

**California Community Colleges
Advisory Workgroup on Fiscal Affairs
June 23, 2014 Meeting Notes**

❖ **Actions Taken**

- Members voted to accept the June 2nd meeting notes. The notes will be posted to the Chancellor's Office website under the "Workgroup on Fiscal Affairs" section of the Finance and Facilities Division homepage.

❖ **State Budget Update**

Dan Troy, Chancellor's Office

2014-15 Budget Approved. A final budget for 2014-15 was approved and signed by the governor on June 20, 2014. As they were moving through the budget process, the legislature tried to increase spending by assuming the LAO's higher revenue estimates for 2014-15. Similar to last year, Governor Brown did not agree to spend above the administration's revenue estimates. As a compromise, the governor and the legislature agreed to a positive spending trigger, which would allow the director of finance to authorize additional spending, if revenue did come in above the governors' estimates (to be determined at May revision). The priority for this additional spending request would be to pay off the remaining community college deferrals (approximately \$94M as of 2014-15). There was no agreement on other CCC priorities to be funded with the positive trigger; however, it is likely that funds would go toward one time priorities such as mandates. Another change in the approved budget relative to the May revision is that \$30M was shifted from the student equity plans to DSPS.

CCCs received over \$600M in new programmatic spending. This represents a lot of new money coming into the system in one year, a larger increase than we have seen in many years.

One significant question remaining is how the \$49.5M in unfunded mandates will be distributed to the districts. This funding is expected to be helpful as districts are trying to find ways to pay the increased STRS contribution rate that was not anticipated and is effective July 1, 2014. The distribution of the unfunded mandate funds yet to be determined is whether funds will be distributed based upon outstanding mandate claims or on a per FTES basis. UPDATE: Funding is allocated per FTES, so all districts will receive funds regardless of whether or not they have outstanding mandate claims.

System Deficit 2013-14. At P2 the system has a deficit of \$89M (1.2%), once the controller updates the figures, it is expected that the system will still have a deficit of approximately \$60M (1.06%).

FON Penalties. Members asked when they will receive information on the FON penalties; the information will be released at the time of Recal. It was asked whether there is an option to pay penalties in installment payments, Dan stated this will be handled on a case by case basis. He also said the penalty payments go into the EEO fund, and are then administered by a committee. Workgroup members recommended that at least one CBO be on the committee as decisions are made to spend the FON penalties funds. Some members stated they thought funding from the penalties is supposed to be distributed to all the districts to be used for staff development. The Chancellor's Office will look into the regulations on how the FON penalty funds are to be spent.

Theresa Tena, CCLC

We are having a paradigm shift in how the system is funded by the state. Over the last five years the focus has been on student success and completion. The state budget is now moving forward with a focus on growth. The administration and the legislature are looking to change the CCC system by changing the factors in the growth model; the intent is to redirect funding and reshape the system. Initially, the growth model language included a provision requiring the Chancellor's Office to downwardly adjust districts that grew too much in the non-primary mission areas. We were able to get this language changed so that the Chancellor's Office will submit an annual report instead. There has never been a CCC growth formula in statute; this language not only puts it in statute, but is very prescriptive, which could be problematic down the road. The belief from the legislature is that this language will focus the system on serving "high need" students. However, there is some concern on whether the new growth formula will really achieve the desired objectives. Discussion followed including the fact that the growth generated by districts will probably not change much, growth rates will come out, some districts will be able to grow more than others, and those that can grow will be able to access the growth funds left over from those that were not able to grow. Chancellor Harris has been promoting open access for the system; however, this legislative formula focuses on funding access for only certain populations.

❖ Reviewing the Approved SB 860 Growth Language

The workgroup reviewed the revised growth formula language approved in SB 860 and discussed the differences between the approved SB 860 language and the growth formula the group has been working on developing over the past several months.

Some still had major concerns with using district boundaries rather than service areas in the growth calculation, stating that district boundaries are not always representative of the students that a district actually serves. However, if the language in statute says "district boundaries", the group believes we have no choice and will need to comply with the language.

