



# LEAGUE ISSUES BRIEF

*A publication to assist local districts in understanding & responding to statewide issues under review within the League or in the Chancellor's Consultation Process. Provided to CEOs for distribution to and discussion with trustees, staff and others, as appropriate.*

December 12, 2003

## ISSUE

### **Is there system-wide support for a new funding allocation mechanism for California Community Colleges?**

## BACKGROUND

### **Why is a new allocation formula needed?**

Since 1991, community college funding has been allocated by a complex mechanism known as program-based funding. While this formula was intended to establish a higher level for community college funding, the formula was not used successfully to determine the level of funding needed by the colleges, but was used only to allocate funds. Thus, after twelve years, the level of funding varies from district to district and the colleges are not able to serve all the students seeking classes.

A new allocation mechanism is being considered at this time for several reasons:

- Internal demands – There are at least three major areas in which funding has been especially inadequate for district needs. These are: equalization, growth, and noncredit funding rates. Each affects different districts and each has become a significant problem in recent years.
- The state's economic cycle – Community colleges have suffered significant cuts in recent years; this is the time to revise the formula so that future funds are allocated in a way that addresses present inequities.
- The current visibility of the system – Over the last two years, community college funding has been a focal point in Capitol budgetary discussions. Virtually every discussion of Proposition 98 or related issues includes vocal support from legislators seeking assurance that community college interests are considered.
- Changes in leadership provide a unique opportunity – Governor Schwarzenegger has promised that he would propose that legislators fully fund Proposition 98 for community colleges. If the legislators were to do so, this new mechanism could be fully funded with the new funding directed to address significant inequities.

### **What new funding formula is under consideration?**

The formula under consideration is a new allocation mechanism that uses concepts derived from several community college funding studies drafted over the last five years. Its significant advantages include:

- Fully equalizing credit rates among districts over five years;

- Restoring access through growth funding so that colleges will be able to serve students coming to them;
- Increasing the noncredit rate and tying it to the K-12 rate so that colleges can serve noncredit students more effectively;
- No reduction in funding for any district.

(Chief business officers have been provided with information on how this formula would affect their districts. For further information and calculations, go to <http://www.ccleague.org/funding>)

**Will the proposed formula address equalization?**

Yes. The proposal uses the basic allocation structure proposed in the Newmyer-Dymally report. That basic structure has been amended to recognize the additional costs of operating CPEC-approved centers and large single-college districts. Beyond the basic allocation, the proposal would equalize marginal funding (i.e., the average funding rate districts receive after computationally deducting the basic allocation from prior year’s funding) per full-time equivalent student (FTES) over a five-year period. At the end of that time, 68 districts will be within \$100 per student of the second-highest district, thereby achieving equalization and eliminating the need for ongoing equalization funding. (The highest district will continue to be West Kern, a small district with historically significant local revenues.)

**Will the proposed formula address growth and access?**

Yes. This proposal would provide an infusion of growth funds (5% in 2004-05, 4% in 2005-06, and 3% for the remaining three years of the equalization phase-in) to correct the access gap created over the last eighteen months by the low level of growth funds and mid-year cuts. Growth funds will be allocated at the target rate (the credit rate within \$100 per student of the second-highest district) for all districts. To restore access, districts will be eligible to restore enrollment to the 2002-03 actual enrollment level. The proposal does not change the calculation of individual district growth rates.

**How will the formula address noncredit disparities?**

Under the current formula, the K-12 adult education rate continues to increase faster than the community college non-credit rate, and noncredit programs and services for students in community college service areas are funded less than those in K-12 service areas. This proposal will increase the community college noncredit rate to the K-12 adult education rate in its third year of operation (2006-07) and tie it to the K-12 rate to avoid future erosion.

**Does this allocation formula eliminate categorical programs?**

No. The formula under consideration does not eliminate categorical programs. The only change in categorical funding occurs with folding current Partnership for Excellence (PFE) funds into the base so they will receive annual cost-of-living adjustments. There are no other changes which would affect categorical programs.

