California Community Colleges
Advisory Workgroup on Fiscal Affairs
March 6, 2015 Meeting Notes

- **Actions Taken**

The workgroup voted to approve the January 23, 2015 meeting notes with some small changes. The notes will be updated accordingly and posted to the Chancellor's Office website under the "Workgroup on Fiscal Affairs" section of the Finance and Facilities Division homepage.

- **Growth Formula**

Members of the workgroup, as well as stakeholders in the field, have voiced concerns to the legislature and the Department of Finance that the growth formula created in response to the trailer bill language has significant problems and should be amended. The Department of Finance and legislative staff have indicated resistance to pushing the formula off for another year; however, they have given the Chancellor's Office the opportunity to modulate the formula while remaining within the constraints of the language. The trailer bill language requires that a new growth formula be in place starting in fiscal year 2015-16, so the Chancellor's Office and the Workgroup have been looking at alternatives that will meet the requirements of the language while also being a better fit to address the system's actual demand for access.

The group discussed the difference between unmet need and underserved populations. Unmet need refers to a district that does not have enough funding to meet enrollment demand. Underserved relates to districts with a higher proportion of disadvantaged students. The group will revisit these terms and consider more clearly defining them.

One idea presented to legislative staffers by the Chancellor's Office was to allocate 85-90% of growth funds to districts proportionately, so that they all received the same growth rate (similar to workload restoration). The remaining 10-15% would be in the form of grants to districts with a high proportion of disadvantaged students that have enrollment demand. Leg staffers were not receptive to this proposal, perhaps, in part, due to the fact it would require a change to the statute.

The group reviewed another methodology that involves identifying a district's target population based on two factors of need (e.g., modified adult population, unemployment), and then modifying the output based on whether or not the district is actually growing. Districts with greater target population need would initially earn a higher growth rate, however, the second part of the calculation would reduce those that are not growing and reallocate those funds to districts that are growing. The purpose behind looking at whether or not districts are growing is to ensure that we do not have a situation where the districts receiving the bulk of the growth funds are not able to grow and those that do have demand are not allocated sufficient growth funds to meet that demand. This model has the benefit of favoring districts based on the need factors but also alleviating situations where funds would inappropriately be allocated to districts without sufficient enrollment demand to utilize the funding.

The model starts by determining a district's Total Computational Revenue (TCR) and distributing the available growth funding proportionately to all districts based upon the TCR. The example provided allocated $140M in growth received in 2014-15 which provided each district with 2.77% in growth. Then, each district's actual growth is compared to the amount of growth they were eligible to receive to assess their ability to grow.

Next is the calculation of district "need." The sample used factors of weighted adult population at 66.67% (what portion of the state's target adult population resides in the district) and unemployment at 33.33% (what portion of the state's unemployed individuals reside in the district). Other factors such as educational attainment, poverty, Pell, or others could be used as well - this is one decision the group will need to make. The group will also need to determine what the split between the factors should be. The factors are compiled to determine a district's need as a portion of the statewide total. The need is compared to the district's "access" which is the percentage of students in the state the district is actually serving.

After calculating district need and access, the model distributes 50% of the growth funding available in the upcoming year ($106M in 2015-16) proportionately based on access (equal percentage for all districts) and 50% based on need (only those districts that have a need that is greater than their current access qualify for a portion of these funds). These two amounts are summed to determine the total amount of growth funding each district would qualify for.

The last part of the model adjusts each district's share up or down based on whether or not they actually grew in the previous year. The result is the total amount of growth funding for which a district is eligible in the upcoming year.

Members stated that this formula may be a slight improvement over the previous formula created but is still not where we want the system to be long term. Other members expressed concern that this revised formula disadvantages some districts from where they would have been under the original formula. Some proposed using different factors, such as poverty or Pell, when calculating district's need. Others voiced that an unintended consequence of this formula could be that districts that can't grow will never have a chance to because they will be adjusted down based on the fact that they didn't grow in the previous year.

It was reiterated that the legislature is more interested in district's community factors rather than district-driven factors. They want to look at who is in the community, not who is coming to the college. They want the colleges to reach out to disadvantaged community members and bring them into the college. To meet this goal, the state should likely consider funding outreach efforts directly, such as the "I Can Afford College Campaign".

Members requested that the Chancellor's Office run some more simulations, two that include poverty and/or Pell and adult population and two that include unemployment and adult pop as the factors that determine district need. It was also suggested that the model use 2013-14 Recal data rather than 2014-15 P1 since P1 may be less accurate. Members requested that the details behind the Target Population figures be shared at the next meeting so that they could garner an understanding of what it actually represents. The group agreed that a conference call may be needed to review the simulations before the March 27th meeting if there is a large variance between the simulations. The group also requested that the new simulations be sent out in advance of the meeting on Friday so that they would have a chance to review them before the meeting.

- **Allocation Methods for the $125M Base Allocation Funding**

The 2015-16 Budget provides $125M for increased operating costs. The budget language on the $125M is relatively open ended:

$125 million shall be used to adjust the budget formula pursuant to Section 84750.5 of the Education Code to recognize increases in operating costs and to improve instruction.

