VENTURA COUNTY
COMMUNITY COLLEGE DISTRICT

District Council of Administrative Services
(DCAS)

May 10, 2018 – 11:00 a.m.
District Administrative Center, Thomas Lakin Board Room

AGENDA

- Approval of Meeting Notes – April 19, 2018
- FY19 Tentative Budget Narrative
- Irrevocable Trust Workgroup
- District Reserve Analysis and Spending Plan
- Planning for Student-Centered FY19 Funding Formula
- State Chancellor's Office Recommendations on Funding

- Other Business

Next meeting(s)
9:00 a.m., May 31, 2018

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT

District Council on Administrative Services (DCAS)

District Administrative Center, Thomas Lakin Boardroom
Thursday, April 16, 2018
NOTES

Attendees:
Silvia Barajas, Vice President, Business Services, Moorpark College
Dana Boynton for Maria Urenda, SEIU Representative
Nenagh Brown, Academic Senate President, Moorpark College
Mike Bush, Vice President, Business Services, Oxnard College
Jennifer Clark, Interim Budget Director
Jeanine Day, Classified Senate Representative, Ventura College
Diane Eberhardy, Academic Senate President, Oxnard College
David El Fattal, Vice Chancellor, Business and Administrative Services
Nubia Lopez-Villegas, Human Resources Representative
Lydia Morales, Academic Senate President, Ventura College – Skype
Chris Renbarger, Classified Senate Representative, Oxnard College
Linda Resendiz, Classified Senate Representative, Moorpark College – Skype
Peter Sezzi, AFT Representative
Julius Sokenu, Vice President, Academic Affairs, Moorpark College – Skype

Absent:
Cathy Bojorquez, Vice President, Business Services, Ventura College

Recorder: Laura Galvan

Dr. Eberhardy called the meeting to order at 9:05 a.m.

APPROVAL OF MEETING NOTES

The meeting notes from March 15, 2018, were approved by consensus with a minor change.

Ms. Brown inquired about the agenda not reflecting two items for this meeting: reserves and planning committee for proposed funding formula change. Vice Chancellor El Fattal explained that these two items would be addressed at a future meeting.

FY18 P1 UPDATE

Dr. Clark distributed and reviewed the Budget Allocation Model for FY18. The rate per FTES increased and, therefore, increased overall revenue for FY18, which will be distributed through the Allocation Model in the current fiscal year.

GOVERNOR’S PROPOSED BUDGET

Vice Chancellor El Fattal explained there is a lot of discussion at the state level regarding the Governor’s proposed new student-focus funding formula. He inquired about recent emails indicating that faculty statewide groups are opposed to the new funding formula. Ms. Brown explained that faculty groups are supporting Medina’s new Bill AB2676. She explained that faculty is asking that the weaknesses in the proposed new funding formula be examined. Vice Chancellor El Fattal further explained that the Board’s subcommittee inquired about the process and discussions of the model at the state level. He explained that the Department of Finance estimated an increase of $8 million for VCCCD. Vice Chancellor El Fattal stated that he does not believe this number will be realized. Further, he has heard various numbers related to our District, including a $12 million increase as well as a deficit of $1.5 million. He is hopeful the May Revise will include more detailed information. Vice Chancellor El Fattal explained that the Board of Trustees has asked about the possibility of submitting an advocacy letter to legislators regarding the proposed funding formula.

FY19 BUDGET REVENUE

The FTES rate is $5,072, the same as the increased FTES rate for FY18. Vice Chancellor El Fattal explained that the FY19 Tentative Budget revenue includes a hold harmless plus a 2.51 percent COLA. Vice Chancellor El Fattal indicated that some proposed models do not include a COLA. At this point, the District is including COLA in the projected FY19 revenue. The FY19 Budget will be built using last year’s revenue plus COLA minus the FY faculty hiring funds of $1.5 million. Vice Chancellor El Fattal explained this is the appropriate revenue projection at this time. Projected revenue is $159.5 million for FY19.

FY19 BUDGET ALLOCATION

Dr. Clark explained the FY19 Allocation Model. She stated that the model includes a Board approved change for FY19. She explained that nonresident students are included in FTES allocation. Ms. Barajas suggested the numbers on lines 1 and 10 of the Model should be the same; however, Dr. Clark explained that the number will not match as Line 10 is adjusted due to credit and non-credit students, as they are funded differently. All students are included in Line 1 of the Model. The productivity phase-in was fully realized in FY18; therefore, there is no dollar amount indicated. The part-time faculty number includes the recent AFT negotiation settlement. A request was made for a list of part-time faculty that comprise the 147 at Moorpark.

