

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE and ASSEMBLY COMMITTEE ON HIGHER EDUCATION

**Assembly Member Kevin McCarty, Chair
Assembly Member Jose Medina, Chair**

**WEDNESDAY, APRIL 18, 2018
4 PM, STATE CAPITOL, ROOM 126**

CALIFORNIA COMMUNITY COLLEGES

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6870 CALIFORNIA COMMUNITY COLLEGES

The Governor's Budget includes \$15.3 billion all funds for the California Community Colleges in 2018-19, an increase of \$570 million, or about 3.9 percent, from the current year. Of this funding, \$6.1 billion million is Proposition 98 General Fund, and \$3.1 billion is from local property taxes. The chart below is compiled by the Legislative Analyst's Office (LAO) and summarizes proposed funding levels in the January budget.

California Community Colleges Funding by Source

(Total Dollars in Millions Except Funding Per Student)

	2016-17 Actual	2017-18 Revised	2018-19 Proposed	Change from 2017-18	
				Amount	Percent
Proposition 98					
General Fund ^a	\$5,473	\$5,682	\$6,066	\$384	6.8%
Local property tax	2,809	2,972	3,141	169	5.7
Subtotals	(\$8,283)	(\$8,654)	(\$9,207)	(\$553)	(6.4%)
Other State					
Other General Fund	\$404	\$469	\$509	\$40	8.6%
Lottery	233	231	231	— ^b	-0.1
Special funds	141	146	152	6	4.3
Subtotals	(\$777)	(\$846)	(\$892)	(\$46)	(5.5%)
Other Local					
Enrollment fees	\$458	\$459	\$413	-\$45	-9.9%
Other local revenue ^c	4,538	4,537	4,553	16	0.3
Subtotals	(\$4,997)	(\$4,995)	(\$4,966)	(\$29)	(-0.6%)
Federal	\$285	\$285	\$285	—	—
Totals	\$14,342	\$14,780	\$15,350	\$570	3.9%
Full-Time Equivalent (FTE) Students	1,134,809	1,135,081	1,136,813	1,732	0.2%
Proposition 98 Funding Per FTE Student	\$7,299	\$7,624	\$8,099	\$475	6.2%
Total Funding Per FTE Student	\$12,638	\$13,021	\$13,503	\$481	3.7%
^a Includes between \$500 million and \$526 million each year for the Adult Education Block Grant, of which more than \$400 million goes to school districts for their adult education services. In 2018-19, also includes \$212 million for high school career technical education program.					
^b Less than \$500,000.					
^c Primarily consists of revenue from student fees (other than enrollment fees), sales and services, and grants and contracts, as well as local debt-service payments. Amounts are estimates and do not include federal and state student financial aid for nontuition costs or bond proceeds for capital outlay.					

ITEMS TO BE HEARD

ISSUE 1: NEW FUNDING FORMULA

The Subcommittee will discuss the Governor's Budget proposal to change the apportionment funding formula from one based largely on enrollment to a formula based on enrollment, enrollment of low-income students, and degrees and certificates awarded.

PANEL

- Maritza Urquiza, Department of Finance
- Edgar Cabral, Legislative Analyst's Office
- Eloy Ortiz Oakley, Community College Chancellor

BACKGROUND

Community college districts primarily receive their revenues through general purpose apportionment funding. The 2017-18 budget includes \$6.2 billion for apportionments, representing 72% of all Proposition 98 community college funding. The remaining community college funding is distributed through categorical programs.

Apportionment funding is distributed based on per-student rates and is used to support various college activities. At least 50% of this funding must be used for classroom instruction. Typically, the Legislature provides apportionment funding in any given budget year that includes enrollment growth. For example, the 2017 Budget Act provided colleges with apportionment funding to accommodate 1% enrollment growth.

Governor's 2018-19 Budget Proposal

The Governor's Budget proposes creating a new apportionment funding model that accounts for overall enrollment, as well as low-income student enrollment and student performance. The new formula would include three components:

- Enrollment-based funding, which would comprise 50% of the formula;
- Funding based on a district's enrollment of low-income students, which would comprise 25% of the formula; and
- Funding based on the number of degrees and certificates awarded, as well as bonuses for degrees or certificates achieved within three years and for Associate Degrees for Transfer awarded. This portion would comprise 25% of the formula.

The chart on the next page compiled by the LAO displays the proposed formula and estimated 2018-19 amounts for each category.

