Chancellor's Office.

❖ State Budget Update

<u>Dan Troy, Chancellor's Office</u>

Clarification on $49.5M for Mandates. Members requested some clarification on the $49.5 million available in 2014-15 budget for state mandate funding. Some members were under the impression that a district had to have an unfunded outstanding state mandate claim in order to receive a share of this funding. Dan clarified that the budget language states that the funding is to be allocated based upon FTES regardless of whether or not a district has submitted a mandated cost claim. Members expressed concern that the $49.5 million will reduce the total owed to districts for previously submitted state mandate claims. Districts submitting those claims incurred costs; however, the funds will be distributed to all districts even though all districts have not incurred the costs. The inequity of distributing the funds based upon FTES will be compounded going forward because eventually the state will consider all outstanding unfunded claims as having been funded. Dan responded that the CCCCO has to comply with the budget language, however, the controller is tracking the amounts owed to individual districts and that full balances will presumably be paid off eventually.

Budget Workshops. Dan asked for feedback from the workgroup on the Chancellor's Office Budget Workshops conducted during July. Overall, members said that the workshops provided good information. Workgroup members stated that they would have appreciated more time for discussion of the SSSP and Student Equity funding and also would have liked updated FON data for 2014-15. Members also stated that in the past, they received a "constrained growth rate" which is the minimum amount of growth each district is guaranteed to receive. This number can vary based on where districts are in terms of restoration; knowing their constrained growth rate makes it easier for districts to plan their course schedules as they are working to increase enrollment.

Student Equity Funding for 2014-15. Workgroup members asked for an update on the student equity funding and when districts can expect to receive the funds. In addition, because the funding allocation has not been released yet, workgroup members requested that Equity funds be allowed to carry-over to 2015-16 to ensure districts have enough time to spend allocated funds. Dan stated that the Student Services Division is working on finalizing the funding formula and will have the funds out to districts as soon as possible. He also stated that since this is the first year of funding and the funds have not gone out yet, it is likely that there will be an allowable carryover.

New Hires. Dan reported on a few new hires made by the Chancellor's Office as well as the Foundation for California Community Colleges. Mario Rodriguez from the Department of Finance will be starting on August 25th as the Assistant Vice Chancellor of College Finance. Theresa Tena from the Community Colleges League of California will be joining the Chancellor's Office as the Vice Chancellor on Institutional Effectiveness in mid-September. Paul Steenhausen will be the executive director of the new Student Success Center, which is operated by the Foundation for California Community Colleges. Paul was a senior education analyst with the Legislative Analyst's Office, working on Community College Issues.

There have also been some changes at the Department of Finance. Laurie Carney is the new principal analyst covering higher education, and Keith Nezaam will be the Fiscal Analyst covering community college issues.

- **General Discussion on the Trailer Bill Language**

One of the observations made by many of the workgroup members is that the language in the trailer bill is not actually growth formula language but rather a formula to "right-size" districts based on what has been defined as local need. The trailer bill growth formula language essentially reallocates or equalizes FTES among the system based on need and will result in winners and losers. All agreed that the formula specified in the trailer bill is not a long term growth formula and it does not answer the question of how new growth dollars may be allocated within the system. This formula is the legislature's attempt to implement a formula similar to LCFF in K12 for the community college system. Community colleges operate under a different system than K12, the LCFF offers more funding per student to needy students, this formula allows a school district that has more needy adults in the area to have more seats, assuming the demand exists to fill these seats. Contrary to LCFF, this formula would not provide community college districts with more funding per student to serve needy students.

Another comment made is that the formula creates a narrow definition of "local need", defining a district's need based on the number of individuals who are unemployed, in poverty, and have low educational attainment, without taking into account actual enrollment demand. This narrow definition could result in growth dollars being allocated to districts that are not able to spend them. Eventually funding would be reallocated to districts that are able to grow, however, the reallocation is difficult to plan for and districts may be hesitant to offer course sections if they are unsure about whether or not they will be funded for them. The workgroup members all agree that as a system, we don't want to leave growth funding on the table.

- **TRIS Presentation of Two Possible Methodologies for the Growth Formula**

Ryan Fuller and Alice VanOmmeren from the Chancellors Office TRIS Division presented two possible methodologies that could be used for the growth formula.

Index Model

The first methodology, referred to as the Index Model, uses district rates for: educational attainment (% of individuals in the district without a college degree); unemployment (the % in the district who are unemployed); poverty (the % with household income below $25k); and Pell (% of students in the district receiving a Pell Grant). For each of the factors, the district rate is compared to the statewide rate to asses that district's level of need. For each of the factors, the difference between the district rate and the statewide rate is constrained using a minimum and a maximum value (example: 1% minimum and 6% maximum). The differences are then weighted and summed together to calculate an index rate for each district.