DISTRICTWIDE SERVICES BUDGET

The District Services Budget was distributed and reviewed. Dr. Clark explained that the budget is very similar to what it was at the last DCAS meeting. Dr. Bush explained that he would like to see the Districtwide Services budget to hold firm. He stated that Oxnard College will experience a budget deficit for FY19 and cannot accept budget swings. Ms. Barajas expressed concern that Chancellor Gillespie previously indicated that DCAS approved the $150,000 marketing budget; when Vice Chancellor El Fattal informed DCAS of this change. There was a discussion about the increase in Org 82131 (Insurance Premiums). There was also a discussion as to why Police Services is charged to the Districtwide Services budget and not treated similarly to Human Resources and Business Services. Why isn’t it included in the District Administrative Services (DAC) budget? Also, there is a $3,350 increase to 82178

(Administrative System Software License Fees/Hardware Maintenance), which will be covered through contingency funds.

GREAT TEACHER SEMINAR FUNDS

Ms. Brown explained that the $5,000 per campus allocation has not increased for at least the past 11 years. For FY18 the expenses are higher due to the relocation of the conference to Asilomar, not Santa Barbara (due to mudslides). The Academic Senate Presidents are requesting a total amount of $30,000 ($10,000 each college); a total increase of $15,000. This increase will allow each college to send four faculty members to attend the Great Teacher Seminar. This request would be for FY19 travel (August 2018 seminar).

> Mr. Sezzi moved for approval; Dr. Bush seconded the motion. All in favor; no opposition.
>
> Motion approved.

There was a discussion regarding the scheduled maintenance match included in Districtwide Services. There was a question why this is included in the budget when the state is no longer providing these funds? Dr. Clark indicated the $150,000 allotment is transferred to the colleges in a 419 Fund.

POLICE SERVICES

Dr. Clark explained the Police Services budget expenditures for FY18. There is currently a fund balance of approximately $300,000. There was a discussion about *Operating Expenses and Services* cost; it is mostly for the third-party ticket processing company, DataTicket. Dr. Bush stated that there is a current vacancy at Oxnard College for a sergeant. Why does it have to be filled? What do they do other than cover the Chief in his absence? He further explained that things can be done now to reduce expenses. For example, stop having officers drive cars home, schedule officers for 5-8s instead of 4-10s. Dr. Bush explained coverage on campus is an issue. Most days he has one officer on campus. Another suggestion offered by Dr. Bush was to have the officers and lieutenants as employees of the college and the Chief and Assistant would support them and be assigned to Districtwide Services.

There was a discussion on whether or not the agenda item on the Personnel Commission had a salary impact.

Vice Chancellor El Fattal indicated that the schedules will be changed. He has discussed it with the Chief and will follow-up. These, and other issues related to operations and efficiencies, were discussed with the Chief and they will continue to be discussed.

UTILITIES

Dr. Clark explained the FY19 Utilities budget has been tightened-up since last month. The largest increase is for water. Vice Chancellor El Fattal mentioned an upcoming meeting with internal stakeholders and solar representatives. When installed, it is expected that solar will reduce electrical costs.

There was a discussion regarding projections and actuals. It is expected that water rates for Ventura will increase by $250,000 due to new meter installation.

FUND 693

Dr. Clark explained that projected self-imposed HRL/HR2 tax collections are expected to cover retiree benefit premiums. The fund is projected to cover expenses for FY18. However, because benefit costs are expected to increase by 8.5-9% for FY19, the fund may be short approximately $1 million. The current fund balance is approximately $128,000 and is projected to become $222,866 for year-end FY18.

There will be no contribution to the irrevocable trust for FY18 or FY19.

Meeting adjourned 10:43 a.m.

Next meeting agenda item(s)

- District Reserve Analysis and Spending Plan
- Irrevocable Trust Workgroup

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
TENTATIVE BUDGET NARRATIVE
Fiscal Year 2018-2019 (FY 19)

PURPOSE

Title 5, California Code of Regulations (CCR), Section 58305 requires the District to adopt a budget on or before the first day of July. The main purpose of the Tentative Budget is to serve as authorization for the District to incur expenses and issue checks in the new fiscal year until the Adoption Budget is approved. The Adoption Budget is an update to the Tentative Budget, reflects the Governor's signed State Budget, and must be adopted by the Board no later than September 15.

BACKGROUND

State of California

This Tentative Budget is based on the Governor's May Revision to his January State Budget proposal. The final state approved budget will be reflected in the District's Adoption Budget. {Insert May revise info here.}

Ventura County Community College District

Based on the Governor's January proposal, a student-centered funding formula, is being developed and/or legislated on a real-time basis and is in a high state of flux at the present time. As a result, the District's Tentative Budget reflects a hold-harmless which reflects the same apportionment revenue from the previous year plus a 2.51% COLA as presented in the January proposal. In this regard, the FY 2018-19 projected funded full-time equivalent student enrollment (FTES) is 26,039, a decrease of 69 FTES from the prior year. As a result of these factors, the District is projecting an increase of $1.4 million in the Tentative Budget compared to the budget for FY 2017-18.