Figure 31**Components of Proposed Funding Formula****Base Grant (\$3.2 Billion)**

- \$2,405 per credit and enhanced noncredit full-time equivalent (FTE) student.
- \$1,502 per regular noncredit FTE student.
- Allocation determined by the number of colleges and state-approved centers in the district.

Supplemental Grant (\$1.6 Billion)

- \$1,334 for each financially needy student receiving an enrollment fee waiver.
- \$2,128 for each first-time freshmen who receives a Pell Grant.

Student Success Incentive Grant (\$1.6 Billion)

- \$5,533 for each Chancellor's Office-approved degree, certificate, and award granted.
- \$6,395 for each student who completed a degree or certificate and/or transferred to a four-year institution within three years.
- \$976 for each associate degree for transfer awarded.

The Governor's proposal also includes a hold harmless provision relating to overall per-student apportionment funding and \$175 million Proposition 98 General Fund in extra funding to support the hold harmless provision. For 2018-19 only, districts would receive the greater of (1) the amount calculated based on the new funding formula or (2) the amount of apportionment funding they received in 2017-18. For 2019-20 and future years, districts would receive the greater of (1) the amount calculated based on the new funding formula or (2) the district's FTE enrollment in that year multiplied by its 2017-18 per-student funding rate.

The proposal also includes separate hold harmless provisions for each of the two elements of the supplemental grant and three elements of the performance grant. Specifically, if the amount calculated for any element of these grants is lower than the amount the district received in the previous year, the district would receive the amount calculated the previous year. These adjustments essentially provide districts with a one-year delay in reductions related to these elements of the formula.

As a condition of receiving supplemental and performance grants, districts would be required to align the goals in their educational master plans with the systemwide goals set by the Board of Governors last year.

LAO Recommendation

The LAO notes that the current funding model is simple to administer and generally tracks with district costs, but has drawbacks. The model does not have incentives for colleges to ensure students meet their educational goals and finish with a certificate or degree in a timely manner.

Given the concerns with poor incentives created by the enrollment-based funding model, the LAO recommends the Legislature consider reducing the share of apportionment funding that is based on enrollment and suggests the Governor's approach – 50% based on enrollment – is reasonable.

The LAO also recommends the Legislature consider allocating some portion based on performance – at least 20 percent. The LAO suggests additional performance metrics, however, such as higher levels of funding for the outcomes of low-income students and expensive programs, such as career technical education, that the Legislature considers a high priority.

The LAO also supports the idea of a supplemental grant for serving low-income students, but suggests the Legislature consider consolidating the supplemental grant with categorical programs aimed at supporting low-income students. The LAO notes this would require key decisions on spending requirements, as categorical programs have differing requirements than apportionment funding.

STAFF COMMENT

The Legislature has recently expressed interest in altering the current funding formula. Supplemental Reporting Language in the 2017 Budget Act asked the LAO to examine funding and services for low-income and first-generation college students and provide options for restructuring existing funding approaches, including whether a weighted student formula along the lines of the formula the state now uses for K-12 education would be effective. (The LAO report, provided to the Legislature in December, suggested enhanced oversight and reporting for UC and CSU on how they serve these students, and consolidating categorical programs or using a weighted student formula for community colleges.)

Additionally, the current formula is problematic for many community colleges, as low unemployment and a relatively stagnant college-aged population have depressed enrollment. Preliminary enrollment numbers for Fall 2017 show that only 22 of 72 community college districts increased enrollment compared to the previous school year, meaning a majority of districts face declining funding in future years.

However, restructuring how the state distributes more than \$6 billion in funding to a system that serves more than 2 million students is a massive undertaking and should be considered carefully. Any change will likely lead to some colleges receiving more funding than they would have under the current formula, and some receiving less. A Department of Finance report showing how districts would have fared in the 2016-17 budget year under the new formula, versus the current formula, found that 39 districts – more than half - would have received less funding were it not for the hold harmless provision. That provision, however, only lasts one year under the Governor's proposal.

As it considers this proposal, the Subcommittee should consider the following issues:

This proposal comes as colleges face increasing costs. A new formula will add uncertainty to college budgets during the next few years. At the same time, colleges are struggling to cover rising costs such as pensions, health care and utilities. For example, STRS costs for districts are expected to grow from \$416 million in 2017-18 to \$550 million in 2020-21, and PERS cost are expected to grow from \$283 million to \$362 million during the same period; this is a combined increase of statewide annual pension costs of \$213 million in three years.

The Subcommittee should consider how a new formula will impact colleges as they work to cover rising costs.