**What are the elements of the formula?**

- 1) The formula will provide a basic allocation for each district. That allocation will be \$4 million for single college districts with more than 10,000 FTES; \$3 million per college in multi-college districts as well as single college districts with less than 10,000 FTES; and \$1 million per eligible CPEC-approved center.
- 2) Each district’s base funds will be increased by its share of the prior year’s PFE funds.

- 3) Marginal funding (i.e., credit funds after computationally deducting the basic allocation from the prior year's funding) per credit FTES will be equalized over five years (or sooner if the budget allows) using the Newmyer/Dymally basic allocation structure.
- 4) Growth will be calculated at 5% for 2004-05, 4% for 2005-06, and 3% for the remaining three years of the phase-in of equalization. In using this growth money, districts will be eligible to restore enrollment to the 2002-03 actual enrollment level. This will correct the access gap created over the last 18 months and avoid penalizing districts which had unfunded enrollment in 2002-03 and were forced to drop these additional students in the current year. These funds will be allocated at the target rate (the newly-equalized rate within \$100 per FTES.)
- 5) Noncredit rates will start at the current community college level of \$2113 per FTES and rise to the K-12 rate by 2006-07. In the years thereafter, the community college noncredit rate will be equal to the K-12 rate and will rise with it.
- 6) Districts will retain student fee revenue for all nonresident students and other students served for whom state apportionment is not provided.
- 7) There will be a continuous appropriation for apportionments to ensure that, if the state budget is delayed, cash payments for essential programs are uninterrupted and property tax shortfalls will be backfilled.

**Can this proposal be funded within the Proposition 98 guarantee?**

Yes. During the current year, community colleges will receive approximately 10.0% of Proposition 98 funds. The statutory level is 10.93%; in negotiations with the Education Coalition several years ago, agreement was reached on a compromise amount of 10.6% for community colleges. If this proposal were fully funded, its cost would range from a low of 10.06% (2004-05) to a high of 10.41% (2009 -10) of Proposition 98 funds; these levels are lower than the percentage of funds received by community colleges in the best years of the 1990's. To the extent community colleges are successful in making progress toward the previous agreement level, other community college funding elements above the basic proposal would be funded through the normal budget process.

**Will this approach increase the amount of funding for community colleges?**

Yes. This proposal addresses allocation needs of community colleges to achieve equalization among districts, provide additional growth funding, and increase in noncredit rates to the K-12 rate. To achieve these allocation goals, additional funding will be necessary. However, this proposal does not address the qualitative issues contained in program-based funding.

**Does this proposal Fund the Real Cost of Education?**

No. While this proposal does not fund the Real Cost of Education at more than \$9,000 per FTES, it at least solves major inequities in three important areas. This proposal is phase I in terms of changing our funding allocation mechanism. A second phase to get the real cost of education funded will be undertaken as soon as the first phase is complete. Given the fiscal condition of the state at this time, the outcome would not be successful if both phases were attempted to be implemented at the same time.

## TIMELINE

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|-------------------------------|---|
| <b>December 15 – February</b> | The League receives positions of the local districts                                    |
| <b>February 19</b>            | Proposal is presented to Chancellor’s Consultation Council                              |
| <b>March</b>                  | Board of Governors considers proposal   |
| <b>March – June</b>           | Passage is sought in Legislature for implementation as part of the 2004-05 state budget |

## LOCAL ACTION SUGGESTED

CEOs are encouraged to share this information with their trustees, CBOs and administrative staff as well as local consultation groups to determine if there is support for the new funding allocation mechanism for California Community Colleges as described in this paper and in more detail at <http://www.ccleague.org/funding>. CEOs are asked to notify the League office by **February 17** about whether or not they can support this proposal so that it can be forwarded to the Consultation Council, Board of Governors and Legislature.