

## FUNDING FORMULA WORKGROUPS

### DRAFT - RECOMMENDATIONS

MARCH 14, 2018

**An effective California community college apportionment funding model will meet the following principles:**

- Ensure access to quality public postsecondary education statewide
- Recognize and support enhanced access and success for underrepresented and economically disadvantaged students
- Reward progress on relevant student success and equity metrics
- Support student efforts to reach academic and professional goals in a timely manner
- Support and reward transfer to any accredited public and independent university
- Strengthen Career Education for working Californians
- Moderate the effects of the formula on districts during a recession
- 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
- Is phased-in for a smooth transition to the new model

### Context

On January 10, 2018, Governor Brown released a 2018-19 state budget proposal that included its *Student-Focused Funding Formula*. The framework for the new apportionment model includes District **Base Grants** contingent on FTES enrollment comprising **50 percent** of the formula; **Supplemental Grants** based on the number of low-income students districts enroll reflecting two factors: 1) enrollment of students who receive a College Promise Grant fee waiver; 2) enrollment of students receiving a Pell Grant. The Supplemental Grants comprise **25 percent** of the total. **Student Success Incentive Grants** include: 1) the number of degrees and certificates granted; 2) the number of students who complete a degree or certificate in three years or less; 3) funds for each Associate Degree for Transfer granted by the college. Student Success Incentive Grants comprise **25 percent** of the total. Finally, during the first year of implementation districts would be held harmless to 2017-18 levels.

The Governor maintains that the current enrollment-driven formula fails to capture the comprehensive mission of California's community colleges (CCCs), and the countercyclical nature of district enrollment. Moreover, as of late February 2018, 32 districts are in stability, and there has been approximately \$80 million of unused growth funding during the last two years. Furthermore, the Board of Governors seeks a funding formula that aligns with the aspirational goals in the *Vision for Success*.

In late January, Chancellor Oakley requested the Chief Executive Officers of California Community Colleges (CEOCCC) Board convene a small group of CEOs to make recommendations for a new formula by mid-March. Chancellor Oakley also requested the standing Workgroup on Fiscal Affairs, who has been analyzing this issue since September 2017, to review and provide input to the recommendations provided below in order to share additional considerations for a new funding formula.

## **Recommendations**

Through adoption of a new funding formula, policymakers have an opportunity to encourage not only a greater focus on success, but also to prioritize equity and inclusion. Properly structured and adequately funded, a new funding model has the potential to move to a more accountable and stable system, ensuring that students have access to affordable, high-quality community colleges.

One essential element of effective implementation and sustainability of a funding formula concerns ongoing research and analysis. Consistent, data-informed analysis offers policymakers and practitioners a means to better understand the consequences of the metrics and the overall efficacy of the formula. It also permits the necessary adjustments and updates to the funding mechanism that legislative and higher education oversight entities throughout the US currently employ. Such analysis and review is especially important in a state with such a wide-ranging diversity of districts, regions, communities, and student populations, and one in which billions of dollars in state resources are in play. To that end, it is recommended that Chancellor Oakley establishment a process for an annual review and analysis of the funding formula and, beginning in fiscal year 2019-20, a subsequent report on findings to the Board of Governors by March of each year. This key recommendation set a plan in place for an equity-focused funding model while enabling necessary adjustments to meet the principles outlined above for an effective funding model.

### ***Framework***

Central to the recommendations herein is the recognition that persistent attainment gaps cannot be measured in a vacuum. In order to achieve an integrated and comprehensive focus on the enrollment and success of economically disadvantaged and underrepresented students, this proposal advocates for a funding formula with two primary categories: Equitable Success and Access.