GROWTH FACTOR

While the Governor's January proposal gives a 1% growth factor to the system, under the current growth formula the District's preliminary estimate for its constrained growth rate is 0.42%. However, because the State is still developing the details of its new funding formula, it is unclear to what degree growth will be funded. The hold-harmless provision in the Governor's Budget allows the District to develop its Tentative Budget regardless of the uncertainty created by the new funding formula. The Tentative Budget will be developed with the assumption that FY19 base FTES will be the same as FY18 actual operational FTES. The District does not anticipate any growth FTES.

The state-funded cap (the maximum number of FTES for which the state will pay) is allocated by the State at a district level as opposed to an individual college level. Internally, this state-funded FTES is then allocated to each college.

EDUCATION PROTECTION ACT (PROP 30)

Proposition 30, the Schools and Local Public Safety Protection Act of 2012, which was approved by the voters in November 2012, temporarily raised the sales and use tax by 1/4 cent and raised the income tax rate for high income earners ($250,000 for individuals and $500,000 for couples) to provide continuing funding for local school districts and community colleges. The quarter-cent sales tax increase ceased to be in effect in December 2016 and the income-tax hikes on the high-income earners were set to expire at the end of 2018. In November 2016, voters approved Proposition 55, California Extension of the Proposition 30 Income Tax Increase Initiative. This constitutional amendment extended the Proposition 30 personal income tax increases on incomes over $250,000 for an additional 12 years through 2030, in order to fund education and healthcare. It is estimated that the District will receive approximately $19 million in EPA funds for FY 2018-19 and will use those funds for faculty salaries and benefits.

EXPENDITURES

Salary and Benefit Costs

The Tentative Budget includes contractual step and longevity increases, with an annual on-going cost of approximately $1,050,000. The Budget also includes any collective bargaining unit settlements related to salary and health benefits. The District's Anthem Blue Cross health plan premiums for faculty increased by 8.89% this year. Blue Cross premium rates for the Administrator (managers), Supervisor, Confidential, and Classified group (ASCC) increased by 9.13%.

California State Teacher's Retirement System (STRS)

AB1469, enacted as a part of the 2014-15 budget, addressed the nearly $74 billion unfunded liability for teachers' pensions. The plan shares the responsibility of the unfunded liability by the three partners that currently fund STRS—the state, education employers, and the employee members. Under the plan, all participate in increased contributions for the STRS solution. To address the "employer share" of $42 billion, the community college districts employer rate was increased annually from 8.25% in 2013-14 to 19.1% by 2020-21. The plan allows CalSTRS to annually adjust the employer and state rates beginning July 1, 2021, and caps any such annual increase at 1% for employers and 0.5% for the state. The rate for 2018-19 is 16.28%, which is an increase in these expenditures of 13% over the prior year. For our District, the full impact of the increase in 2020-21 would be approximately $6.4 million in additional annual costs above the costs from the baseline year of 2013-14.

California Public Employees Retirement System (PERS)

The CalPERS Board of Administration determines employer contribution rates on an annual basis. The rates are based on the annual valuation using a discount rate of 7.5%. The CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.5% to 7.0% for three years beginning in the June 30, 2017 annual valuation for school employers and will increase employer contribution costs commencing in FY 2018-19. Lowering the discount rate means both the normal cost and the accrued liabilities will increase in the future. These increases will result in higher required employer contributions. Consistent with the existing board amortization and smoothing policy, the impact of each change in discount rate will be phased in over a five-year period. As a result, the full impact of the reduction in the discount rate will not be felt until FY 2024-25. The employer contribution rate is projected to range from 18.1% to 27.3% for the next seven years. The rate for 2018-19 is 18.1%, which is an increase in these expenditures of 16.5% over the prior year.

Retiree Health Liability

An actuarial study for post-retirement benefits was performed in October 2016, estimating the amount that should be accumulated under the requirements of GASB 45. Actuarial studies are performed every two years. The District's long-term liability as of that date was estimated at approximately $210.3 million. In FY 2010-11 the District established an irrevocable trust fund to help address the liability.

As a means of accruing the amount required as the annual required contribution (ARC) under GASB 45, the District assesses as an employer expense, rates that range from 6% to 17.5% on each payroll dollar depending on employee type and funding source. These fringe benefit rates are assessed to all eligible employees' salaries in all funds, including categorical, grants and contracts.

In the Tentative Budget, using this methodology, the expenditure for post-retirement benefits is projected to be approximately $15.6 million for all funds. Health benefit premium costs for retirees are paid directly from the Retiree Health Benefits fund and are estimated at $15.5 million. The difference between the two actual amounts may be transferred to the irrevocable trust to help mitigate our long-term liability. <u>A sub-committee of DCAS formed in FY18 for the purpose of evaluating and recommending a long-term plan for the district's irrevocable trust related to retirement health liabilities.</u>

<u>INFRASTRUCTURE</u>

In March 2012, the Board approved an infrastructure funding plan and allocation model to provide foundational resources to address the District's structural deficit partially in capital funding for areas such as scheduled maintenance, technology and equipment refresh, instructional equipment, library materials and databases, furniture and equipment, etc. Maintaining these items is central to the core mission of the colleges and the District and addressing the total cost of ownership (TCO) is a requirement of accreditation as well as a prudent business practice.

