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

TUESDAY, MARCH 20, 2018
9 AM, STATE CAPITOL ROOM 447

CALIFORNIA COMMUNITY COLLEGES

ITEMS TO BE HEARD

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	Change from 2017-18 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 a 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, ort 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.

ISSUE 2: ONLINE COLLEGE

The Subcommittee will discuss the Governor's Budget proposal to create a new online community college. The proposal would allocate $100 million one-time and $20 million ongoing Proposition 98 General Fund to create and operate the college. The college would target working adults by offering short-term programs linked with workforce needs, and be administered initially by the California Community College Board of Governors.

PANEL

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

BACKGROUND

Online instruction is increasing throughout higher education. About 13% of California community college courses were online in 2016-17, compared to 5% in 2006-07. Forty-eight California community colleges currently offer fully online programs, according to the LAO.

The state has provided specific funding to California community colleges since 2013, when the Online Education Initiative (OEI) was created. The OEI is sponsored by the Foothill-De Anza Community College District, in partnership with the Butte-Glenn Community College District and its CCC Technology Center at Butte College. OEI funding – which totals $87 million in one-time and ongoing funding through the current year - has been used to develop online courses, develop a common course management system, and provide training and resources for faculty interested in developing online courses and online tutoring for students. In addition, OEI runs a course exchange, which creates a more streamlined process for students at participating colleges to take online classes from other participating colleges. Currently only six colleges participate in the course exchange. The Governor's Budget includes $20 million ongoing Proposition 98 General Fund for OEI in 2018-19.

Online Education Initiative	**Funding *(in millions)***
2013-14	$17
2014-15	$10
2015-16	$10
2016-17	$30
2017-18	$20
Total	**$87**

In the spring of 2017, the Governor requested that Chancellor Eloy Ortiz Oakley establish a community college that exclusively offers fully online degree programs. Chancellor Oakley convened a workgroup to assist in the development of a plan to provide three to five options. This endeavor is called “Flexible Options for Workers,” or FLOW. The workgroup consisted of 20 members, which included representatives from various colleges, the OEI, the chancellor’s office, the Legislative Analyst’s Office, faculty, the Department of Finance and the California Labor and Workforce Development Agency. This workgroup met twice: August 28-29, and on October 30th. In November, the Board of Governor’s (BOG) was presented with four options:

1. Create a FLOW unit with a statewide mission within an existing institution;
2. Establish FLOW as a consortium of colleges hosted by an existing institution;
3. Create a new FLOW district to develop and deliver fully competency-based programs;
4. Establish FLOW as an extension of the existing OEI.

The Board of Governors did not vote on which option it favored, but the Administration is proposing option three.

Governor's 2018-19 Budget Proposal
The Governor’s Budget proposes $100 million one-time and $20 million ongoing Proposition 98 General Fund to create a new online community college. Initially, the college would be run by the Board of Governors. The Board either could hire a Chief Executive Officer or give authority to the Chancellor to administer the college. By July 2025, the college would be required to have its own board consisting of five voting members (three appointed by the Governor, one appointed by the Speaker of the Assembly, and one appointed by the Senate Rules Committee) and two non-voting members appointed by the Governor.

The Administration states that its goal with this new college – which would be the 115^{th} in the system – is to target the 2.5 million working adults in California ages 25-34 with no or minor postsecondary credentials. The college is intended to assist this population and provide them with short-term credentials and certifications with labor market value, and sub-associate degree credentials.

The *Governor’s Budget Summary* states that the college’s initial focus would be to develop content and programs to provide vocational training, career advancement opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, health care and in-home supportive services, among other areas. The online college will also inform professional development opportunities for faculty and staff of the 114 colleges, including learning science, competency-based education, and other teaching and learning technologies. The Administration indicates that not all programs would be fully online. In pathways where hands−on experience is needed, the college would partner with other entities (such as libraries, other community colleges, and industry) to provide such experiences. The college also could establish partnerships with these or other types of entities to provide support services, such as tutoring.

The Department of Finance provided a breakdown of how the funding would be used, which is displayed in the chart below.

One-Time Funding *($100 million over 7 years)*	**Amount**
Technology Infrastructure *(Instructional technologies; personalization technologies ond architecture; workflow technologies; 24 x 7 help desk technology set up)*	$25
Research and Design Unit *(Demonstrotion pilots to test student learning, scalability, develop and deploy fully-supported virtual ond mobile labs; interactive workshops and student focus groups)*	$20
Core Functions *(Design of student-centered experience ond supports, faculty and staff supports, training, quality assurance, development of fee models, prior leorning ossessment, establish partnerships with employers and other entities)*	$23
Business Plan and Establish Accreditation	$5
Operations Development *(Development of business processes, legal support, initial and long-term staffing plon, development of metrics)*	$11
Scaling Efforts *(Support scaling efforts over the seven year start-up period, including specialized admissions and records services and financial aid and student support services)*	$16
Ongoing Funding *($20 million)*	**Amount**
Ongoing Technology Costs *(Annual licensing of technology, website ond related tools ond network support, maintenance and upgrade, ongoing training)*	$3
Program Pathways *(Pathway validation and development, content development and improvements, continuous assessment of student progrom pothwoys)*	$5
Salaries, Benefits, Administrative Costs	$11
Professional Services	$1

Trailer bill language requires the new college to meet certain program, administrative, and accreditation milestones within the first seven years. Most notably, the Governor's proposal requires the online community college to begin enrolling students by the last quarter of 2019, with at least 13 program pathways designed and validated by July 1, 2023.

