California Community Colleges
Board of Governors

Item 4.3: Update on the Student Centered Funding Formula

Attachments: None
Date: November 18, 2019

Category: Governmental Relations
Type of Board Consideration: Information

Recommended By

Laura Metune, Vice Chancellor

Approved for Consideration

Eloy Ortiz Oakley, Chancellor

Issue

This item provides the Board of Governors (Board) with an update on the ongoing implementation of the Student Centered Funding Formula (SCFF).

Recommendation

This item is provided for Board information and discussion.

Background

Overview

In 2018, Governor Brown and the state legislature enacted the SCFF, a significant reform designed to 1) invest in progress toward the *Vision for Success*, 2) ensure that students who have faced barriers to success receive additional support, and 3) make resources as stable, predictable, and flexible as possible.

Governor Brown's administration worked with the Chancellor's Office to design the SCFF to reinforce the reforms initiated in the system in recent years, including Guided Pathways, with insights from the research on higher education funding formulas in other states. Further, the proposal built on efforts the Chancellor's Office led, in consultation with chief business officials throughout the system to reform the system's financial policies to acknowledge that an enrollment-based funding formula (like the former "SB 361" formula) can create incentives inconsistent with state goals, especially when traditional-aged college populations are in decline.

In enacting the SCFF, the state built measures of access for and success of high-needs students directly into the formula. This policy responds to clear challenges in our system that are a focus of the *Vision for Success*. For too many low-income students, outcomes lag behind their peers, with data that suggests that undocumented students face especially significant barriers to success, and that financial aid and support services targeted to these students significantly improves their opportunities for success.

Therefore, the SCFF includes a base allocation tied to enrollment, a supplemental allocation intended to better support for districts to support high-needs students, and a student success allocation based on outcomes. The SCFF's implementation emphasizes the need for districts to have sufficient time to respond to these incentives. It commits that all districts will receive at least their 2017-18 revenues, adjusted by changes in the cost-of-living, during a multi-year transition period.

Several factors might affect how a district's SCFF allocation compares to allocations under the state's former model. Below are explanations of these factors.

Ratio of Non-credit and Career Development and College Preparation (CDCP) Full-Time Equivalent Student (FTES) to Credit FTES: Because the SCFF funds non-credit and CDCP courses at higher rates compared to credit courses, districts with relatively high ratios of non-credit and CDCP FTES to credit FTES would benefit more significantly compared to the prior formula.

Ratio of Students in Correctional Facilities and Special Admit Students FTES to Other Credit FTES: Because the SCFF funds credit FTES for students in correctional facilities and special admit students at higher rates compared to rates for other students, districts with relatively high ratios of FTES attributable to those highlighted students compared to other credit FTES would benefit more significantly compared to the prior formula.

Ratio of Headcount to FTES: Because the supplemental allocation uses headcount, not FTES, districts with low ratio of FTES to headcount could benefit more significantly compared to the prior formula.

Ratio of High-Needs Counts to FTES: Because the SCFF incorporates counts of high-needs students (i.e., Pell Grant recipients, California College Promise Grant recipients, and AB 540 students), districts would high ratios of high-needs students to FTES would benefit more significantly compared to the prior formula.

Ratio of Outcomes to FTES: Because the SCFF incorporates counts of student outcomes, districts with high ratios of outcomes (and especially those outcomes weighted more significantly) to FTES would benefit more significantly compared to the prior formula.

The Chancellor's Office is responsible for successful implementation of the SCFF. The 2019-20 Budget Act extended the hold harmless period through 2021-22. This item provides updates on recent actions and future considerations. Throughout implementation, the Chancellor's Office has relied on advice from the Advisory Workgroup on Fiscal Affairs, coordinated with the CEO Funding Formula Taskforce, and supported the work of the SCFF Oversight Committee. During this presentation, the following college leaders will also share updates on their work on SCFF implementation:

- Valerie Johnson, vice chair, SCFF Oversight Committee.

- Kindred Murillo, chair, SCFF Oversight Committee.
- Joe Wyse, President, Chief Executive Officers of the California Community Colleges Board.

Updates on the 2018-19 Apportionment

The first year of the implementation of the SCFF has been challenging in large part because, as of estimates made in June, the available revenues assumed in the state budget for the 2018-19 fiscal year have been insufficient to fund the formula's costs in that year. Therefore, the Chancellor's Office has been required to apportion less to districts than they would otherwise expect using the SCFF calculations.