This increase to general purpose funding is much needed after years of foregone COLAs and the looming increases to college STRS and PERS costs. DOF's proposal does not specify how to allocate the $125M increase; it could be put into increased base allocations, or distributed based on FTES, or some other method. Mario Rodriguez presented seven possible scenarios for allocating the $125M to the districts.

Option 1: As $125M is approximately a 2.15% increase for the system the first option presented would increase basic allocations by 2.15% and FTES rates by 2.15%. This is similar to the method used to distribute COLA.

Option 2: This option would provide an extra increase for rural districts by doubling their basic allocation. The remaining dollars would be allocated in the same manner as option one; however the increase would be approximately 2.05% to the basic allocations and FTES rates.

Option 3: Option 3 would allocate 100% of the $125M based on FTES (workload) rates.

Option 4: Option 4 would allocate 100% of the $125M based on increased basic allocations.

Option 5: Option 5 would allocate 50% of the funds based on FTES (workload) rates and 50% of the funds based on increased basic allocations.

Option 6: Option 6 would allocate the $125M to districts based on the number of full-time faculty a district employs.

Option 7: Option 7 would allocate the $125M based on districts STRS and PERS annual required contributions as estimated by the Chancellor's Office.

The group reviewed simulations of each of the options and discussed the pros and cons of each. Some voiced that we should retain the current relationship between the small, medium, large and rural base allocations since there was a lot of work that led to those rates being established during the development of SB 361. Some members recommended either Option 6 or Option 7 stating that the primary push for this funding was to assist districts with the increasing PERS and STRS obligations; therefore it would make sense for the allocation to be based on faculty/retirement costs. Others stated that this funding is not just for PERS and STRS costs but also to make up for lost purchasing power and increased operating costs during the economic downturn years when districts received no COLA increases, and, for that reason, Options 6 and 7 may not be the best formulas for allocating the funds. Some members were concerned option 4 would upset the equalization established among the districts and may not be an equitable way to distribute the funds.

After reviewing the options, the group consensus was leaning toward Option 1. Members thought that Option 1 seemed to be a good balance between getting funding for PERS and STRS and some funding for lost COLAs. The group wanted to continue the discussion at the March 27th meeting so members unable to attend the March 6th meeting, especially the small district representative, would also have an opportunity to weigh in on the options as presented previously.

- **SSSP Match**

Bonnie stated that there are still many questions from the field regarding the SSSP match and what is being proposed for 2015-16 and asked Dan if he could provide some clarification related to the SSSP match requirement the Chancellor's Office is considering for 2015-16. Dan reported that currently, there is a required local match of 2:1 for SSSP funding. In 2014-15, $200M was provided in SSSP funding statewide, requiring a local match of $400M. Regardless of the increase in SSSP funding in 2015-16, the required match is intended to remain at $400M. The actual ratio amount will depend on the dollars provided in the final 2015-16 budget; however the dollar amount of the required local match will not increase above the 2014-15 level of $400M in total for SSSP.

Some members stated they are having trouble even making the 2014-15 match requirements because of compliance issues with the 50% law and may end up having to send funds back. It was recommended that we collect information on how many districts fear they will have the same problem and therefore, unable to accept 2015-16 SSSP funding to determine whether the proposed changes to the local match requirements need to be further revised.

- **Next Steps**

Given the time constraints and the need to get a formula in place for 2015-16, the workgroup agreed that the Chancellor's Office should move forward in working with legislative staff to discuss some of the options/concepts discussed today related to potential changes to the original growth formula in order to ensure that that a modified growth formula works more effectively for some districts while also meeting the intent of the law. During the March 27th meeting, the workgroup will review the growth simulations as well as the simulations for the $125M base allocation increase and make a final recommendation to Chancellor Harris. VC Troy further indicated intent to present recommendations to a broader group of stakeholders to gather input and build system consensus.

- **Upcoming Meetings**

March 27th, 9am-3pm Lunch provided by ACBO
April 10th, 9am-3pm (tentative), Lunch provided by the Chancellor's Office
May 1st, 9am-3pm, Lunch provided by CCLC
June 4th, 9am-3pm, Lunch provided by ACBO

- **Attendees at the March 6, 2015 Meeting:**

  - Bonnie Ann Dowd – San Diego CCD
  - Ann-Marie Gabel – Long Beach CCD
  - Sharlene Coleal – Santa Clarita CCD
  - Theresa Matista – Los Rios CCD
  - Kathy Blackwood – San Mateo CCD
  - Sue Rearic – Grossmont/Cuyamaca CCD
  - Doug Roberts – Sonoma CCD
  - Vinh Nguyen – Los Angeles CCD
  - Fred Williams – ACBO President (non-voting member)
  - Ryan McElhinney – CCLC
  - Dan Troy – CCC Chancellor's Office
  - Diane Brady – CCC Chancellor's Office
  - Mario Rodriguez– CCC Chancellor's Office
  - Natalie Wagner – CCC Chancellor's Office