### **Equitable Success**

Outcome metrics that fail to prioritize equity forestall an opportunity to better serve underrepresented and economically disadvantaged students. Incentives to achieve equitable

outcomes for focus populations means integrating socioeconomic and success metrics. By advancing a framework integrating both the enrollment and the success of underrepresented groups, a new formula can ensure equity and inclusion are at the forefront of district planning. Socioeconomic and success measures should not be treated separately but rather collectively with equity and success integrated and interdependent. A comprehensive set of indicators recognizes the value a community college education can add to an individual's life through transferability to a four-year university, skill attainment, employment, and earnings. The Equitable Success portion of the formula considers progress, completion, transfer, employment, and earnings; and it recognizes the successful outcomes of underrepresented and economically disadvantaged students within those metrics. Moreover, economically disadvantaged students are more accurately defined by using the Carl D. Perkins Career and Technical Education Act definition<sup>1</sup> which considers factors found in various funding initiatives such as the College Promise Grant, Pell Grant, CalWORKS, and WIOA criteria.

### **Access**

A key principle of the Workgroups has been the protection of educational access for individuals across all regions of California. The current funding formula for California community colleges is based on the annual number of full-time equivalent students (FTES). However, this approach fails to provide stable year-to-year funding, especially for small or rural community colleges that experience frequent enrollment swings.

The Workgroup recommends a funding formula that supports access but shifts away from an overreliance on growth. Under the proposed Access portion of the formula, districts would continue to receive a Basic Allocation, base FTES revenue, and FTES growth funding adjusted by the annual COLA. In addition, FTES restoration would be provided in the same manner as in the SB 361 funding formula.

Beginning in the first year of implementation (2020-21), and in order to accommodate varying degrees of growth and decline, FTES apportionment would be allocated based on the higher of: (1) the current year FTES, or (2) a three-year average based on the total funded FTES of the most recent three years. Use of a higher current year FTES allows districts to immediately address student demand and have the resources to meet those demands. The use of a three-year average rather than a single-year calculation to determine FTES caps and stabilization status insulates districts against wide enrollment swings and economic downturns. More importantly, a three-year average offers stability for purposes of planning, implementing new programs, and the continuation of sustainable and highly effective programs. Such a calculation would eliminate

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<sup>1</sup> Carl D. Perkins IV defines economically disadvantage and special populations as: individuals with disabilities; individuals from economically disadvantaged families, including foster children; individuals preparing for nontraditional training and employment; single parents, including single pregnant women, displaced homemakers; individuals with other barriers to educational achievement, including individuals with limited English proficiency.

the need for a stability factor. In the first year of implementation (2020-21), the Workgroups recommend FTES from summer courses be assigned to the fiscal year in which the final day of instruction for the course had been held. In addition, the basic allocation for the number of colleges and centers at each district should be increased to adequately support the requisite operating costs associated with serving students.

### **Categorical Structure**

Categorical programs have also been an important consideration of the Workgroups. Within California community colleges, there are 27 categorical programs with 10 designed to serve low-income students. Acknowledging elements of the Legislative Analyst Office’s analysis, the Workgroups recommend a simplified and restricted program that supports accountability and local control. Specifically, the Workgroups recommend the integration of Student Success and Support Services, Basic Skills, and Student Equity into a restricted categorical known as the Student Equity and Success program. Key to this integration is the continued commitment to serving disadvantaged populations with equity-minded, student-centered services and supports. The restricted categorical structure enables the alignment of reporting metrics and maximizes services to students.

### **Using Metrics that Matter for Equitable Success**

The Workgroups addressed the metrics portion of the funding formula with the goals of keeping it simple, meaningful, equity-focused, and tied to student progress on an educational pathway. After considering an extensive list of possible data, five metrics are proposed: progress, completion, transfer, employment, and earnings. The formula would mirror, in many aspects, the 17% incentive funding employed by the Strong Workforce Program (SWP), with improvements based on experiences from the implementation of SWP, and some of the key performance indicators (KPIs) within the Guided Pathways framework. The formula uses data that are already collected and includes both credit and noncredit students. Points are assigned based on a student’s progression towards Equitable Success metrics. Districts track the same metrics for all students and are recognized for the successful outcomes of economically disadvantaged students within those metrics.

Specifically, the Equitable Success portion of funding incorporates the following:

- Measuring Transfers – Since the CSUs and UCs lack capacity for all CC transfer-ready students, the revised definition includes unduplicated transfer-prepared and students that transfer to any accredited four-year public and/or private institution. The Workgroup recognizes the concern over the lag time in collecting data from the National Student Clearinghouse (approximately 18 months), and the lack of control CCs have in ensuring transfer. The definitions of *transfer ready* and *transfer prepared* were discussed along

with the effectiveness of these measures. In the recommended approach, points are assigned to all transfers to any accredited four-year university with additional points for students who transfer within three years, (since not all students are able to attend a CCC full time).

