California Community Colleges
Advisory Workgroup on Fiscal Affairs
September 5, Meeting Notes

❖ Actions Taken

- Members voted to accept the August 15 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.

Dan and Bonnie reminded the workgroup that the purpose of today's meeting is to finalize the new growth formula language. The formula must be discussed with Chancellor Harris, as his Advisory Workgroup, in advance of it being shared with the field at the ACBO conference in October. Bonnie reminded the workgroup members that she, Dan, Ann-Marie and Jeff will be presenting the formula at the ACBO conference at a general session, which has been submitted to the conference committee for consideration. She also encouraged all members of the workgroup attending the conference to feel free to add comments to the session discussion.

❖ Budget Update-Dan Troy CCCCO

Transition at the Department of Finance

Dan discussed some staffing changes occurring at the Department of Finance. Keith Nazaam is the new fiscal analyst covering community college issues; he took over for Mario Rodriguez who came to work for the Chancellor's Office. There will also be a new principal analyst covering higher education; Laurie Carney who was supposed to take on that role accepted a position at UC Davis. The Chancellor's Office will likely provide some training to help DOF staff who are new to community colleges become more familiar with the CCC system and budget. There is also some transition among legislative staff as they just reached the end of the two year session. This transition and the heavy focus on K-12 around the capitol increases the need to ramp up advocacy efforts.

Faculty Obligation Number (FON)

Prior to the September meeting, districts received their full-time faculty compliance data for fall 2014. Members stated that since the Faculty Obligation Number (FON) is no longer frozen, it would be helpful to have a narrative explaining how the numbers are calculated. Michael Yarber, who administers the FON calculation at the Chancellor's Office, will provide some background information explaining the FON calculation.

A proposal to modify the FON was recently put forth by the Community College League of California (CCLC) and discussed at Consultation Council during the spring and summer. The proposal is an attempt to begin to equalize districts in terms of their FON and also increase the number of full-time faculty in the system. CCLCs proposal provides all districts with funding for full-time faculty hiring, with varying requirements depending on where they are on the FON. Because of the importance of finishing the growth formula, members proposed getting back to the FON discussion at a later date.

<u>1098-T Notices</u>
Some members stated they have received 1098-T notices from the IRS at their districts. Districts are receiving these notices because student SSNs are missing and/or inaccurate on the 1098-T form sent to the IRS. Students are not required to submit SSN in California. If a student does not provide a SSN, a District provided the student with a Student ID number. However, the IRS has recently determined a SSN must be included on all 1098-T or the district will be assessed a penalty. The IRS audit division conducted an audit of 2011 1098-T forms last year and this year's notices are a continuation of that effort with proposed penalties being assessed for 2012 1098-T forms.

Last year, there was a conference call with a Pacific Coast representative from the IRS to discuss these potential penalties and how districts should respond to the IRS. Most districts have received responses; however, not all districts have received responses from the IRS. Members proposed approaching the 2012 responses to the IRS the same way as was done for the 2011 penalty proposals received last year. Districts made changes to handling of student SSN during 2013 when they received the 2011 notices; however, 2012 were handled the same as all years prior in California. It was requested that the CCCCO once again set up a call with the IRS to confirm following a similar approach for 2012 for all districts especially given that districts have had turn over in some of its business positions.

<u>Student Equity Funding</u>
Members asked when they can expect to receive the student equity funding and if they will receive a breakdown showing the amount that should be allocated to each college (for multi-college districts). Dan stated that the student services division would be the appropriate department to ask about when the funding will go out to districts. As far as how the allocations should be broken down in multi-college districts, it will be a local decision, districts could split up the funding based on FTES or some other method they deem appropriate. LACCD (Representative Vinh Nguyen) would discuss with LACCD CBO Jeannette Gordon and ask her to contact CCCCO Student Services to get a status update on when districts can expect to receive their funding allocation. Workgroup members are concerned that the funds are still not allocated and we are several months into the new fiscal year.

- **TRIS Presentation of Growth Model Simulations**

<u>Index Model Methodology Review</u>
The Index Model uses district rates for each of the factors (percentage in the district without a college degree, unemployed, receiving Pell, etc.). For each of the factors, the district rate is compared to the statewide rate to determine a district's level of need (for example if the unemployment rate in the district is 12%, and the state unemployment rate is 9%, the district has more need compared to the state average). For each of the five factors, the difference between the district rate and the statewide rate is constrained using a minimum and a maximum value. The

simulations used a minimum of 1 and a maximum of 10. The differences between the state rate and the district rate for each of the factors are then weighted and summed together to calculate an index value (or score) for each district. Because the differences are constrained between 1 and 10 and then weighted, the outcomes produced by this model (index values) will always fall between 1 and 10 (or whatever minimum and maximum values are used). The group will look at the minimum and maximum values to determine whether these are appropriate or should be modified.

