Funding Community Colleges for ALL Californians' Future

An Area 1 Community of Practice Whitepaper

Area 1 Community of Practice
White paper
February, 2018

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Introduction

We applaud both the Governor and Chancellor for their vision to help revitalize and transform the California Community College's founding principles of Access and Success. The call for an Online Community College, made by the Governor, and actively supported by the Chancellor, will ideally provide Access to higher education for many Californians who would otherwise shun a more traditional avenue. Our colleges, due to our rural location and geographical challenges, have developed many innovations in distance learning which target all segments of our dispersed populations – from traditional certificates and degrees to targeting job enhancement and employment pathways. It can make our FTES distribution abnormal, and make our institutions more reliant on distance education learning options, but it serves the needs of our communities.

The Governor's identification of a new funding formula which rewards Success provides us as educators a way to highlight our students' transformational academic achievements, and enables California Community Colleges to demonstrate our mission fulfillment as comprehensive, dynamic, and results-oriented institutions of higher education which prepare the workforce of today (and tomorrow), as well as prepare many Californians academically and socially to successfully transfer to university. The purpose of this white paper is to delve deeper into the issues surrounding adequate and effective funding, and how potential funding models impact rural community colleges. This isn't a simple matter of holding institutions harmless during funding model transitions, but rather a more fundamental factual representation of the funding challenges that occur in rural community colleges.

Area 1*	Area Size (sq. miles)	Population (2016 est.)	Density
ALL COUNTIES TOTAL	**44,672**	**1,065,749**	**23.9**
California	***163,696***	***39,071,323***	***238.7***

*The colleges represented here are: Butte College, College of the Redwoods, College of the Siskiyous, Feather River College, Lake Tahoe College, Lassen College, and Shasta College.

The area our colleges serve represents **27.29%** of the entire state, but the population we serve is only **2.73%** of the state's total population. Therefore, the opportunity cost to recruit, enroll, educate, and impact such a dispersed and isolated service area is significantly more expensive than the state average.

Background: The Requirement

The Institutional Effectiveness Partnership Initiative (IEPI) convened a meeting of the Far North Community of Practice (CoP) in December 2017 to identify issues important to the continuing success of community colleges in the region. Chief Executive Officers (CEO), Chief Business Officers (CBO) and Chief Instructional Officers (CIO) comprised most of the attendees. One of the key issues discussed was the current community college apportionment-funding model. A result of the discussion was the agreement to develop a paper recommending policy and funding changes aimed at providing long-term fiscal stability and preserving the service to our students and communities by small rural colleges.

Analysis of Issues/Effects

Increasing educational attainment over the coming years will require altering the way community colleges in California are funded. It is the belief of this Community of Practice (CoP) that there must be a change in the methodology used by the California Community College system to better support the state's small rural community colleges and our successes in being innovative to increase our reach in our districts; providing equity in educational opportunities and student success; and positioning ourselves to further increase completions, successful transfer, and workforce development and career preparation vital to the economic development of the Far North of California. Clearly, rural colleges play an important role in providing access to communities that are typically more geographically isolated from higher education; yet our unique challenges to fulfill our missions locally cannot be forgotten or ignored in formulating the new community college funding model. We do appreciate that two members of the funding formula workgroup are from our Area 1; and that one of the CEOs is part of this CoP.

Issue 1: Desensitizing Funding Formula to Enrollment Swings

The funding formula for California Community Colleges is based on the annual number of full-time equivalent students. However, this approach does not provide sufficient and stable year-to-year funding for small rural community colleges that experience frequent enrollment swings and/or are in areas of the state that experience slow or little population growth. Rural colleges are especially sensitive to enrollment swings. Many of our institutions fluctuate between being at or near our enrollment cap and entering stabilization for a year or two. As we look at an increasingly uncertain future requiring nimble responses to local and regional economic development needs and workforce development demands, it is anticipated that enrollments will become even more volatile. Implementing new programs, or rebuilding/retrofitting existing programs, impacts enrollments to a greater extent than the continuation of stable, well established, highly regarded and readily recognized programs.