- Employment and Economic Mobility – Evidence demonstrates a positive correlation between education attainment and wage increases, and that students can earn wage increases even during poor economic times. In data modeling for the 17% Committee, small and rural colleges fared better when employment and earnings outcomes were included (as opposed to just enrollment and completion figures). Employment includes every student and certificate or degree type. Combining employment with wage gains captures all types of jobs and skill building. Still, as with transfers to private institutions, there is a time lag in collecting the data.
- Capturing Momentum Points – With the implementation of Guided Pathways, it is important to reward colleges for improving student progress and persistence. The metrics for progress recognize critical student advancement prior to achieving completion outcomes.

## Implementation

To ensure effective implementation of this proposal, the Funding Formula Workgroups are recommending a tiered implementation process beginning in fiscal year 2018-19. A thoughtful transition process is consistent with the implementation of major education finance reforms over the last twenty years, including SB 361 and the K-12 Local Control Funding Formula. Specifically, the implementation timeline would include two years of program transition and a sequential five-year phase-in of the Equitable Success metrics. This allows districts to plan and make data-informed adjustments that enhance student success. During the program transition period, districts would be allotted time to implement important reforms designed to increase retention and completion. These programs include Guided Pathways, Assembly Bill 705, and the integration of reporting requirements for certain categorical programs. During program transition, no districts would receive less funding than they did during the prior fiscal year. Outcome-focused metrics would be implemented in year three as outlined in the Equitable Success metrics (see Appendix) unless the Board of Governors proposes new measures after extensive research and simulations. The percentage allocated based on the Equitable Success metrics would increase by 5% each year until full implementation in 2025. It should be emphasized that each 5% increase represents approximately \$400 million in system-wide funding, more than enough to stimulate systemic change. At full implementation, over \$2 billion would be dedicated to the metrics outlined in the Equitable Success category.



**Timeline**

| <b>Year 1: 2018-19</b>                             | <b>Hold Harmless to 17-18 with COLA</b>  |   |   |
|--|--|---|---|
|  | <ul style="list-style-type: none"> <li>One-time funds to recognize district performance under Equitable Success metrics</li> </ul>   |   |   |
| <b>Year 2: 2019-20</b>                             | <b>Hold Harmless to 18-19 with COLA</b>  |   |   |
|  | <ul style="list-style-type: none"> <li>One-time funds to recognize district performance under Equitable Success metrics</li> <li>Summer FTE assigned to the fiscal year in which the final day of instruction was held.</li> <li>Report on analysis of funding formula metrics due to the Board of Governors.</li> </ul> |   |   |
| <b>Implementation of Equitable Success Metrics</b> |  |   |   |
| Year   | Access Metrics   | Equitable Success Metrics                       | Estimated Equitable Success Dollar Amount |
| <b>Year 3: 2020-21</b>                             | <b>Access: 95%</b><br>3-year average   | <b>Equitable Success: 5%</b><br>3-year average  | \$419 Million                             |
| <b>Year 4: 2021-22</b>                             | <b>Access: 90%</b><br>3-year average   | <b>Equitable Success: 10%</b><br>3-year average | \$838 Million                             |
| <b>Year 5: 2022-23</b>                             | <b>Access: 85%</b><br>3-year average   | <b>Equitable Success: 15%</b><br>3-year average | \$1.3 Billion                             |
| <b>Year 6: 2023-24</b>                             | <b>Access: 80%</b><br>3-year average   | <b>Equitable Success: 20%</b><br>3-year average | \$1.7 Billion                             |
| <b>Year 7: 2024-25</b>                             | <b>Access: 75%</b><br>3-year average   | <b>Equitable Success: 25%</b><br>3-year average | \$2.1 Billion                             |
| <b>Full Implementation</b>                         | <b>75%</b><br>3-year average   | <b>25%</b><br>3-year average                    |   |