Members stated concerns that this formula, as written, does not have the intention of allocating growth to all districts, instead it is attempting to resize districts. When the formula is put into place, some districts will be winners and others will be losers, similar to K12's Local Control Funding

Formula (LCFF). Clearly, the AB860 formula is an attempt to give more funding to districts that serve a greater number of needy students.

Some members voiced concerns that the formula does not take into account individuals that are under-employed or coming back to the community colleges for workforce retraining. This is likely to be a large group of individuals that are not considered in the AB860 growth formula.

Educational Attainment- SB 860 includes language related to an educational attainment factor, stating: *(A) (i) The number of persons under 25 years of age without a college degree, within a community college district's boundaries, and the number of persons 25 to 64 years of age, inclusive, without a college degree, within a community college district's boundaries.* To measure educational attainment, the workgroup has been looking at the percentage of individuals in certain age groups without a high school diploma (instead of considering college degrees). Therefore, the workgroup is requesting data from the Chancellor's Office TRIS division showing the percentage without a college degree for people under 25 and also 25-64. The workgroup requested that this data be submitted to them prior to the next workgroup meeting so the members have an opportunity to consider the impact of this change on the formula work concluded up to this point in time by the workgroup.

Other Factors in SB 860 Language- The growth formula language in SB 860 includes the factor on educational attainment (above) and several other factors identified in Section (e) (1) (B), which states: *The number of persons who are unemployed, have limited English skills, who are in poverty, or who exhibit other signs of being disadvantaged, as determined by the chancellor, within a community college district's boundaries.* The group reviewed each of these to determine how this language could be worked into the workgroup formula language completed thus far.

Number of persons who are unemployed - In the formula the workgroup has been developing over the last few months, they looked at the percentage of individuals unemployed. This data will be revised to calculate the number of people unemployed, rather than the percentage.

Have limited English skills- this factor was considered early on, however, the workgroup found that they were not able to obtain reliable data for this measure and therefore did not include it. The group discussed this again with Ryan Fuller from the Chancellor's Office TRIS division, again Ryan stated that we do not have appropriate data on this factor.

Who are in poverty- Members discussed possible ways to measure the number of people in a district that are at the poverty level. Some suggested that unemployment data would correlate with poverty; generally speaking, an area with higher unemployment has higher poverty. However, others stated that these two are not the same and should both be included in the model. Some talked about using financial aid eligibility (BOG or Pell Grant) as an indicator of poverty. The group was reminded that the formula needs to ensure that AB 540 students are also included. Members suggested looking at the percentage of people in a district with household income below the federal poverty line. Ryan can access data on those with

household income below \$25k; he will send this to the workgroup to review, and incorporate into the formula.

Adjustment to growth based on students served- In addition to language that shall be included in the growth model, SB 860 includes additional language on adjustments that should be made to district growth allocations. Section (e)(B)(2) states: *Beginning with the 2016–17 fiscal year, the chancellor shall adjust upward the need determination based on each community college’s effectiveness in serving residents of neighborhoods, within or outside of the community college district’s boundaries, that exhibit the highest levels of need in the state.* The workgroup did not spend a lot of time discussing this section, since it will not take effect until 2016-17; however, members stated that this adjustment adds another layer of complexity to an already complex formula. Some stated that this may not do what is intended since there will still be those districts that are not able to grow as quickly and those that are able to grow more based upon demand and therefore, able to access the growth funds left on the table by other districts; an additional adjustment may just make it more confusing for districts as they are trying to plan their course offerings.

Impact on Restoration- Section (e) (B) (5) states that a district is eligible to grow by the lesser of 1% of their current apportionment base or one-half of the statewide growth allocation on a proportionate basis regardless of need until they reach their highest level of apportionment revenues previously received. After reaching its highest level previously received, a district is eligible to grow by the lesser of .5% of their apportionment base or one-quarter of the statewide growth allocation regardless of need. Members stated that this language would need to be reviewed carefully to see how it would impact restoration. Districts are still working to restore the 2011-12 cuts. This AB860 language will make it so that 14-15 is the last year that districts have the opportunity to restore the 11-12 cuts.

