

NOTE as of January 29, 2018: The CCC Funding Model Proposal recommendations by the Advisory Workgroup on Fiscal Affairs was provided to Chancellor Oakley prior to the release of the Governor's 2018-19 State Budget Proposal, which included the DOF's budget proposal for a new funding model.

California Community Colleges/Districts Funding Model Proposal Submitted to Chancellor Oakley December 20, 2017

I. State Chancellor's Advisory Workgroup on Fiscal Affairs Background

Workgroup Charge:

Provide ongoing advice and counsel to the CCC State Chancellor on community college/district finance and business operations impacting the California community colleges/districts to include, but not limited to: issues surrounding state budget proposals, statutory and/or regulatory funding provisions, any other matters relating to fiscal and business affairs or improvements to benefit the state's community colleges/districts.

Role:

Advisory to the CCC State Chancellor working in partnership with the Association of Chief Business Officials (ACBO) Board and the Community College League of California (CCLC).

Product:

Recommendations to the CCC State Chancellor on any potential actions; be they administrative, legislative or regulatory, or dissemination of best practices, that would help resolve or improve fiscal and business-related issues of importance to the colleges/districts.

Structure:

Workgroup to consist of districts identified by the California Community Colleges Chancellor's Office (CCCCO) with the District CBO appointed by the ACBO Board that are representative of the diversity of the California Community colleges system; to include, different regions of the state, single and multi-college districts, small and large, rural, basic and non-basic aid districts. Workgroup membership also to include: a CCCCCO and CCLC representative as voting members and the ACBO Board President as an ex-officio (non-voting) member. Total voting membership of the workgroup is 15 members (13 districts, 1 CCCCCO and 1 CCLC representative).

Fall 2017 Assignment:

Chancellor Oakley tasked the Workgroup on Fiscal Affairs with developing a new funding formula for the California community colleges/districts that reflects and supports the system's goals and priorities. The proposal should recognize factors beyond the number of full-time equivalent student (FTES) and include other elements such as: 1) measures of student success and equity, and 2) providing a reasonable level of funding stability to support sound financial planning. Chancellor

Oakley engaged Lumina Strategy Labs to assist the workgroup and provide a national context and best practices framework.

To assist and inform the workgroup, Lumina Strategy Labs arranged for five states to present information about the outcomes-based funding models currently used to allocate all, or a portion of, state appropriations in those states. Representatives from Florida, Ohio, Tennessee, Virginia, and Washington presented to the workgroup about each state's goal/policy priorities, funding model development, and implementation.

Lumina Strategy Labs also provided guidance as to the general components of outcomes-based funding formulas: student progression, completion, productivity, funding mission and priority populations. They shared best practices for design and implementation of outcomes-based funding models. These include:

- Link the model to a state goal and clear policy priorities,
- Use a stable and simple approach,
- Include only measurable metrics,
- Incentivize the success of typically underrepresented students,
- Reflect institutional mission,
- Seek broad stakeholder input,
- Use the model to distribute at least a portion of base-funding,
- Phase the model in, and
- Plan to continuously evaluate the model during and after implementation

II. Funding Formula Vision Statement and Principles

The workgroup developed its Vision Statement with regard to developing a blended funding model for California community colleges/districts that aligns a meaningful portion of state funding tied to accountability measures through an outcomes-based funding component in addition to base and FTES apportionment funding as follows:

Preamble to support the creation of the Vision Statement:

The California community colleges system is comprised of 72 diverse districts that operate independently yet are funded collectively. SB 361 was established over 10 years ago as a funding model to equalize a disparity in funding and expand access. However, the formula did not sufficiently address the fact that the California community colleges system funding is subject to volatility in State revenue, local demographics, and enrollment demand nor did it address increasing operational costs. In an effort to create more stability in community college/district funding and better address the needs of our students, the State Chancellor's Advisory Workgroup on Fiscal Affairs was charged with developing a new funding formula.

Vision Statement:

We strive to develop a funding formula that:

- Is stable and sustainable while supporting the goals articulated in the Vision for Success;
- Provides incentive funding for progress in serving disproportionately impacted populations; and
- Is responsive to the needs of the local and regional communities served.