**Evaluation of Impacts of the Funding Formula**

*Regulations:*

A comprehensive review of the new Equity-Focused Funding Formula necessitates an analysis that includes the impact of regulations such as the FON and 50 percent law. To consider the Formula’s efficacy and any unintended consequences, we recommend an analysis be done in Years one and two, with recommendations due by June 2020. The Workgroups also identified the following policy areas for consideration:

*Future Post Implementation Evaluation & Analysis:*

- Final adjustments of Equitable Success metrics
- Impact on noncredit programs (non-CDCP)

- Reporting alignment within other categorical programs not identified in this recommendation
- Programs addressing the needs of older students (25 years and older)
- District basic allocations to better reflect fixed operating costs associated with serving students

During the Program Transition period, the Chancellor’s Office should evaluate the Basic Allocation for a college and center at a district; and, specifically consider providing funding at more frequent threshold levels, as opposed to the current increase range of 10,000 FTES for the three existing step levels. Increasing this portion of Basic Allocation minimizes a focus on growth and more appropriately moves each district towards a focus on success. Further, overall the Basic Allocation amounts provided to each district should be increased to better support and align with the fixed costs associated with operating sites and centers.

## Conclusion

The Governor’s proposal for a new funding formula offers a means to highlight our students’ transformational academic achievements, and enables California community colleges to demonstrate our efficacy as comprehensive and results-oriented institutions of higher education. Primary goals of the aforementioned recommendations are to protect postsecondary education access for economically disadvantaged and underrepresented students, reward districts’ intentional efforts to advance student success and completion, provide predictable funding to support achievement of these outcomes and fiscal stability to support college/district operational costs and sound financial planning, and to recognize and support the comprehensive mission and indispensable role of California’s public community colleges.

## Addendum – DRAFT Equitable Success Metrics

| METRIC  | DESCRIPTION  | ASSIGNED VALUE<br>(points) | ASSIGNED VALUE/<br>ECONOMICALLY<br>DISADVANTAGED*<br>(points) |
|---|--|----------------------------|---|
| <b>Progress</b><br>students who take more units are more likely to complete | # of students who completed 24 academic credits in one year  | 0.5                        | 0.75  |
|   | # of students who attained 48 CDCP contact hours in one year | 0.5                        | 0.75  |
|   | # of student who persisted to next term (Fall to Spring)     | 0.5                        | 0.75  |

|  |   |   |  |
|--|---|---|--|
|  | # of student who complete a credit course   | 0.5   | 0.75   |
| <b>Completion*</b><br>longer term awards yield stronger economic outcomes over time<br><br>*Highest award student completed per year | # of students who earned a credit certificate or degree   | Cert 12-18 units = 0.5<br>Cert 18 to <30 units = 1<br>Cert 30+ units = 2<br>Associate Degree = 3<br>Bachelor Degree = 4 | Cert 12-18 units = 0.75<br>Cert 18 to <30 units = 1.5<br>Cert 30+ units = 3<br>Associate Degree = 4.5<br>Bachelor Degree = 6 |
|  | # of students who earned a CDCP certificate   | CDCP certificate <288 hours =1<br><br>CDCP certificate 288 hours or more = 2  | CDCP certificate <288 hours = 1.5<br><br>CDCP certificate 288 hours or more = 3  |
| <b>Transfer</b><br>faster time to transfer supports economic mobility  | # of unduplicated transfer prepared and students who transferred to any accredited four-year institution                                      | 3   | 4.5  |
|  | # of unduplicated transfer prepared and students who transferred to any accredited four-year institution in 3 years                           | 4   | 6  |
| <b>Employment</b><br>stable employment signals that students learned necessary skills  | # of non-transfer students who exited college and were employed one year later  | 2   | 3  |
| <b>Earnings</b><br>improved earnings that lead to living wages are evidence of economic mobility                                     | # of non-transfer students who earned an award or were skills builders, exited college, and improved their earnings within one year           | 2   | 3  |
|  | # of non-transfer students who earned an award or were skills builders, exited college, and attained the regional living wage within one year | 2   | 3  |