



## 2018-19 Budget Trailer Bill Analysis February 2018

### 2018-19 BUDGET TRAILER BILL SUMMARY

The Budget Trailer Bill Language is the implementing statute needed to effectuate the proposals in the annual Budget Bill. The Governor’s proposed 2018 Budget Trailer Bill was released on February 1. This year, the community college Trailer Bill proposal includes policy implementation details and requirements for a Student Centered Funding Formula, among other proposals.

Below is the League’s summary of the Student Centered Funding Formula. The League’s analysis of the proposal is included along with a summary of recommendations from the LAO.

### Student Centered Funding Formula - Trailer Bill Language:

**SUMMARY:** The Governor’s 2018-19 budget proposes \$175 million for the transition to the proposed Student Centered Funding Formula. The Trailer Bill language statutorily establishes the program under §84750.4 of the Education Code to “encourage access for underrepresented students, provide additional funding in recognition of the need to provide additional support for low-income students, reward colleges’ progress on improving student success metrics, and improve overall equity and predictability so that districts may more readily plan and implement instruction and programs.” The new funding formula represents the most significant change to community college funding in over a decade.

### Need for a New Funding Formula:

The current funding model for California Community Colleges provides strong incentives to annually enroll more students. An enrollment-based approach can deter districts from adopting approaches that can result in fewer units taken such as competency-based models or co-requisite models. Further, the current funding model runs counter-cyclical to the economy. This proved especially challenging during the Great Recession when access was limited due increased demand from individuals seeking retraining coupled with declining budgets. As demographic trends have changed, enrollment across California has waned with fewer students moving through the K-12 to community college pipeline. Net systemwide growth in 2015-16 turned out to be only 0.4 percent and declined again in 2016-17 to 0.3 percent. Last year, only 1/5 of districts met their enrollment targets.

### Governor’s Proposed Funding Formula Framework:

The Governor proposes moving away from an enrollment-driven formula to one that considers three components: enrollment (50%), low-income student enrollment (25%), and student success (25%).

Formula Framework	Calculation of Grants
50%: Base Grants	<ol style="list-style-type: none"> <li>1. Minimum funding level = 2017-18 FY</li> <li>2. Basic allocation based on number of colleges and centers</li> <li>3. Allocation based on credit, CDCP, and non-credit FTES</li> <li>4. Base grants equal to <u>45.2%</u> of credit, CDCP, or non-credit FTES rates</li> </ol>

	<p>FTES Calculation:</p> <ul style="list-style-type: none"> <li>• The higher 2017-18 rate will be used to determine district base grant.</li> <li>• In 2018-19 FY, districts must decide which year (2018-19 or 2019-20) to apply summer FTES.</li> <li>• Summer shift of FTES ends after 2018-19.</li> <li>• Decreases in FTES result in revenue reductions the year after the initial year of enrollment decline</li> <li>• Up to three years of restoration</li> </ul> <p>Growth:</p> <ul style="list-style-type: none"> <li>• Percentage allocated in annual budget</li> <li>• Growth formula approved in 2015-16</li> <li>• Growth attributable to supplemental grants</li> <li>• Growth attributable to student success incentive grants</li> </ul>
<p><b>25%: Supplemental Grants</b></p>	<ol style="list-style-type: none"> <li>1. Supplemental grant equal to <u>25.07%</u> of credit rate multiplied by number of California College Promise Grants (formerly BOG Fee Waiver) recipients</li> <li>2. Supplemental grant equal to <u>40%</u> of credit rate multiplied by Pell Grant recipient cohort data</li> </ol> <p>Other:</p> <ul style="list-style-type: none"> <li>• Number of students is defined by number of students served by district</li> <li>• Utilizes prior year data</li> <li>• Decreases in number in BOG or Pell result in revenue reductions the year after the initial year of decline</li> </ul>
<p><b>25%: Student Success Incentive Grants</b></p>	<ol style="list-style-type: none"> <li>1. Student Success grant equal to <u>104%</u> of credit rate multiplied by number of Chancellor’s Office approved degrees, certificates, and awards granted by the district</li> <li>2. Student Success grant equal to <u>120.2%</u> of credit rate multiplied by number of students who complete a degree, certificate, or transfer in 3 years or less based on Scorecard cohort data</li> <li>3. Student Success grant equal to <u>18.35%</u> of credit rate multiplied by number of ADT degrees granted by the district</li> </ol> <p>Other:</p> <ul style="list-style-type: none"> <li>• Utilizes prior year data</li> <li>• Decreases in number of success measures result in revenue reductions the year after the initial year of decline</li> </ul>
<p><b>Hold Harmless</b></p>	<ol style="list-style-type: none"> <li>1. Minimum 2018-19 = 2017-18 FY</li> <li>2. Beginning in 2019-20 and each year thereafter, funding level determined by multiplying <u>district’s new FTES</u> by the associated FTES rates received in 2017-18.</li> </ol>

**Proposed Structural Changes to Apportionment:**

Hold Harmless

Currently, the state provides a one-year hold harmless provision allowing districts to claim the higher of their current-year or prior-year enrollment levels. The new funding formula maintains a one-year hold

harmless for enrollment in the Base Grant and also includes hold harmless provisions for the Supplemental Grant and the Success Grant portions of the funding formula. Hold harmless provisions are applied individually to each category rather than to a district's Total Computational Revenue (TCR).

The new funding formula holds per-student funding rates harmless at 2017-18 levels. This level becomes the basis for 2019-20 funding and beyond.