Principles:

The workgroup agreed the new funding model’s principles should:

- Align with system’s goals and priorities related to student success, equity, and access. Funding should be linked with these factors in order to incentivize improved outcomes.
- Be fair, transparent, and easy to understand.
- Provide sufficient predictability and stability to support college/district operational costs and sound financial planning.
- Balance a focus on outcomes with the need for reasonable funding stability.
- Recognize the diversity of regional and local needs.
- Support historically under-represented students with more funding to close gaps and increase completion outcomes.
- Marry an increase in accountability for outcomes with increased flexibility, such as relief from regulatory requirements and categorical funding restrictions.
- Be phased-in over multiple years in order to allow for a smooth transition to the new model.

III. Funding Model Recommendations

Funding Model Elements:

The new funding model should reflect three “funding blocks” identified as:

- Performance Outcomes tied to Strategic Vision goals
- Base funding required for operating colleges/districts and centers
- Enrollment

Potential Metrics identified in support of the “funding blocks” are as follows:

- Performance Outcomes:
 - Transfer
 - Completion of degree/certificate
 - CTE employment and wage gains
 - Equity gap incentives
- Base Funding:

- Number and size of colleges/districts and/or centers
- Location (i.e. rural, urban, etc.)
- Facilities factor (gross square footage, acreage, etc.)
- Enrollment:
 - FTES
 - Headcount

Funding Model Components:

The workgroup considered a range of options related to which of the current funding streams should be included in the new funding model. The option recommended by the Workgroup on Fiscal Affairs is an entirely new funding model utilizing **Unrestricted Proposition 98 funds plus select categorical funds.**

Other Funding model options considered by the workgroup are:

- All Proposition 98 funds (unrestricted and categorical)
- Only unrestricted Proposition 98 funds
- Only new appropriations designated for outcomes-based funding

Allocating a significant share of state funding to the new funding model will provide strong incentives to achieve the desired outcomes. However, for the recommended approach to work, it will require significant modifications to regulations and perhaps state laws to provide community college districts with greater flexibility.

IV. Development and Implementation

Operational and Implementation Elements:

No modeling or technical analysis has been conducted at this time. It is acknowledged that any proposed change to the funding model be done so after extensive modeling and technical analysis occurs. Furthermore, it is recommended that the following factors be considered during the development of the key elements to the new funding model:

- Base funding should reflect a variation in costs based on specific factors, such as college/district size, centers, multi versus single college/district, etc.
- The funding model should recognize the higher costs of Career Education courses in its calculation.
- The funding model should recognize the significant and increasing operating costs related to technology and campus security.
- Moving from the current funding model to a new funding model should be based upon a three-year rolling average in the development of the metrics used to support outcomes-based funding.
- The funding model should incorporate some categorical programs, such as, Strong Workforce, Student Success and Support Program, Student Equity and Basic Skills

Transformation Grants in the formula.

- The funding model should provide stability funding during enrollment declines, based upon a multi-year step-down model.
- The funding model should be evaluated periodically and modified as needed.
- The model should have an initial hold-harmless to ensure colleges/districts are not negatively impacted in the first year of implementation.
- Outcome metrics should measure a college/district's improvement over time against itself.

Next Steps:

To develop and implement a new funding model with an outcomes based funding component, the workgroup recommends the following next steps be undertaken:

- Technical Development – Task the workgroup and the CCCCCO's Finance and Facilities Division with designing specific factors to be considered in the development of a funding formula that has a meaningful funding component tied to the recommendations previously stated by spring 2018. Dedicated resources for research and analysis will be needed to conduct data based modeling and technical analysis support and expertise.
- Process – Convene a taskforce with broad system-wide constituency representation (CEOs, CBOs, Administrators, Faculty, Classified Staff, Trustees, and Students) as well as other stakeholders (business community, public policy/research groups, and social justice organizations) to review, discuss and modify the new funding model as appropriate.
- Timeline – To ensure the new funding model has been vetted to allow for broad stakeholder input in advance of its implementation, it is recommended that the taskforce submit a plan for the Board of Governors consideration by March of 2019. The Board of Governors would then have the authority to implement and, as necessary, modify the funding model. Year 1 (FY 2019-20) would be an information sharing year (new allocations would be shared, but not drive funding). The model would then be phased in over the next couple of years.