Reallocation of growth funds- Section (e) (B) (6) states: *The remainder of the apportionment growth funding shall be allocated to allow each community college district to grow its apportionment revenues based on its relative share of the difference between the amounts calculated in paragraph (4), up to a maximum of its apportionment base for the preceding fiscal year appropriate to ensure that community college district is advancing the primary missions of the segment. The maximum established by the chancellor shall not be less than 5 percent nor greater than 10 percent of a community college district’s apportionment base for the preceding fiscal year.* This is the language describing how funds will be reallocated from those that are not able to grow to those that are able to grow at a rate greater than their allocation allows. Members stated that there will likely be a lot of reallocation which will make it difficult for districts to plan because they will not know whether they have additional funding until after the year is over. Districts that have a large number of unfunded FTES are taking a risk hoping that they will ultimately be funded through reallocation. Members also voiced concerns with reallocating a large portion of the growth funding and how this will look to lawmakers. Specifically, if districts that are allocated a higher percentage only grow 1% and others that are allocated only 1 or 2% grow 6%, what will be the reaction from lawmakers?

❖ **Comparison of SB860 Language and the Growth Formula Developed by the Workgroup**

Adult Population factor eliminated- The revised growth language in SB 860 does not include a factor addressing adult population, or the change in adult population. The change in adult population was one of the main factors included in the growth formula the workgroup has been developing over the last several months.

Unfunded FTES Factor Eliminated- The SB 860 growth language does not consider whether a district has unfunded FTES in calculating a district's need. Members discussed the fact that unfunded FTES is an indication of unmet need based upon student demand in the district's community. The workgroup will discuss whether student demand, as demonstrated by unfunded FTES, could be added anywhere in the new growth formula based on SB 860. The group will continue to look at this as they develop the growth formula language to be recommended to Chancellor Harris.

Issues related to the growth formula that the workgroup needs to keep in mind:

- 1.) SB 860 looks at the number of individuals without a college degree rather than the number without a HS diploma. This factor will need to be modified.
- 2.) Poverty issue-SB 860 includes language stating that the formula should consider the number/percentage of individuals in poverty. This will need to be added to the workgroup model.
- 3.) Section (e) (B) (6) - Need to determine the max growth between 5 and 10%, this does not need to be in statute but will need to be placed in regulations. Some members voiced support for setting the maximum at 5%. This will be discussed further in future meetings.
- 4.) FON is tied to changes in credit FTES- Districts that grow (increase FTES) will have a corresponding increase in their FON. This is not a change but should be communicated to the field.

❖ **Debra Sheldon – Student Equity Funding Formula**

Debra Sheldon from the CCCCO Student Services Division provided an update on the development of the formula for distributing student equity dollars. In addition to including language for the growth funding formula, SB 860 includes language for the student equity funding formula. The student services division is working with stakeholders to revise the funding formula to be consistent with the SB 860 language in order to get funds out to districts as soon as possible.

Members expressed concerns that the student services division is not getting any input from CBOs as they are developing the funding formula for student equity dollars. Debra stated that the plan for getting input from the CBOs is to have a one day meeting with stakeholders and constituent groups once there is a rough formula developed. Debra also stated that CBOs may email her if they have specific input on the formula.

The student services division has revised their proposed funding formula to be consistent with the language in SB 860. Debra provided a handout showing the revised funding formula being developed; however, this is not the final version.

The revised student equity funding formula includes 5 factors:

1. Annual FTES- 40% of formula would also put something in for small districts.
2. High need students- Number of students receiving a Pell Grant and Dream Act students who are eligible for a Pell grant.
3. Educational attainment of residential zip code-Number of students enrolled who reside in a zip code within the lowest two quintiles of educational attainment (ed attainment=no HS diploma)
4. Participation rate-Participation rate of individuals between 18 and 24 living within the district boundary
5. Household income- Percent of households in the district with less than \$25k annual household income.