Is the base big enough? Since the Master Plan was created more than 60 years ago, community colleges in California have operated with access to higher education as their key mission. This proposal reduces financial incentives for overall access: per-student rates currently in place would be reduced by about half in calculating the base grant. This proposal's impact on overall access must be reviewed carefully.

A proposal by the Community College League of California suggests 75% of a new funding formula should be based on enrollment averaged over a three-year period, which would maintain access as the key priority but protect colleges from year-to-year enrollment fluctuations.

Should other student populations be considered in a supplemental grant? The Administration proposes 25% of apportionment funding be based on the number of low-income students a district serves, as determined by the number of students who receive a federal Pell Grant and the number of students who receive a fee waiver, which is now referred to as the California College Promise Grant. This supplemental grant both addresses the issue that low-income students may need more services and therefore cost more to serve, as well as providing an incentive for colleges to ensure access to students regardless of their ability to pay fees. It should be noted that not all low-income students apply for a Pell Grant or Promise Grant; some colleges may be serving more low-income students than these metrics might indicate.

Additionally, the Legislature in recent years has shown interest in colleges serving other students that may require more services, including first-generation college students, veterans, and foster youth. Consideration of a supplemental grant could include other student populations or metrics to measure low-income students.

Mixed reviews, some warning signs for performance-based funding. Performance-based funding in higher education is a growing trend, and while some states have shown such funding to improve some outcomes, most research indicates little change, and some research reveals problems that should inform this discussion. As many as 37 states have adopted some type of performance-based funding for higher education institutions. According to a 2016 paper by Nicholas Hillman, a University of Wisconsin assistant professor of educational leadership and policy analysis, 12 studies conducted on higher education performance-based funding found relatively little impact. A study of performance funding in Tennessee found improvement for full-time students but

negative impacts for part-time students, a warning sign for California community colleges, where more than 60% of students are part-time.

The LAO states that there is research showing that performance-based formulas affect institutional behavior: colleges adopt basic skills reforms, improve course articulation and transfer, increase the number of academic advisors, or offer other student support services. However the LAO also notes that in many cases, these institutional changes were being made as other statewide reforms in these areas were being implemented, such that isolating the effect of the performance-based formula is challenging.

Could performance-based funding lead to unintended consequences? In addition to being non-impactful, the Legislature should be wary of possibly negative consequences of performance-based funding. In Indiana, for example, universities became more selective and less diverse after performance-based funding was implemented. In Washington state, community colleges produced more short-term certificates but fewer associate's degrees, perhaps indicating an effort to chase more funding. A 2017 paper by a Seton Hall professor noted evidence that colleges have responded to performance-based funding by changing financial aid practices to recruit better-prepared students; that paper notes that bonuses for serving at-risk students can help to mitigate that issue. The LAO also notes that research indicates concerns related to weakening academic standards.

Community colleges serve many types of students with many types of educational goals. How can we ensure colleges are rewarded for successful outcomes for all kinds of students? Community colleges have many missions. And while the Legislature has in recent years focused largely on improving degree and transfer degree completion, many students attend community colleges with differing goals. For example, nearly one-third of students in Fall 2017 were taking less than six units. Over-emphasizing quicker time-to-degree might impact these students, and colleges with higher proportions of these type of students.

Are there other ways to encourage better outcomes? Should the Legislature consider some type of performance funding, there are many other activities or outcomes that could be measured. For example, the Faculty Association of California Community Colleges suggests an incentive grant that rewards colleges for increasing full-time faculty, counselor-to-student ratios, or increased part-time faculty office hours and wages and benefits. All of these activities can lead to better student outcomes. The LAO's suggestion that the formula give extra weight to degrees awarded to low-income students or degrees in high-cost CTE programs merits consideration. Other states have rewarded persistence, such as first-year students who are on track to a timely degree. The Strong Workforce program in the community college system includes some performance funding, such as student wage gains or other post-college employment metrics. The League proposal suggests performance funding based largely on the Strong Workforce program, with metrics including progress, completion, transfer, employment, and earnings.

In his paper, "Why Performance-Based College Funding Doesn't Work," Professor Hillman of the University of Wisconsin draws a comparison of performance funding with merit-based financial aid. Merit-based aid primarily benefits students who would likely already do well in college and therefore may not be the most efficient use of public resources. Similarly, performance funding may benefit institutions that already have the greatest likelihood to perform well. Hillman argues, therefore, for a need-based funding system that provides more resources to colleges serving the neediest students.