Furthermore, when shifting from a 100% enrollment-based funding formula to one that includes performance-based funding, it is important to take into account what proportion of the total community colleges' and districts' funding is being factored on performance. Examining other states' forays into performance-based funding reveals that for most there are at least two mitigations to colleges' overall funding. First, the performance funding proportion to total funding ranges from a few percentage points, to 100% of the state's funding levels. Second, and more importantly, state funding levels typically range from approximately 50% to less than 20% of a college's total funding. Therefore, even with a high percentage attributed to performance-based funding, a college can maintain a majority stake in controlling budget variances year to year

Issue 2: Maintaining a Base Allocation to Preserve Basic Infrastructure

No matter the size of an institution of higher education, there are basic costs to provide the necessary infrastructure of an effective learning environment. Larger colleges and districts can benefit from an Economy of Scale unavailable to smaller, rural, one-college districts. For example, providing research for reporting and accreditation requirements typically means hiring one full-time staff member regardless of college size. Also, a multi-million dollar student information system is a relatively small proportion of a multi-college district budget; for one-college districts, these elements of basic infrastructure are either out of reach or can pressure the budget to greater risk or result in “breaking the bank” entirely.

Eleven community college districts receive the rural allocation as a part of their basic allocation funding. The rural allocation must be maintained at a minimum in the new funding formula if these districts are to survive the transition to the new funding formula. The rural allocation provides $1,145,692 to each of the 11 districts, $12.6 million total, and makes up an average of 6.7% of total computational revenue (TCR) for these districts. The rural allocation funding is vital to the existence of these colleges, particularly those with less than 2,000 FTES where the rural allocation comprises about 9% of their annual TCR. Without the rural allocation these colleges would likely be forced to reduce educational offerings and significantly reduce services for their communities. Due to the rural nature of these communities, they are already at a disadvantage concerning options and access to higher education. The rural allocation makes a world of difference for these districts to serve their communities.

Summary of Rural Districts (FY16-17 P2)

District		FTES	Rural Allocation as a percent of TCR
1	Copper Mt.	1,478	9.42%
2	Feather River	1,623	8.83%
3	Lassen	1,700	8.73%
4	Lake Tahoe	1,741	8.36%
5	Palo Verde	2,075	7.42%
6	Barstow	2,525	6.52%
7	West Kern	2,640	5.08%
8	Siskiyou	2,696	6.03%
9	Mendocino-Lake	3,092	5.44%
10	Redwoods	3,969	4.45%
11	Gavilan	5,302	3.69%

Issue 3: Increasing Granularity to the Continuation of Base Allocation

Currently, community college FTES funding thresholds are set as follows:

- 20,000
- 10,000
- <= 10,000

This level of granularity is insufficiently sensitive to the wide variations that exist in the actual cost of providing services by colleges across the State, particularly at the smaller end of the scale. In Area 1 we have colleges with about 2,000 students and others with 10,000 students (but only one generating 10,000+ FTES). All receive the same funding despite the increased demands of additional personnel, student supports, etc. We recognize that regardless of where thresholds are established there will be at least one of the 114 community colleges flirting on either side of that threshold. By increasing the granularity of these intervals, the funding adjustments can also be more gradual, reducing the impact for institutions when they potentially move back and forth over a threshold. Our analysis of this approach takes into account those cost differences in a more realistic and sustainable way.

Issue 4: Redefining the Concept of Completion in Performance Funding

Counting numbers of certificates and degrees is an archaic measure that denies the mission of community colleges and ignores the increasing diversity of students' intentions for attending our institutions of higher education. We believe a redefinition of completion to include transfer to another college or university, being transfer-ready, placement in the workforce, and promotion or wage gain in a position held by the student are just a few of the recognized successes that should be captured in a performance funding model.

Issue 5: Providing a Range of Performance Funding Measures to Capture Momentum Measures, Tipping Points, Continuous Quality Improvement, and Moving the Needle Achievements

Community college research for more than a decade has proven that the reasons some students succeed and other students fail comprise multiple factors. To accurately and fairly assess our institutions' performance, multiple measures need to be accounted for.

Additionally, with a shift toward outcomes and need-based components as a significant portion of state funding and away from a purely enrollment based approach, additional considerations should be made for smaller, more rural college districts. While all colleges have similar ways to assist enrolled students directly, not all colleges have similar demographics of their enrolled students, and not all colleges have similar locations conducive to metrics such as transfer to public four-year colleges.

Issue 6: Rewarding High Quality as well as Incremental Improvement in Subsequent Funding Years
A common mistake in other states' initial performance-based funding models was measuring progress from year to year and requiring perpetual improvement in measures. As a result, institutions that start as high performers have a smaller range for improvement than those that have been struggling with their success rates. Consistent high quality that experiences slight variations up and down must be acknowledged alongside colleges developing their capacity and performance.