Factors have been considered and agreed to by the workgroup related to educational attainment, unemployment, and unfunded FTES; however, yet to be finalized is participation or adult population factor and poverty or Pell grant factor to be included with the other factors in the group formula. Therefore, to be discussed are the following potential combinations to determine the last two factors to be included in the growth formula.

1. Participation/poverty,
2. Participation/ Pell,
3. Adult pop/ poverty,
4. Adult pop/Pell

Workgroup members were reminded that there was a vote at the last meeting to use participation rate rather than adult population change. Therefore, the participation factor has already been agreed to by the workgroup; however, some members requested that Ryan prepare simulations using both participation and population change so the workgroup members could see the impact of the two factors. After reviewing the data simulations, the group affirmed the original decision to use participation rate and eliminated any further discussion on the issue.

Poverty vs. Pell

The group spent a great deal of time discussing whether to include poverty (percentage of people in the district with an annual household income below $25k) or Pell (percentage of students in a district receiving Pell grants) as a means of measuring disadvantage. Some stated that poverty is a better measure of need and is more aligned with the intention of the legislative language. Others supported using Pell rather than poverty because it is an institutional factor rather than a community factor and appropriately rewards districts for actually serving needy students. Ultimately the group opted to include Pell (percentage of students in a district receiving Pell grants) in the growth model.

- **Translating the index value to a funding allocation**

The index value is the outcome produced by the index model and represents each district's level of need based on the 5 factors included in the growth model. The district rate for each of the factors is compared to the state rate to determine whether the district is lower or higher than the statewide average. The range of difference from average is constrained between a floor of 1 and a ceiling of 10 to ensure that no districts receive a negative number. Districts with a higher index value have a higher level of need and those with a lower factor have a lower level of need.

The group discussed some different ways to translate the index value into a funding allocation; one suggestion was to use the index value as the growth rate, however it was stated that this is not an actual rate, but rather an index value, and there is not a compelling argument for using it as an actual growth rate. Others proposed summing the index values and then calculating each district's proportionate share of the total; however this method would not take into account the size of districts. Districts may have higher or lower levels of need, but in order to allocate the dollars, district FTES revenue must be part of the calculation.

After running some calculations and looking at ways to include the index values (or relative levels of need) and also adjust for district size and the amount of growth funding provided in the budget act, the group came up with a proposal. The formula takes the output of the index model and translates it into an allocation percentage that can be applied to a growth funding allocation to determine the amount of funding that each district is eligible to receive for growth. During the meeting, the group did not have data on district's FTES revenue; instead they used FTES counts but agreed that the formula should actually consider FTES revenue. After the meeting, the calculation was completed using FTES revenue to determine the growth funding that each district would be eligible to receive.

There are a few steps involved to get from the index value to the district's actual growth funding allocation. A sample from the spreadsheet is shown below; the colored circles in the spreadsheet coordinate with the step that explains the calculation.

1. Sum the growth index values and calculate each district's percentage share of the total. Districts with more need based on the index model will have a higher percentage share of the total than districts with less need.
2. Multiply each district's percentage share of the growth index value (calculated above) by that districts FTES Revenue. This produces an FTES revenue score which is the district's share of the total index values, adjusted for FTES revenue so that districts with more FTES revenue (larger districts) have a higher score.
3. Sum the FTES revenue score values and calculate each district's percentage share of the total. This percentage represents the portion of the total growth funding pot that each district should be eligible for. It is based on the district's need (determined by the index model) and FTES revenue.
4. Apply the percentages calculated in step 3 to the total growth funding provided in the budget to determine the growth in FTES revenue that each district is eligible for. This example assumes that 2.75% growth is provided which translates to $140.4 million; since Allan Hancock is eligible for 1% of the total growth pot; they are eligible to for 1% of $140.4 million, which is $1.36 million.
5. The right column shows each district's year-over-year percentage increase, if they are able to earn all the growth funding for which they are eligible. Districts with more need (based on the

index model) will have a higher increase than those with less need (compared to the state average).