A separate sub-fund (General Fund–Unrestricted Designated–Infrastructure) has been established to account for this redistribution of resources and the associated expenditures. As part of DCAS's annual review, the implementation strategies of the Infrastructure Funding Model will be reviewed in a parallel process similar to that of the Districtwide Resource Budget Allocation Model review.

The Tentative Budget includes transferring $1.95 million in budgeted revenue from the General Fund-Unrestricted to the General Fund– Unrestricted Designated–Infrastructure. Expenditure of these funds will be budgeted in the year following the year in which the revenue is actually earned.

GENERAL FUND

The General Fund is the principal operating fund of the District. All revenues and expenditures not required by statutory law to be accounted for in a different fund are budgeted and accounted for in the General Fund. Four sub-funds exist within the General Fund, which are briefly described as follows:

- **General Fund–Unrestricted (111):** Represents revenues and expenditures that support most educational programs and services throughout the district, including instruction, student services, maintenance and operations, administration, and so forth.

- **General Fund–Unrestricted Designated-Infrastructure (113):** Represents revenues and transfers that have been specifically designated to be used for infrastructure needs including: Scheduled Maintenance and Capital Furniture (including classroom, faculty and administration); Library Materials and Databases; Instructional and Non-instructional Equipment; and Technology Refresh and Replacement (hardware and software). This sub-fund is reported to the State as a part of the General Fund–Unrestricted.

- **General Fund - Unrestricted–Designated (114):** Represents revenues and expenditures associated with contract education, entrepreneurial programs, civic center, and other activities initiated by the colleges and intended to be self-supporting. This sub-fund is reported to the State as a part of the General Fund–Unrestricted.

- **General Fund–Restricted (12X):** Represents revenues and expenditures supporting educational services whose resources are restricted by law, regulation, grant terms and conditions, categorical funding agencies, or other externally-imposed restrictions. This sub-fund is reported to the State as a part of the Total General Fund.

GENERAL FUND – UNRESTRICTED (111)

The VCCCD budget development process emphasizes the building of the General Fund-Unrestricted (111) budget, since this is the budget that most heavily impacts ongoing college and district operations. The Tentative Budget reflects an increase in resources, above the FY 2017-18 Adoption Budget, in the amount of $1.4 million.

Budget Allocation Model

The Budget Allocation Model was adopted by the Board in May 2007, and modified in March 2009, 2012, 2015, 2016, and 2018. The model is reviewed annually by the District Council on Administrative Services (DCAS) in accordance with the commitment to regularly review the model components to ensure a more sustainable model that incorporates variables that are meaningful, readily defined, easily measured, and consistently reported.

In the annual review of the Districtwide Resource Budget Allocation Model, if it is determined that specific budget items will be reassigned between Districtwide Services (DWS) and District Administrative Center (DAC) or the colleges and DAC, the percentage of revenue the DAC is allocated will change accordingly. Since the model was initially approved, several expenditure items have been reassigned to new locations (i.e., between DWS and DAC, colleges and DWS, colleges and DAC, etc.). This cost-shifting results in no impact (no increase or decrease) to discretionary budgets at the DAC or the colleges. There is no increase in the effective rate/percentage of revenue, as both budget and associated costs are shifted.

The Budget Allocation Model, following the review by DCAS, was utilized to allocate resources to the various operational units within the District. Each college and the DAC have a separate process by which they allocate the resources received through the Model.

As part of the Budget Allocation Model annual review for FY18, DCAS has recommended that non-resident students will be included in Line 10 of the allocation model; they had previously been excluded. The change more accurately reflects the actual number of non-resident students served at each college and allocates the associated revenue for those students.

Reserves

The District's designated ending fund balance is comprised of the following categories: State Required 5% Minimum Reserve; Revenue Shortfall Contingency Reserve; Unallocated Reserves; Budget Carryover; State Teachers' Retirement System; and Energy Efficiency.

<u>State Required 5% Minimum</u>

In accordance the State Chancellor's Office Accounting Advisory FS 05-05: Monitoring and Assessment of Fiscal Condition, the State Chancellor's Office requires a minimum prudent unrestricted general fund balance of 5 percent. To ensure the District does not drop below this minimum requirement, the amount is segregated in a reserve designated for that purpose.

<u>Revenue Shortfall Contingency</u>

The Revenue Shortfall Contingency Reserve is designated to cover any mid-year reductions (including, but not limited to, statewide property tax shortfall, enrollment fee shortfall, and general statewide deficit), thus negating the need for mid-year reductions in site operating budgets. For FY 2018-19, the contingency will remain at $5 million.

Budget Carryover

As part of the Budget Allocation Model, the colleges and DAC can carryover funds up to 2% of the prior year adopted budget. This reserve was fully distributed as a part of the budget development process. As part of the Model's annual review, DCAS has recommended to allow amounts in excess of the 2% allowed carryover be transferred to Fund 113 to help the colleges and the DAC with anticipated future expenditure increases. These amounts are one-time budget savings from FY18 that will be available in FY19 and reflected in the Adoption Budget.