Issue 7: Extending Colleges' Safe Harbor (hold harmless) Funding beyond the One Year Proposed
As nimble as community colleges are, our ability to adjust to new funding incentives without causing significant disruptions in funding levels is limited. Multi-year union contracts, program review metrics, institutional research dashboards, business office fiscal tracking processes, dynamic changing demographics, curricular design and program development mechanisms, etc. will be impacted by a new funding formula. Districts will need time to negotiate new contracts and implement new processes that will enable an orderly and successful transition.

Issue 8: Phase in or Defer the Implementation Timeline for the New Funding Formula
Based on the issues above and others that will be discussed in this section, implementation of the new formula beginning in July 2018 is ambitious. The new funding formula is still being defined and will affect the entire system in just a few months. There are immediate penalties such as loss of the COLA that will go into effect for the districts on the wrong side of the formula. There are many interpretations of the trailer bill language surrounding the new funding formula, however, what is clear is the potential to further separate the "haves" and the "have-nots" in the system. The difference in economies of scale between small and large districts combined with the potential to impact total funding in the out years demonstrates the need for caution in moving forward for all parties involved.

Per 2015-16 Exhibit E, 40 of the 72 districts were in the stability and restoration process. The simulations posted by the Department of Finance on February 20 projected that 38 of the districts would fall into Safe Harbor based on 2016-17 data. This leads to the potential that over half of the districts in the system could be held harmless in year one, and face declines in year two. Of the $176 million increase projected by the Department of Finance, about $81 million would go to 5 districts. Any funding formula that harms more districts than it helps will not lead to better educational outcomes for our state. Districts have been working under the assumptions of the current funding formula to restore FTES. The planning and investments in place for these districts, especially the small rural districts, to restore to their base FTES are resource intensive and take time to be effective. We need more information and time to plan in order to successfully move into the future.

Many districts have raised concerns about the accuracy of the data that will be used to drive the formula. The multi-year implementation of the Student Success and Support Program (SSSP) funding formula using MIS data should be a lesson to anyone attempting to implement a new funding formula. Extensive auditing of the data to ensure accuracy should occur before it is used to determine unrestricted funding.

Clause (i) in the funding formula trailer bill raises some questions. "The rates to compute the base grant shall equal 45.2 percent of the rates specified in paragraphs (1) to (3), inclusive, of subdivision (c), except for rates applied to FTES generated by students who meet the requirements of subdivision (a) of Section 84810.5 and special admit students pursuant to Sections 76002, 76003 and 76004 of the Education Code." What exactly will the funding rates be for incarcerated students and special admit students including dual enrollment? Will they be funded at the full rates as described in paragraphs (1) to (3) of subdivision (c)? Will there be some other multiplier for these populations?

Many states utilized phasing in strategies when implementing performance-based funding; for example, the percentage of the state's funding of community colleges started at a smaller proportion, increasing incrementally over a period of several years. While many of the issues raised above might ameliorate the implementation of a new funding model, utilization of delays or phasing in the implementation of the new funding model is more respectful of our institutions and more responsible governing than the abrupt timeline proposed.

Recommended Actions

First and foremost, the recommended modification of the base funding formula needs to recognize an institution's true base costs, including unique challenges small, rural colleges face, as identified and analyzed above. Any modifications must allow colleges to serve students, meet community needs, and address accreditation standards, state regulations and reporting, as well as meet targets for student success and equity – not just for one year, but for many years to come. The approaches recommended in this paper provide more stability in the funding formula from year to year regardless of enrollment swings or newly imposed performance and need-based funding, if those new elements are designed and implemented effectively.

The following recommendations should be included in the consideration of a new funding formula:

Issue 1 Recommendation: Desensitizing Funding Formula to Enrollment Swings

Use a three-year running average FTES trend in Fall/Spring and Summer terms instead of a single-year calculation to determine FTES caps and stabilization status/new cap alignment. This recommendation should help protect colleges from wide enrollment swings and economic downturns and provide stability in the new funding model.

Issue 2 Recommendation: Maintaining a Base Allocation to Preserve Basic Infrastructure

The best way to maintain college and district stability is to continue the base allocation provision in the existing funding model. Over time these allocations have recognized unique challenges for some colleges, like the rural college base adjustment. The $12.6 million total rural allocation is only 0.19% of the $6.5 billion TCR distributed statewide; however, this additional funding is crucial for the districts that receive it. The entirety of the rural allocation must be maintained to ensure the system preserves geographic access to our more rural areas that do not have abundant higher education options. Further recognition will be required under a new funding formula focused on success measures; for example, support of learning centers necessary in districts serving a dispersed population that may not rise to the current 1,000 FTES threshold for base allocation support.