The LAO prepared the following chart indicating tasks the college is charged with:

Figure 34

Specific Milestones for New Online Community College

The online community college is to meet the following milestones by the specified dates:

By July 1, 2020

- ✓ Develop a seven-year implementation plan, including a business plan and three program pathways.
- ✓ Develop internal business processes and establish outcome goals.
- ✓ Map the student experience, including recruiting, onboarding, instructional experience, billing, and entry into a job.
- ✓ Develop an accreditation plan.
- ✓ Create a statewide outreach plan.
- ✓ Define duties for instructional support and program development.
- ✓ Establish a process for recognizing prior learning.
- ✓ Enroll students by the last quarter of 2019.

By July 1, 2021

- ✓ Incorporate student feedback to improve the college's instruction, technology, and support services.
- ✓ Design and validate at least three additional program pathways.

By July 1, 2023

- ✓ Continue to enroll students into the college's program pathways and incorporate student feedback to improve the college's activities.
- ✓ Design and validate at least 10 additional program pathways.

By July 1, 2025

- ✓ Continue enrolling students into the college's program pathways.
- ✓ Incorporate student feedback to improve the college's activities.

LAO Recommendation

The LAO recommends improving existing online education and taking time to consider whether to authorize a new online college.

The LAO notes that the Administration does not provide a clear rationale for why a new community college is needed to address key community college problems, such as greater educational options for working adults lacking postsecondary credentials, greater access to online courses, innovation at the community colleges (such as incorporating competency-based components and measuring prior knowledge), and providing cheaper alternatives to for-profit colleges.

For example, the Administration has not provided any evidence that a new online community college will address the key barriers to higher education for working adults, and that those working adults who are interested in more education cannot access it through existing online or in-person community college programs.

Other LAO concerns include whether this population would succeed in an online setting, how industry partnerships would be developed through a statewide program given the regional nature of many industries, and the costs and time associated with creating a new college.

STAFF COMMENT/QUESTIONS

The Administration has focused on a critical access issue: how to provide higher education to working adults who do not have the time for a traditional college schedule. Many of these adults may attend private, for-profit programs, which can be costly and ineffective. Providing affordable educational opportunities to this segment of the population could be a key strategy for the Assembly goal of increasing degree production over the next 15 years. It also could boost underemployed and low-income adults into a living-wage job.

The Governor has sparked a much-needed discussion: community colleges are failing to serve this population and must launch innovative programs to meet a pressing need. However, the Subcommittee may wish to consider the following issues as it reviews this proposal:

Do we need to start from scratch? Creating a brand new college, even one without bricks and mortar, is expensive. The Governor proposes $100 million in one-time expenses to launch this new college. The Subcommittee may wish to consider whether expanding existing online programs would be a more efficient use of state dollars. A start-up college also has other concerns:

- A new college will not be accredited for several years, which would limit federal financial aid options for students and not allow students to transfer credits from the new college to existing, accredited colleges and universities;
- Trailer bill language states the governing board would eventually adopt state collective bargaining practices with employees, but not at first. The language does not set a deadline to implement collective bargaining;
- Districts and colleges are worried that a new college will draw students that otherwise would have enrolled in a local online program, thus hindering local programs' ability to grow and improve.

It's not clear the targeted population will succeed. As the LAO notes, studies find that individuals with a lower track record of academic success have worse outcomes in online courses compared to in-person courses. Given the target students under the Governor's proposal consist of those who have little or no postsecondary experience, an online setting may not be the most effective instructional approach for them. Additionally, data suggests significant achievement gaps in online courses. For example, a recent study conducted by Compton College found a 20-point difference in online course success rates between white and African-American students and about a 15-point difference between white and Hispanic students.

Studies done by Arizona State University of online versus in-person courses do show small or no gaps between online and in-person course success. A recent report concludes that "a properly supported online program performs comparably overall, and does not exacerbate disadvantages to underrepresented students." While current colleges have significant student support services on campus to aid students, it's unclear what types of services the proposed online college will have. The Administration has not stated, for example, whether categorical programs will be available to students at the new online college.

Can you really go to college on your phone? A report released in 2017 by the UC Berkeley Institute of Governmental Studies found that 87% of the state's households had broadband Internet connectivity at home, but of those households, 18% had smartphones as their only computing device. This is a significant number of Californians with either no broadband access at home, or only a phone. Many of the students targeted for this proposal may have an access issue.

Additionally, many programs will require hands-on experiences. Advanced manufacturing and child development programs – a few of the specific subject areas called out by the Administration for this proposal – would require partnerships with bricks-and-mortar campuses or industries, thus negating some of the advantages of an online program.

Proposal is counter to idea of regional workforce development programs. The Administration suggests the first programs offered by this college will likely be pathway programs tied to specific industry pathways. Much of the state's recent investments in workforce development programs – notably the Strong Workforce program and the Adult Education Block Grant – have focused on a regional approach to better align services and programs to regional workforce needs. This proposal is a departure from that approach.

Governance structure draws concerns. Unlike local college district boards, the Board of Governors is unelected: members are appointed by the Governor and confirmed by the Senate. Thus the new college may have less accountability than local colleges. Additionally, this new college would likely compete with existing colleges for resources, posing a potential conflict of interest for the board and the Chancellor's Office, which distributes funding and sets regulations for the entire system.

It also should be noted that trailer bill language gives the board the authority to set fees for new courses or programs. Community college fees are currently set by the Legislature.

As the LAO suggests, the Subcommittee may wish to consider which issues are most pressing and determine the most effective strategy to address them. Can colleges offer shorter-term programs that begin more frequently? Can the state incentivize colleges to develop competency-based programs that allow students to test out of courses based on previous work experience and thus complete programs more quickly? Should colleges improve marketing efforts to attract more working adults? Can regional Strong Workforce and Adult Education consortia work better with local industry to provide more online options?