State Teachers' Retirement System (STRS)

This reserve is to address the rising annual costs of the STRS plan implemented by the State in 2014-15. At that time, the District set aside $1 million to assist with the rising cost of STRS. The current estimate of additional costs in 2020-21 from the baseline year of 2014-15 is $6.4 million.

Energy Efficiency

This reserve is to address current and future challenges with sustainability at all three colleges. For FY 2018-19, the reserve will remain at $1.4 million.

Unallocated Reserves

Unallocated Reserves is the remaining ending balance that is undesignated for other uses. This balance is maintained to allow for gradual adjustment to any substantial reductions in revenue and, along with other cash reserves, to handle the significant cash flow requirements. The Unallocated Reserves can also be used to mitigate budget reductions beyond that provided for in the Revenue Shortfall Contingency Reserve. This reserve may be allocated to cover any other unanticipated one-time expenditures.

Maintaining Unallocated Reserves is important for fiscal solvency and strength during the years with uncertainty of funding for community colleges and the cyclical nature of the California economy.

GENERAL FUND–UNRESTRICTED DESIGNATED-INFRASTRUCTURE (113)

This sub-fund was created to account for Infrastructure Funding Model (approved by the Board in March 2012) to help address total cost of ownership (TCO) and the growing structural deficits in specific infrastructure categories. As specified in the funding plan, resources are to be re-allocated from the General Fund-Unrestricted. Funds may be accumulated from year to year to address the infrastructure needs. The Tentative Budget includes transferring $1.95 million in budgeted revenue from the General Fund-Unrestricted to the General Fund– Unrestricted Designated–Infrastructure. Expenditure of these funds will be budgeted in the year following the year in which the revenue is actually earned.

GENERAL FUND – RESTRICTED (12x)

This fund supports categorical programs, grants, contracts, and other programs whose budget resources are restricted by law, regulation, contract, grant agreement, or other externally restricted terms and conditions.

Major programs accounted for in this fund include state categorical programs such as SSSP (Student Success and Support Program), SWP (Strong Workforce Program), EOPS (Extended Opportunity Programs and Services), DSPS (Disabled Students Programs and Services), CalWORKS (California Work Opportunities and Responsibility to Kids), Career Technical Education programs, as well as Perkins IV (VTEA/Vocational and Technical Education Act) federal grants, Restricted Lottery (Proposition 20) funds, Nursing Education grants, and Title V (HSI, STEM) federal grants.

Historically, these budgets have been developed within the existing individual categorical programs based at 95% of the prior year level. This strategy is consistent with the Budget Assumptions and is also comparable to the 95% funding guarantee that many student services categorical programs were accorded in past years, given that the final allocations for most student services programs are not finalized until after the state budget is enacted and the State Chancellor's Office allocates funds to the districts based on MIS data that is submitted during the first quarter of the fiscal year. With the new formula, the FY 2018-19 Tentative Budget presents some budgeting challenges for a few student services programs for which there is no 'hold harmless' guarantee. Such categorical program budgets will be based at a conservative 90% of the prior year level. Additionally, the carryforward funds for Student Equity of $0.7 million, Student Success & Support Program of $1.6 million, and Strong Workforce Program of $1.9 million have been budgeted.

The Governor's May Revision budget includes a $150 million and $20 million in one-time funds for the Guided Pathways Implementation and Innovation Awards Program, respectively. The FY 2018-19 Tentative Budget does not reflect the estimated impact of these additional amounts, the funding allocation methodology, or match requirements. A budget will be developed pending confirmation of funding.

PARKING SERVICES FUND (124)

This fund accounts for parking revenues (fees and fines) and expenditures associated with parking (including District police services), safety, and transportation. The Board has approved a maximum parking fee to be increased annually by the CPI approved by the State Chancellor's Office. By FY18, the Implicit Price Deflator Index had increased enough to support a one-dollar increase in the parking services fee. As a result, the District began charging a maximum fee for automobiles of $53 for the Fall 2017 and Spring 2018 semester and $26 for the Summer semester. The College-wide Parking Lot Maintenance program supports repairs and renovations of parking areas district-wide. The Tentative Budget includes $734,768 of General Fund-Unrestricted (Districtwide Services) support towards the cost of providing police services at all sites in addition to that supported by parking revenues.

HEALTH SERVICES FUND (13x)

This restricted fund accounts for the revenues and expenditures related to the operation of the colleges' Student Health Centers. Historically, the primary resources have been Student Health Fees and State Mandated Cost reimbursements. Effective with the Fall 2017 term, the District began charging a flat fee of $20 for the Fall and Spring semester and $16 for the Summer semester.

Beginning in FY 2012-13, the approved State budget contained a new mandated block grant. This block grant distributed $28 per funded FTES to cover all compliance costs incurred during the 2012-13 fiscal year, including those associated with Student Health

Centers. The Student Health Centers receive their proportional share of the block grant. This mandated block grant will continue for FY 2018-19.