If this model is used for the growth model formula, there are some decision points that will need to be addressed by the group, including the following:

1. Which variables to include- The trailer bill language requires that educational attainment, unemployment, and poverty be included as primary factors. The Chancellor's Office has the discretion to add additional factors to the model that identify need or disadvantaged populations. The group will need to decide if any additional factors are warranted, and which additional factors to include in the model. Some possible factors that have been discussed in previous meetings include: participation rate, adult population change, % receiving Pell grants, and unfunded FTES. The workgroup will also need to identify the best measure for the three required factors. For example, for poverty the percentage of households with income lower than $25K, or the percentage of students in the district receiving Pell grants could be used.
2. Capping of the differences between district and statewide rates- To keep the outcomes of the formula within a reasonable range, Ryan and Alice suggested using a minimum and maximum value to ensure that no district has a negative growth rate and none have a rate so high that it would be considered unreasonable. The initial model presented used a minimum of 1 and a maximum value of 6. The group will need to discuss these caps and determine the appropriate limits.
3. Appropriate weighting of the variables- The sample presented to the group weighted each of the factors equally and then summed the weighted totals to arrive at the index rate. The group will need to decide if certain factors should be weighted more heavily than others.

Weighted Distribution Model

The second methodology presented to the workgroup was the Weighted Distribution Model. This methodology is based upon volumes (i.e., quantity) rather than rates for each of the factors. The variables included in the initial model are: educational attainment (the number of individuals in the district that do not have a bachelor's degree); unemployment (the number of individuals in the district who are unemployed); and poverty (the number of households in the district with annual income below $25k). To calculate each district's "need", the district volume in each factor is calculated as a portion of the statewide whole. Example: Out of the entire state, Allan Hancock district has 0.5% of the total unemployed individuals, 0.6% of the total households in poverty, and 0.7% of the total individuals with no college degree. These factors are each weighted equally (33.33%) in the sample presented and then summed to arrive at district's overall "need". Referring back to Allan Hancock district, to calculate the "need", you would take 0.5 (33.33%) +0.7%(33.33%)+0.6%(33.33%)=0.6% need. After calculating each district's "need", this methodology uses actual FTES data to calculate the portion of statewide revenue each district is currently receiving, referred to as the district's "access". Allan Hancock district had 9,452 funded FTES in 2012-13, compared to the statewide funded FTES of 1,148,863; Allan Hancock has 0.82% of the statewide access. The difference between Allan Hancock district's need (0.6%) and their current access (0.82%) is -0.22%. This means that using this model, the share of the statewide funding that is allocated to Allan Hancock district should be reduced by 0.22%. Using this model, some of the districts end up with a negative percentage (meaning they should be receiving a smaller portion of the overall state funding) and some end up with a positive percentage (meaning they should be receiving a larger portion of the overall statewide funding). This model does not result in each district's growth need or growth rate; instead, it produces outcomes that show whether each district's portion of the statewide funding should be adjusted up or down.

If the workgroup decides to use this model, it will be necessary to figure out how to translate the outcome into a growth number/factor. One suggestion was to take the outcome and add/subtract it to the growth allocation for the year. Example: if 2.75% was provided in the budget for growth, districts with a negative percentage, such as Allan Hancock (-0.22%), would be eligible for 2.75%-0.22%=2.53%. Those with a positive percentage such as Antelope Valley (0.23%) would be eligible for 2.75%+0.23%=2.98%.

The workgroup would also need to decide the following:

1. Which variables to include- Educational attainment, unemployment, and poverty must be included as primary factors per the language in the trailer bill. Additional factors such as Pell (the total students in the district receiving Pell grants); total district adult population change; and total unfunded FTES could be added. It was noted that participation rate could not be used for this model since it is based upon a rate factor rather than a volume/quantity factor.
2. Appropriate weighting of the variables- The sample weighted each of the factors equally. After deciding whether or not to add additional factors, the group would need to weight all the factors to sum to 1.

- **Workgroup Discussion of Methodologies**

Formula should not include both Poverty and Pell- The trailer bill requires that the formula consider the number of persons who are in poverty. The workgroup discussed including a factor that measures the number (or percentage) of people in the district with an annual household income below $25k. The group also discussed the possibility of including a factor on the number (or percentage) of students in a district receiving Pell grants. The Pell factor was included in the student equity funding formula since it was specified in the trailer bill language. One justification for considering the Pell factor (rather than household income) is that Pell grants are institutional rather than community factors. Others argued that the household income poverty measure would be more appropriate since it is more aligned with the trailer bill language. The group requested that Ryan run simulations with both poverty and Pell so that they could compare the two before deciding between the two.

Adult Population or Participation Rate- The workgroup discussed adding a factor that measures the change in adult population in the district, stating that it is difficult to have a growth formula that does not consider population change. Others stated that participation rate should be included in the growth formula. There was some discussion around participation rate and how it should be used. Some advocated giving more funding to districts with a higher participation rate, since they have the demand to fill classes. However, others stated that the purpose of the formula is to allocate additional funding to areas with greater need or underserved populations and to do this, more funding would need to go to districts with a low participation rate. Most workgroup members agreed that the formula should include either adult population or participation rate, not both. The group took a vote and found that 9 favored using participation rate, compared to 2 that voted to use adult population change.