District	Growth Index Value	% of Growth Points	13-14 FTES Revenue (as of P2)	FTES Revenue Score (% Growth*FTES Revenue)	% FTES Rev Score	% FTES Rev Score applied to Growth ($140.4M)	District Increase over 13-14
ALLAN HANCOCK	2.7	1.3%	$40,373,971	533,487	1.0%	$1,359,423	3.4%
ANTELOPE VALLEY	4.8	2.4%	$48,474,654	1,166,714	2.1%	$2,973,000	6.1%
BARSTOW	4.8	2.4%	$10,822,398	256,174	0.5%	$652,778	6.0%
BUTTE	4.2	2.1%	$47,940,707	1,001,286	1.8%	$2,551,459	5.3%
CABRILLO	1.0	0.5%	$49,269,068	245,007	0.4%	$624,323	1.3%
CERRITOS	4.0	2.0%	$72,633,614	1,444,781	2.6%	$3,681,565	5.1%
CHABOT-LAS POSITA	1.2	0.6%	$73,463,369	423,773	0.8%	$1,079,850	1.5%
CHAFFEY	4.6	2.3%	$55,427,331	1,273,416	2.3%	$3,244,896	5.9%
CITRUS	2.2	1.1%	$48,059,335	525,781	1.0%	$1,339,785	2.8%
COAST	1.0	0.5%	$136,963,502	681,097	1.2%	$1,735,560	1.3%
COMPTON	3.8	1.9%	$27,356,920	511,516	0.9%	$1,303,436	4.8%
CONTRA COSTA	1.1	0.5%	$123,840,943	677,425	1.2%	$1,726,202	1.4%
COPPER MOUNTAIN	5.3	2.6%	$7,078,216	185,850	0.3%	$473,579	6.7%
....		...			...		
Statewide		100.00%			100.00%		

❖ **Workgroup Discussion of Weighting**

The workgroup started with a model that weighted the three factors required in the trailer bill language (educational attainment, unemployment, and Pell) each at 25% for a total of 75% and the remaining two factors (participation rate and unfunded FTES) at 12.5% each, to make up the last 25%.

Members of the group stated that participation rate and unfunded FTES should be weighted higher than 12.5% since these measures really capture unmet need. Some also stated that unemployment should be weighted lower than 25% because when unemployment is high (during economic downturns), funding to community colleges goes down because there is less funding available. Others stated that unfunded FTES should be weighted higher than 12.5% to incentivize districts to favor access.

Ultimately the group decided to keep the formula as simple as possible and weight each of the 5 factors equally (at 20%) to ensure that the formula is simple yet diversified enough to address the unmet need of all districts.

- **Minimum for Small Districts**

  The trailer bill language states that districts are eligible for a minimum of 1 percent of current FTES or .5% of the statewide growth. For small districts, this could calculate to a very small number (possibly less than 10 FTES). This could make it difficult for these districts to add new programs, or serve new demand. The previous growth formula included a minimum of 100 FTES for small districts. Members raised this issue as a potential concern that may need to be discussed in greater detail as the new growth formula is implemented.

- **Formula Factors as of FY2015-16**

  The agreed upon factors with equal weighting are as follows:
  1. Educational Attainment- (Percentage in the district without a college degree)
  2. Unemployment- (Percentage in the district who are unemployed)
  3. Pell (Percentage in the district receiving a Pell grant)
  4. Participation rate (Percentage in the district attending CCC)
  5. Unfunded FTES (Three year average for districts that had more than 1% in all three years.)

- **Next Steps**

  The next step is to prepare a report on the new growth allocation model which will be presented to Chancellor Harris as a recommendation. Bonnie will work with Dan Troy from the Chancellor's Office to draft the report. Once approved, the report on the new growth allocation model will be presented to the field at the ACBO fall conferences in October. Dan Troy, Bonnie Dowd, Ann-Marie Gabel and Jeff DeFranco will be panelists at the fall ACBO conference. Bonnie will also serve as the presentation facilitator. Dan will discuss with Chancellor Harris and the Chancellor's Office will draft the PowerPoint presentation on the growth allocation formula for Bonnie, Ann-Marie and Jeff's input in advance of the conference presentation.

- **Upcoming Meetings**

  - October 10, 2014 9:30-2, Lunch provided by the Chancellor's Office
  - November 14, 2014 9:30-2, Lunch provided by the CCLC

- **Topics to be Addressed at Upcoming Meetings**

  - New Centers and Colleges- funded first out of growth dollars? Base?
  - Faculty Obligation Number (FON)

- How should stabilization and restoration be handled? Will the formula impact the current process?

❖ **Attendees at the September 5 Meeting:**

- Bonnie Ann Dowd – San Diego CCD
- Sharlene Coleal – Santa Clarita CCD
- Theresa Matista – Los Rios CCD
- Kathy Blackwood – San Mateo CCD
- Teresa Scott – Yosemite CCD
- Peter Hardash – Rancho Santiago CCD
- Vinh Nguyen – Los Angeles CCD
- Jeff DeFranco – Lake Tahoe CCD
- Sue Rearic – Grossmont-Cuyamaca CCD
- Theresa Tena – Community College League of California (CCLC)
- Rita Mize – 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
- Mario Rodriguez – CCC Chancellor's Office

Attended by phone:

- Tom Burke – Kern CCD
- Ann-Marie Gabel – Long Beach CCD