CHILD CARE CENTER FUND (33x)

This fund accounts for all revenues and expenditures related to the operation of Child Care Centers at Moorpark College and Ventura College. In addition to client enrollment fees, the Child Care Centers receive grant funding as a supplemental source of funding from the State of California. While maintaining competitive rates, the Child Care Centers have continued to be self-supporting. At the Oxnard site, the center has been converted to a lab school and is accounted for in Fund 111.

CRM (Culinary and Restaurant Management) (322)

At Oxnard College, the CRM (Culinary and Restaurant Management) program provides some food service during lunch period as an outlet of their CRM instructional lab. Oxnard College made the transition between a full service cafeteria and a CRM outlet in January 2012.

PROPRIETARY (ENTERPRISE) FUNDS

The enterprise funds account for business operations that are financed and managed similarly to private enterprise and are to be self-supporting. These funds consist of a separate Bookstore Fund and Food Service Fund to account for the revenues, expenses, and profits and/or losses at each college.

Bookstore (51x)

After years of declining sales, in January 2014, the Board took action to contract for full-service bookstore services at all campuses through Barnes & Noble College Bookstores, Inc. This transition occurred April 1, 2014; the District will receive a percentage of net sales of which is accounted for in Fund 114.

Food Service (52x)

The District contracts with vending operators to provide hot and cold food. The District will continue to consider alternative food service options, while maintaining at least breakeven financial operations.

INTERNAL SERVICES FUND (6xx)

The **Self-Insurance Fund** provides funding for the level of risk retention held by the District. This fund is used to reimburse individuals or other entities for claims against the District up to our deductible levels ($25,000/$50,000) and for some settlement costs.

The **Retiree Settlement Health Payment Fund** is used to account for the costs arising from a settlement between the District and the class members defined in that settlement. Dollars received from the federal government for reimbursement for Medicare Part D are used to provide a reserve to fund these costs. The future liability exposure of this fund may be very significant depending how the District modifies health benefit plans over the next several decades.

The **Workload Balancing Fund** is used to account for non-contract assignment pay that has been deferred ("banked") to a subsequent semester or academic year by full-time faculty members. As faculty use their load "banked" hours, a transfer is made to the General Fund as a partial offset to the salary costs of the faculty member while on leave. The current liability in this account is approximately $734,000 and is fully funded.

The **Retiree Health Benefits Fund** is used to account for the payment of health benefit premium costs for retirees. <u>The net difference between the expenditure for post-retirement benefits</u> and the current retiree health premiums may be periodically remitted to the District's irrevocable trust. For more information on retiree health benefits, please refer to the Retiree Health Liability section found earlier in this narrative.

STUDENT FINANCIAL AID FUND (74xx)

This fund accounts for the receipt and disbursement of government-funded student financial assistance programs. The major federally funded programs include Pell Grants, SEOG (Supplemental Educational Opportunity Grants), and Direct Loans. The major state-funded programs include EOPS (Educational Opportunity Programs and Services) grants, CARE (Cooperative Agencies Resources for Education) grants, Full Time Student Success Grants, and Cal Grants.

CAPITAL PROJECTS FUND (4xx)

This fund accounts for the financial resources used in the acquisition and/or construction of major capital outlay projects. Project elements may include site improvements including parking lots, walkways and monument signs, building renovations, new construction, scheduled maintenance projects, hazardous substance abatement projects, and fixed assets, and may be funded from a combination of state capital outlay funds, local funds, redevelopment agency funds, nonresident student capital outlay surcharges, and General Obligation (GO) bonds.

The FY 2018-19 Tentative Budget includes locally funded construction and capital outlay/improvement projects, scheduled maintenance projects, as well as funds for new technology/technology refresh and equipment replacement. Projects being funded from General Obligation (Measure S) bonds, as well as various infrastructure and special repair projects at all three colleges are also budgeted.

The FY 2018-19 Tentative Budget includes carryforward funding for energy efficient and alternative energy projects approved under Proposition 39 (Year 5.) The Tentative Budget does not include Year 6 awards. In the Governor's May Revise budget, the amount available is estimated at $46.5 million. The Governor's May Revise also proposes an additional $135.8 million for deferred maintenance and instructional equipment. The FY 2018-19 Tentative Budget does not reflect the estimated impact of these additional amounts, the funding allocation methodology, or required match. A budget will be developed pending confirmation of funding.

COMPLIANCE

The Tentative Budget reflects all compliance with external standards, including but not limited to, GASB, other post-employment benefits (OPEB), the Education Code, Title 5 regulations, Full Time Faculty Obligation Number (FON), the 50% law, EPA funding, etc.

RECOMMENDATION

The Tentative Budget, as presented, was reviewed by the District-wide Committee on Administrative Services at its May 31, 2018 meeting, and by the Administrative Services

Committee of the Board at its May 24, 2018 meeting, and is recommended for approval by the Board.