Workgroup comments on the 5 student equity factors

- Regarding factor 3 (educational attainment) Workgroup members asked whether it would be possible to use the number without a bachelor's degree rather than the number without a high school diploma so that this factor would be consistent with the educational attainment factor in the workgroup's growth formula being developed.
- Members commented that factor 2 (high need students) and factor 5 (household income) are looking at essentially the same thing. Debra responded that factor 2 is about the students at a college and factor 5 is about the community. She said it is important to look at both because there could be needier students at the college than the community overall or there could be a needier community but less needy students being served by the colleges.
- It was suggested that factor 5 (household income) be tied to the federal poverty limit rather than the percentage of households under \$25K.
- Regarding factor 4 it was suggested that they expand the age group to include 15-29.
- Members emphasized the fact that the legislators took the participation rate factor out of the SB860 growth formula and added it to the student equity formula, they stated that it should be the other way around.

Debra will take suggestions back to the committee developing the funding formula. She also stated that workgroup members may send questions or input via email at dsheldon@cccco.edu.

❖ **Reviewing the Growth Formula from DOF- Theresa Tena CCLC**

Theresa Tena shared with the workgroup a sample growth formula spreadsheet the Department of Finance has been modeling.

The spreadsheet includes the unemployment rate in each district as well as the quantity of individuals unemployed, it also shows the population in each district broken down into the following age groups: 0-14, 15-19, 20-29, 30-39 (should be 49), and 50+. The spreadsheet includes columns showing each district's need, access, and any gap between the two. Need is calculated as: number of unemployed individuals in the district compared to the statewide number (weighted at 25%) + the number of individuals between 15 and 19 compared to the statewide number (weighted at 12.5%) + number of individuals between 20 and 29 compared to the statewide number (weighted at 50%) + number of individuals between 30 and 49 compared to the statewide number (weighted at 12.5%). This percentage is supposed to represent a district's need (or the amount they will qualify for) as a portion of total growth funding available. It does not represent the percentage that district needs to grow in FTES but rather looks at each district as a portion of the whole pot of growth funding.

Access represents the portion of total statewide FTES revenue that the district receives, and the gap is the difference between a district's need (as a percentage of the statewide total) and the access dollars they receive.

After reviewing this growth model, members stated that based on the trailer bill language, it seems there are a few additional factors that should be included such as poverty and educational attainment.

Discussion of the group's previously drafted model, changes that need to be made based upon SB 860 and the DOF's modeling efforts the following items will be addressed at the next meeting of the workgroup in August:

1. HS diploma- change to percentage without a college degree (per SB 860 Language)
2. Adult pop- The workgroup considered the change in adult population, DOF modeling looks at the number in the different age groups as a percentage of the statewide number. Members stated we should recommend using the change in adult pop not just the % of the statewide number.
3. Unemployment- Leave this factor as is
4. Unfunded FTES- try to add? Not in SB 860 language
5. Participation rate- drop this one, not in the SB 860 language
6. Add poverty factor- percentage below the fed poverty level

❖ **Upcoming Meetings**

- August 15, 2014 9:30-4, Lunch to be provided by the CCLC
- 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 August 15th Meeting and Future Meetings**

- The group's primary focus during the next few meetings will be to continue the discussion of the SB 860 growth language and work toward a final growth formula to be sent to Chancellor Harris ASAP and rolled out to the field at the ACBO fall conference October 27th-29th.

Other topics to be addressed after growth formula language is completed are as follows:

- 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 little 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 June 2nd Meeting:**

- Bonnie Ann Dowd – San Diego CCD
- Ann-Marie Gabel – Long Beach CCD
- Sharlene Coleal – Santa Clarita CCD
- Jon Sharpe – Los Rios CCD
- Kathy Blackwood – San Mateo CCD
- Chris Yatooma – Sierra Joint CCD
- Jeff DeFranco – Lake Tahoe CCD
- Teresa Scott - Yosemite CCD
- Peter Hardash – Rancho Santiago CCD
- Sue Rearic – Grossmont/Cuyamaca CCD
- Tom Burke – Kern CCD
- Doug Roberts – Sonoma County CCD
- Vinh Nguyen – Los Angeles CCD
- Theresa Tena - CCLC
- Dan Troy - CCC Chancellor's Office
- Natalie Wagner - CCC Chancellor's Office (staff)
- Ryan Fuller - CCC Chancellor's Office, TRIS Division (staff)
- Debra Sheldon, CCC Chancellor's Office, Student Services Division (staff)