Include Unfunded FTES - Participants in the workgroup voiced strong support for including a measure of district's unfunded FTES in the growth formula, since this value is a true measure of student demand at a district. Members proposed using the calculation discussed in previous workgroup meetings: one-third of a district's 3-year average unfunded FTES, with a minimum of 1% unfunded in each of the three years.

- **Formula Factors as of August 15th**

1. Educational Attainment- Percentage (or number) of individuals in the district who do not have a bachelor's degree
2. Unemployment- Unemployment rate (or number unemployed) in the district
3. Poverty/Pell Grant- Group needs to decide which measure to use
4. Participation Rate/Change in Adult Population - Group voted and decided to use participation rate
5. Unfunded FTES (extra factor added on)- Calculated as 1/3 of a districts 3 year average unfunded FTES, must have at least 1% per year

- **Data to be provided by TRIS Prior to Next Meeting**

Ryan will be providing some data simulations for the workgroup to review prior to the next meeting. Based on these simulations, members will decide between the poverty factors (household income or

Pell) and also whether to include adult population or participation rate. Simulations for both methodologies will be provided, they will each include: educational attainment, unemployment, one of the poverty measures (either household income or Pell), one of the population measures (either change in adult pop or participation rate), and unfunded FTES. Based on these simulations the group will decide which combination of factors will generate the best results at the next meeting of the workgroup.

Members pointed out that only the three required factors are locked into statute (educational attainment, unemployment, and poverty) the others are up to the Chancellor's Office and could be modified in the future if needed.

- **Remaining Decision Points for the Group (must be made during Sept 5th meeting)**

The workgroup needs to make the following decisions during the September 5th meeting in order to have time to draft the language, submit the growth formula recommendation to Chancellor Harris for review, and be able to present the new growth formula model at the ACBO fall conference in late October.

1. **Which methodology to use?** TRIS presented two possible methodologies (the index model and the weighted distribution model) to the group during the Aug 15th meeting.
2. **Which factors to include?** After deciding on the methodology, the group will need to decide on the factors to be included and the calculation for each of the factors, including minimum and maximum values (if applicable).
3. **Weighting of the factors.** The group will need to weight the factors to sum to 1. This can be done by weighting each factor equally or weighting some more than others. The way factors are weighted will impact the outcome of the formula.
4. **Application of the overall outcome of the formula.** If the formula does not result in an actual growth rate, the group will need to decide how the outcome of the formula is to be applied (in dollars). The index model produces a growth index (it is a number not an actual growth rate); and the distribution model determines a district's gap between need and access as a portion of the statewide total. The group will need to discuss how the outcome of the formula relates to actual growth funding and FTES funding.

- **Upcoming Meetings**

- September 5, 2014 9:30-4, Lunch provided by ACBO
- October 10, 2014 9:30-4, Lunch provided by the Chancellor's Office
- November 14, 2014 9:30-4, Lunch provided by the CCLC

❖ **Topics to be discussed at September 5 Meeting**

- The group's primary focus during the September 5th meeting will be to continue the discussion of the SB 860 growth language and finalize the growth formula to be sent to Chancellor Harris ASAP and roll it out to the field at the ACBO fall conference October 27th-29th.

❖ **Other Topics to be Addressed After Growth Formula Language is Completed**

- New Centers and Colleges- funded first out of growth dollars? This language is specified in the budget, Chancellor's Office does not have the authority to modify.
- How to handle years when minimal growth dollars are received. If the formula shows a need of 4% but there is only 2% in the budget, how will growth dollars be distributed?
- Need to review language currently in legislation vs. language in regulation. Where the changes should be made?
- How should stabilization and restoration be handled? Will the formula impact the current process?

❖ **Attendees at the Aug 15 Meeting:**

- Bonnie Ann Dowd – San Diego CCD
- Ann-Marie Gabel – Long Beach CCD
- Fred Williams–ACBO President
- Sharlene Coleal – Santa Clarita CCD
- Theresa Matista – Los Rios CCD
- Kathy Blackwood – San Mateo CCD
- Chris Yatooma – Sierra Joint CCD
- Teresa Scott - Yosemite CCD
- Peter Hardash – Rancho Santiago CCD
- Doug Roberts – Sonoma County CCD
- Vinh Nguyen – Los Angeles CCD
- Theresa Tena – Community Colleges League of California (CCLC)
- Rita Mize – CCLC
- Ryan McElhinney –CCLC
- Dan Troy – CCC Chancellor's Office
- Diane Brady – CCC Chancellor's Office
- Natalie Wagner – CCC Chancellor's Office
- Ryan Fuller – CCC Chancellor's Office, TRIS Division
- Alice VanOmmeren – CCC Chancellor's Office, TRIS Division

Attended by phone:

- Jeff DeFranco – Lake Tahoe CCD
- Tom Burke – Kern CCD