Issue 3 Recommendation: Increasing Granularity to the Continuation of Base Allocation

Add granularity to the base funding model by implementing seven FTES funding thresholds instead of the current three levels:

Current	Proposed
	40,000
	30,000
20,000	20,000
	15,000
10,000	10,000
	5,000
<=10,000	<= 5,000

Hold each district's current base allocation harmless within these more refined levels. It is important that no college will lose at the outset (once safe harbor years are exhausted) by the revised funding formula.

Issue 4 Recommendation: Redefining the Concept of Completion in Performance Funding

A new definition of completion is an important step in the new funding formula proposal. For many years California community colleges have been successful in broadening the minds of policy makers to recognize success differently for community college students than for university students, where the degree is all that matters. Under recommendations for "Issue 5" below there is an example borrowed from

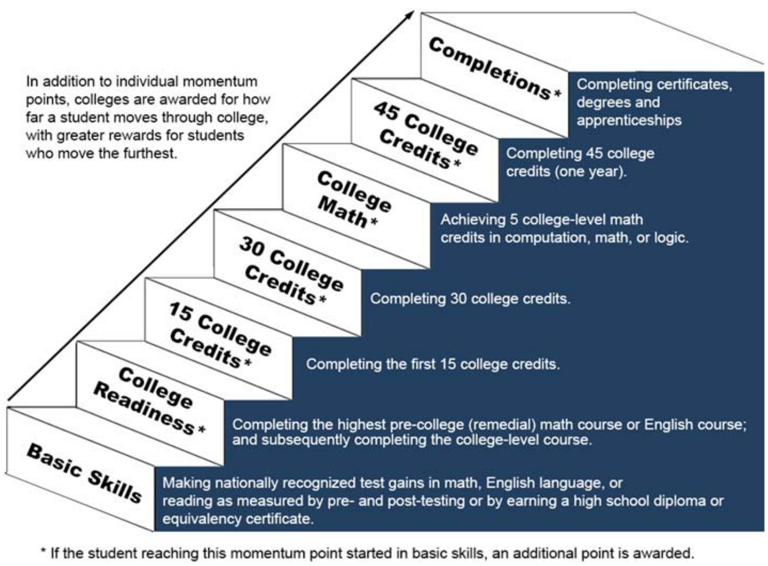
Washington State's performance funding measures – in it, they provide some ideas for reshaping our concept of how to recognize completion as a series of steps rather than the “on/off” switch of counting parchment paper.

Issue 5 Recommendation: Providing a Range of Performance Funding Measures and Needs-Based Considerations to Capture Momentum Measures, Tipping Points, Continuous Quality Improvement, and Moving the Needle Achievements

Concerning the proposed new funding formula, some of the many things that should be considered include the following:

- For success outcomes, the availability of local public universities within commuting distance of colleges. For example, the nearest UC to College of the Siskiyous is UC Davis, 221 miles away, and the nearest CSU is CSU Chico, 139 miles away. The attractiveness of ADT degrees may not be as great for students at some colleges as for others.
- For success outcomes, it is important to consider the many students served through CTE programs at colleges and the wage gains achieved when even a few courses are taken, and no credential is granted. This Skills Builder metric is important for colleges serving students who simply want to increase their wage earning potential as a primary reason for attending.
- For need-based consideration, using Pell eligibility and California Promise Grant recipients appears to be a promising measurement of student need.

Furthermore, as mentioned above in recommendations for “Issue 4,” the following diagram from Washington State depicts multiple completion recognition steps as momentum points that mark the progress of students towards success. With the insecurity challenges for today’s community college students (e.g., housing, hunger, etc.), applying these types of momentum points not only acknowledges our students’ obstacles to success but also rewards colleges when students accomplish these steps along their guided pathway of achievement.



Colleges earn achievement points, with funds attached, every time a student reaches a certain level of achievement. These levels of achievement are called momentum points because each achievement is likely to propel students to another achievement.

Student Achievement Indicator momentum points work in succession. The steps are:

- Momentum points start with basic skills students. Colleges earn points and funding when basic skills students make nationally recognized test gains in math, English language, or reading as measured by pre- and post-testing or by earning a high school diploma or equivalency certificate.