Ventura County Community College District
Historical Use for Reserves

FY19		
5/8/2018	674,000	SEIU agreement - one-time health ben cap incr SEIU & Confid **(pending Board approval)**
FY18		
10/17/2017	436,518	SEIU agreement (one-time payment)
1/16/2018	350,000	IT Security Initiatives
3/13/2018	1,000,000	Enrollment growth (summer 2018)
3/13/2018	2,500,000	Fire Academy facilities - OC
5/8/2018	85,100	Managers/Supvsrs health ben OOP reimb **(pending Board approval)**
	4,371,618	
FY17		
10/11/2016	8,000,000	Purchase of Camarillo real property (Daily)
6/13/2017	1,250,000	Building improvements to Daily Dr. property
	9,250,000	
FY16		
10/13/2015	200,000	Distributed marketing for enrollment growth
10/13/2015	1,000,000	Enrollment growth
11/10/2015	2,000,000	Emergency preparedness
	3,200,000	
FY15		
11/11/2014	200,000	Distributed marketing for enrollment growth
2/15/2015	35,000	Affordable Care Act Management platform software
3/10/2015	1,000,000	OPEB ($500K in FY15 & $500K in FY16)
3/10/2015	1,000,000	Enrollment growth
3/10/2015	100,000	Energy efficiency
3/10/2015	100,000	Luskin's contract
3/10/2015	416,000	SEIU contract
5/12/2015	25,000	Chancellor search services
5/12/2015	1,578,000	Contract settlements (AFT & SEIU)
6/16/2015	300,000	Data security (PCI compliance & Banner Data Defense)
6/16/2015	40,700	Classified confidentials salary increase
	4,794,700	
FY14		
June 13 budget amendment	40,000	Accreditation - Jane Harmon
Dec 13 budget amendment	35,000	Keenan ACA study
Dec 13 budget amendment	100,000	DAC emergency operation plan
Jan 14 budget amendment	15,000	DAC staffing audit
Total FY14	**190,000**	
FY13		
Sept Bud Amendment	40,000	Accreditation - Sally Chou
Dec Budget Amendment	50,000	Exec search
May Amendment	75,000	Exec search
May Amendment	19,500	DAC architect
Total FY13	**184,500**	
FY12		
Budget Amendment-Oct 11	302,000	OC contaminant removal
Budget Amendment-Feb 12	50,000	Exec search-chancellor
Total FY12	**352,000**	
FY11		
Budget Amendment-Aug 10	145,000	OC contaminant removal
FY10		
Budget Amendment-Feb 10	300,000	Legal budget increase
Budget Amendment-Jul 10	150,000	Legal budget increase
Total FY10	**450,000**	
FY09		

Budget Amendment-Jul 08	55,000	District In Service Day

VCCCD General Fund - Unrestricted - Reserves (Ending Balance)
FY 2009 - 2018

	FY18 (estim*)	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Board Designated										
State Required Minimum 5%	9,310,363	9,281,823	9,215,676	7,991,634	7,025,449	6,838,130	6,616,746	6,916,541	7,093,005	6,790,790
Revenue Shortfall Contingency	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	6,000,000	5,000,000	5,000,000	4,955,715
Distributed Marketing				400,000						
Emergency Preparedness				2,000,000						
State Teachers' Retirement System (STRS)	1,000,000	1,000,000	1,000,000	1,000,000						
Energy Efficiency	1,400,000	1,400,000	1,400,000	1,400,000						
Enrollment Growth				1,000,000						
Potential Triggers (tax initiative failure)							8,000,000			
Unallocated - Committed								5,671,556		
Unallocated - Uncommitted	8,525,970	3,450,977	9,899,926	6,648,593	12,778,794	10,749,605	1,301,605	7,593,494	9,552,765	8,808,816
	25,236,333	20,132,800	26,515,602	25,440,227	24,804,243	22,587,735	21,918,351	25,181,591	21,645,770	20,555,321

* Assumes FY18 budget fully expended

Chancellor's Recommendations on Funding

for the

California Community Colleges

California Community Colleges
Chancellor's Office

Eloy Ortiz Oakley, Chancellor

2018

California Community Colleges
Chancellor's Office

Eloy Ortiz Oakley, Chancellor

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May 7, 2018

Michael Cohen
Director of Finance
California Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

Dear Director Cohen,

The Governor's Budget proposes changes to the methods the Board of Governors of the California Community Colleges use to distribute state funds to the state's 72 community college districts.

As you know well, our system serves the top 100 percent of students, but we have not always designed our policies to place an equal emphasis on supporting those students through completion of their educational goals. As the Governor's Budget references, last year, the Board of Governors accepted the *Vision for Success*, which identifies the North Star our system must follow if we are to meet the needs of our state. It makes the focus on student success—through completion and into the workforce—concrete.