In managing within these fiscal realities, the Chancellor's Office determined, in consultation with Department of Finance and legislative staff, that the system's highest priority should be to maintain the "minimum revenues" commitment embedded in the SCFF. That is, all districts continue to receive revenues at least equal to their 2017-18 revenues adjusted by Cost-of-Living Adjustment (COLA) (with no reductions). In making this commitment, the Chancellor's Office has needed to moderate the year-over-year funding increases for districts that would have seen especially significant increases in 2018-19 under the SCFF. As of the second principal apportionment, a district's total revenues were constrained to be no greater than 8.13 percent (three times the COLA) more than the 2017-18 revenues. The constrained SCFF allocations were used to determine the statewide revenue need. The available revenues, then, were allocated to districts proportionately based on their share of the need above the "minimum revenues" amount.

In December 2019, the Chancellor's Office will make a final apportionment for the 2018-19 fiscal year. This apportionment will account for final reports on enrollment and revenues. Using our most recent estimates, an additional $103 million for 2018-19 to fully fund all districts. Should additional revenues be available at that point (e.g., if property tax revenues increase compared to the June estimates), the Chancellor's Office would first apportion funds up to the 8.13-percent constraint and then apportion funds to those districts for which the SCFF calculation remains above the constraint.

Changes Enacted in 2019 Budget

The 2019-20 budget amended the SCFF's structure to create longer-term stability and clarify the outcomes we want to encourage.

The changes adjust the transition by calculating funding rates so that, in 2019-20, 70 percent of funds would be allocated for the base allocation, 20 percent for the supplemental allocation, and 10 percent for the student success allocation. These rates would simply grow by COLA beginning in 2020-21.

Second, for the student success allocation, the SCFF now:

- Counts only the highest of all degrees and certificates a student earned in the same year and counts an award only if the student was enrolled in the year the award was granted. These changes respond to concerns that counting each award would have weakened incentives for colleges to implement Guided Pathways by extending their enrollment to generate additional awards and keep students' needs in mind by encouraging timely award of the credentials they have earned.

- Defines a transfer student as one who completed at least 12 units in the district and subsequently enrolled in a four-year university to better identify students who start in the community colleges with the goal of transferring to earn a bachelor's degree.
- Uses three-year averages of the factors to create greater year-to-year stability in allocations.

In general, these changes will reduce the counts of outcomes used in the student success allocation. As described, because the funding rates will be readjusted to ensure that the student success allocation constitutes 10 percent of the SCFF costs in 2019-20, the rates will be higher than they otherwise would have been had the changes not been made.

Finally, the budget extends the minimum revenue provision so that districts will receive at least their 2017-18 revenues, adjusted by COLA, through 2021-22. This additional year of hold harmless recognizes the significant work necessary for the Chancellor's Office and colleges to put the SCFF into place.

Future Activities

The law charges the SCFF Oversight Committee appointed by the Governor and Legislature with ongoing monitoring of the formula and continuing review of key policy questions. Specifically, the Oversight Committee is tasked with making recommendations as follows:

- By January 2020, on whether, and possibly how, districts should receive additional funds based on measures related to a student's status as a first-generation college student, a student's financial need (with emphasis on measures that consider differences in costs across regions), and a student's academic proficiency.
- By June 2021, on funding for non-credit courses and instructional service agreements and methods by which allocations could be adjusted in a recession.

The first year has offered clear lessons that are informing future activities. The Board of Governors' 2020-21 Budget and Legislative Request addresses some of these lessons. Most notably, the system must jointly and consistently advocate for a clear message: each year, the SCFF must be fully funded each year consistent with current laws.

The state can also take actions to reduce the uncertainty districts face within the same budget year. The request calls for legislation that allows adjustments to be made to state appropriations based on revised estimates of SCFF costs and revenues. That is, if costs are higher than budgeted or if offsetting revenues are lower than budgeted, appropriations must increase. Mid-year changes—like those many districts experienced this year—disrupt educational programs and create long-term challenges for districts' fiscal health.

Finally, the board asked for additional support for the Chancellor's Office to build up the capacity to administer existing programs and to help district respond to the reforms necessary to achieve the *Vision for Success*. This request includes a call for a new Research and Planning Unit, which could support districts in continuous improvement. It also requests funds for financial management, including a position in the College Finance and Facilities Planning Division for administration of the SCFF.

As we implement the SCFF, we must create urgency around a bigger picture: the historic lack of resources of our system – the states segment that serves the largest percentage of low-income and first-generation college students. Per-student revenues for the CCC remain far lower than those for the University of California, the California State University, and the state's K-12 schools. In the Local Control Funding Formula, the state acknowledged that students who have faced the greatest barriers to success require additional resources to achieve the state's goals. Yet, after high school, many will attend community colleges where they will have less access to resources than their typically more-advantaged peers. Our colleges are committed to meeting the needs of our state and achieving the *Vision for Success*. The state's appropriations should reflect a similar commitment to our system and the students we serve.

Attachments

None.