- The next momentum point is completing the highest pre-college (remedial) math course or English course; and subsequently completing the college-level course.
- The next momentum point is completing the first 15 college credits.
- The next momentum point is completing 30 college credits.
- The next momentum point is achieving five college-level math credits in computation, math or logic.
- The next momentum point is completing 45 college credits, which is one year.
- The final momentum point is completing certificates, degrees, and apprenticeships.

(excerpt from https://www.sbctc.edu/about/agency/initiatives-projects/student-achievement-initiative.aspx)

Issue 6 Recommendation: Rewarding High Quality in Addition to Incremental Improvement in Subsequent Funding Years

Once other states started to implement performance-based funding, their demand for continuous quality improvement in performance had unexpected consequences. Colleges ranked 1st or 2nd in the state for performance measures were not awarded performance credit because of insignificant declines in performance (e.g., one-tenth of one percent) from year to year. Consideration must be given to overall quality rather than the simplistic incremental improvement funding models prevalent in many states across the country. Bands of performance can be defined and constructed within the model to ensure consistently high quality and account for the diminishing returns of continuous quality improvement efforts once excellence is attained or even approached.

Issue 7 Recommendation: Extending Colleges' Safe Harbor (hold harmless) Funding beyond the One Year Proposed

While there is widespread agreement that a single safe harbor year is insufficient, it may be more difficult to determine what a reasonable length of time would be. Our recommendation is for three years of a safe harbor.

If this delay is deemed too long, an alternative would be a three-year transition after at least one 100% safe harbor year (though two may be more reasonable) from the current funding formula to the new. This recommendation would help more colleges be successful and mitigate some of the potential fallout once the new formula goes fully live. Many institutions have multiple year commitments – whether in the form of union contracts or vendor obligations – and a dramatic shift in funding calculation resulting in a significant reduction in funding without enough time to negotiate necessary adjustments to maintain balanced budgeting could prove catastrophic.

Issue 8 Recommendation: Phase in or Defer the Implementation Timeline for the New Funding Formula

There are many issues and concerns that have been identified that put the possibility of successful implementation of the new funding formula in 2018-19 in question. Delaying the implementation by one year will allow the Chancellor's office and the State to be better prepared to enact a funding formula that is equitable among the 72 districts. It would also allow the numerous districts in stabilization or restoration to make adjustments heading into 2018-19 knowing that it was going to be a baseline year for future hold harmless provisions. If not a full delay, a greater phase-in approach would be beneficial.

We offer two suggestions for a greater phase-in approach. The first, as discussed in issue 7, is extending the number of hold harmless years from one year to three years. A second option would be to phase in the percentages of the impact of the supplemental grant and the student success grant. Instead of beginning with 25% (supplemental grant) and 25% (student success grant) in year one, increase the percentages related to those areas over time. These could start at 10% and 10% in year one and ramp up to the full 25% and 25% over a period of two to three years. This would create a smoothing effect while bringing forward the new formula. There are many approaches that could be done to make a better onramp for the entire system into the formula. It is understood that there will be winners and losers as the formula is implemented. We should not be in a situation that has more losers than winners, if that is the case the students of the system will be the losers.

An issue that is of concern to all 72 districts is the 2.51% COLA in the Governor's budget. Delaying the implementation of the funding formula for a year would provide access to the COLA to all districts. If the funding formula is implemented immediately, an option would be to apply the COLA to all districts on top of the total funding calculation regardless of hold harmless status. A 'COLA for all districts' approach would allow every district to get a year over year increase. With rising PERS/STRS rates and other inflationary costs, districts being held flat funded is not being 'held harmless' as it will require cuts and other adjustments in the districts that receive no year-over-year increases.

A one year delay will allow for an extensive audit of the data, the need for which was made apparent through the implementation of the SSSP funding formula. There are various interpretations of the trailer bill that are being presented by various workgroups. A one year delay will allow for recommendations to be made and equitable changes to be enacted without a rush to implement a new funding formula. As currently written, the new funding formula will have real consequences in about four months with a revised formula slated to come out in May, less than two months before the fiscal year in which it will be active.

Conclusion

Whatever final form the new funding formula takes, those of us who lead small, rural colleges recognize that with a smaller funding base, and fewer students available to offset reductions in funding caused by a new funding model either by intent or unexpected outcomes, changes in our bottom line apportionment amount to proportionally greater impacts to our small institutions. We strongly support a new funding formula that takes into consideration the needs of every institutional category in the state, from the largest urban colleges to the smallest rural ones. We believe it is possible to create a new formula to fund California Community Colleges for ALL Californians' future, so that the students of every one of our colleges across this great state can have their educational opportunities, and their goals, within their reach.