Fiscal Year	Hold Harmless Options		
<b>2018-19 Only</b>	The amount calculated based on the new funding formula	<b>OR</b>	The amount of apportionment funding they received in 2017-18
<b>2019-20 and Future Years</b>	The amount calculated based on the new funding formula		The district's FTE enrollment in that year multiplied by its 2017-18 per-student funding rate

Summer Enrollment Apportionment

Under the current formula, districts have local flexibility to decide which year to attribute summer FTES - current year or the subsequent year. The Governor's proposal would eliminate this flexibility beyond 2018-19. By fiscal year 2018-19, district must decide whether their summer term FTES will apply to 2018-19 or 2019-20.

**Data Used to Build the New Funding Formula:**

Calculation of Base Grant	
	% Applicable
Basic Allocation:	
▪ Same as 2015-16	Fixed
Credit FTES (2017-18 rate)	45.2%
Non-Credit FTES (2017-18 rate)	45.2%
CDCP FTES (2017-18 rate)	45.2%
Supplemental Grant	
	% Applicable
College Promise Grant (BOG) Headcount (2016-17 data)	25.07%
Pell Cohort (2016-17 data)	40.00%
Student Success Incentive Grant	
	% Applicable
Award Counts (2016-17 data):	
▪ Degrees/Certificates/Transfer recognized by Chancellor's Office	
▪ Does not include transfer-prepared	104.00%
3-Year Cohort Completion (new scorecard measure)	120.20%
ADT Counts (2016-17 data)	18.35%

**Condition for Receiving Supplemental Grant and Success Grant:**

The Trailer Bill includes subdivision (p) which states that in order to receive Supplemental Grants and Success Grants a district must align its masterplan with the six goals included in the *Vision for Success*, adopted by the Board of Governors in fall 2017. District masterplans shall include benchmarks and actions for measuring progress.

If a district is identified as needing assistance to make progress towards meeting its goals, the Chancellor's Office may require a district to use up to 3% of its apportionment funding for technical assistance and training.

**Implementation of New Funding Model:**

The proposed Student Centered Funding Formula Trailer Bill included several provisions monitoring implementation of the new formula. These include the following requirements:

- Chancellor's Office is tasked with developing minimum standards for the types of certificates and awards that count towards the Success Grant.
- Chancellor's Office shall submit a report to the Legislature and Department of Finance by July 1, 2022 on progress colleges have made in advancing the *Vision for Success* goals.
- The report will include an overview of any technical assistance or other actions the Chancellor's Office has taken to help Districts improve outcomes for historically underrepresented populations.
- Chancellor's Office is expected to consult with stakeholders over the next few months to develop a proposal to consolidate existing categorical programs and provide greater flexibility for districts.

**League Analysis:**

The Governor's proposed new funding formula transitions to a student-outcomes model in the 2018-19 fiscal year. We find that an enrollment-driven formula fails to capture the comprehensive mission of CCCs and the counter-cyclical nature of college enrollment. The proposal recognizes funding will be necessary to transition to a new formula. Overall, the proposal has several policy merits that can ensure students reach their educational goals and sets a workable framework from which to build further recommendations. With funding implication upward of \$8 billion, an in-depth analysis is essential to ensure the correct student-focused metrics that builds on the strengths of our colleges, align with our mission, and sustain quality at each college in every part of California are used. As part of its analysis, the League focused on the follow: the district basic allocation, enrollment growth, hold harmless provisions, implementation, and success metrics.

- **Basic Allocation:** The new proposed funding formula maintains the basic district allocation at prior year levels. Consideration of adding the 2018-19 proposed COLA or an increase to the district basic allocation can add stability and account for a truer cost of operations.
- **Enrollment Growth:** To allow for long-term planning and quality program improvements, enrollment adjustments may be more effective if they are calculated based on a multi-year weighted average.

- Non-Credit Students: Noncredit students do not receive BOG or Pell and therefore are not considered in the Supplemental Grants.
- Hold Harmless: The ongoing hold harmless, beginning in 2019-20, is tied to 2017-18 funding rates. Additionally, the 2018-19 hold harmless is not adjusted for the 2018-19 proposed COLA. This is an area needing attention so that districts are truly held harmless.
- Implementation: For effective implementation statewide, the 2018-19 enactment may need to be accomplished in phases, consistent with major funding changes for other segments of education.
- Success Metrics: Currently, there is not direct correlation between the enrollment of low-income students and the success of low-income students. Further, the formula does not include progress measures. This is an area of potential attention that aligns with the intent of the formula.

#### **LAO Recommendations:**

- Governor’s proposal to allocate about half of apportionment funding based on enrollment seems reasonable.
- Base at least 20 percent of CCC funding on student outcomes to produce greater changes in institutional behavior. The LAO recommends, however, providing higher levels of funding for the outcomes of low-income students and expensive programs (such as some CTE programs).
- The LAO recommends collapsing the supplemental funding and categorical programs fund streams into one larger pot of funding intended to benefit low-income and underrepresented students.
- The LAO further recommends attaching few strings to the supplemental pot of funding. LAO thinks colleges could benefit from having flexibility in deciding exactly how best to serve these students. The Legislature could require districts to document in their annual budgets how they intend to serve low-income students.
- Task the Chancellor’s Office with monitoring key aspects of implementation to identify any problematic trends result from using the new funding model. In addition to monitoring the approval of new program awards (to ensure minimum standards are met), they recommend requiring the Chancellor’s Office to also monitor for grade inflation and ensure districts do not shift to cheaper and lower-value certificates.