My office has taken seriously the opportunity presented by the Governor's Budget to further that vision. Since January, we have conducted broad outreach throughout the system, seeking to further the goals articulated in the budget with modifications that reflect our best thinking on how to do so. We have been specifically interested in working through the components of the formula and the respective weights of its parts. We believe that, in reforming funding for community college districts, we should aim to do the following:

- Encourage progress toward the *Vision for Success* accepted by the Board of Governors.
- Recognize that districts should receive additional resources to help certain groups of students who face especially high barriers to success meet those goals.
- Make additional resources most useful to community college districts by allocating them through a formula that is sufficiently simple, transparent, and stable.

With that in mind, the recommendations included in this document seek to balance my strong commitment to equity, our system's focus on student success, and the need to provide community college districts with time to transition so that they can reasonably carry out their work on behalf of the people of California. I hope the recommendations will be included in the Governor's May Revision.

I want to acknowledge the hard work of our partners. After the budget was released, I asked Brian King, chancellor of the Los Rios Community College District and chair of the CEO Council of the California College League of California, to convene a workgroup to evaluate the proposal. Chancellor King, the workgroup, and the team at the League have devoted tremendous time and talent to the effort, and I believe my office's recommendations adhere to the spirit of their report. The Advisory Workgroup on Fiscal Affairs dug into the details of the proposal. Thank you to Bonnie Ann Dowd, executive vice chancellor of the San Diego Community College District, and Ann-Marie Gabel, vice chancellor of the South Orange County Community College District, as well as the rest of the group, for their work. The Campaign for College Opportunity, led by Michele Siqueiros and Jessie Ryan, helped us convene statewide experts through "Invest in Success" meetings, making sure that a new funding model furthers our shared equity goals. Discussions at the Consultation Council, as well as feedback received through online surveys, have also informed the recommendations from my office. This short list does not do justice to the many stakeholders involved in the process, and the numerous letters and emails we received from the field. I hope many will see their ideas reflected in the report.

With representatives of the Department of Finance, my staff has participated in budget hearings on this proposal. In those settings—and in personal conversations with members of the Legislature—we have received important feedback. Many legislators expressed concern about the impacts of this kind of change on the colleges in their districts. We have taken their views seriously, and we believe the recommendations address many of the issues they raised.

Thank you, and Governor Brown, for the opportunity to have this conversation. Please let me know if you have any questions. I look forward to working with you, the Governor, and the members of the Legislature to enact a formula that reflects our shared values as part of the 2018-19 budget.

Sincerely,

Eloy Ortiz Oakley, Chancellor

Executive Summary

Last year, the Board of Governors of the California Community Colleges accepted the *Vision for Success*, setting ambitious goals for the state's community colleges. Building on that vision, Governor Brown, in his January budget, proposed a new model to fund community college districts that would allocate about half of the dollars statewide pursuant to current practice, with the other half split between providing districts with additional support for low-income students and rewarding districts based on the number of degrees and certificates they award.

Informed by the feedback from community college stakeholders and other interested parties, the Chancellor's Office recommends adoption of that general framework with some important modifications. Under our recommended formula, funding would instead be allocated pursuant to a "60-20-20" split across those three objectives. The first part, a Base Allocation, would function generally consistent with the system's existing funding practices—with modifications to calculations to "smooth out" changes in enrollment. The second part, an Equity Allocation, would fund districts based on the number of low-income students and first-generation college-going students enrolled. The third part, a Student Success Allocation, would fund districts based on a set of progress, completion, and earnings measures—with additional funding for outcomes of low-income students and first-generation college-going students. Some enrollment, including enrollment in noncredit courses, would continue to be funded pursuant to existing practices; therefore, those programs should not be specifically impacted by these changes. This formula would be implemented such that every district would receive, in 2018-19 and 2019-20, as much as the district received in 2017-18, adjusted for changes in the cost-of-living in 2018-19. The Governor's Budget also asked the Chancellor's Office to present recommendations on the consolidation of existing categorical programs. The Chancellor's Office recommends the consolidation of the Student Success and Support Program, the Student Success for Basic Skills Program, and the Student Equity Program, with a clear focus on equity as part of the new program.

The Chancellor's Office recommends that these changes be included in the 2018-19 budget act. Following adoption, the Chancellor's Office would begin several critical activities to support implementation, including forming an advisory committee, helping districts transition (including by aligning their master plans and budgets with the *Vision for Success*), and planning for evaluation.

Overview

Introduction

The California Community Colleges—the largest system of higher education in the country and the largest workforce provider in California—serve more than two million students annually. The colleges provide students with the opportunity to seek degrees, prepare for transfer to four-year universities, pursue career technical education, and acquire basic skills and remedial education. The accessibility, affordability, and quality of community colleges have allowed California to educate large numbers of students with enrollment that reflects the state's diversity.

As a system, the community colleges also face serious challenges. Too few students make it to their desired goal. Students who are seeking to complete associate degrees tend to take a long time to do so—an average of more than five years—and they tend to accumulate more academic credits than are needed to graduate. Older and working adults are too often left behind due to a lack of supports as well as academic structures that fail to take into account their need to balance work, childcare, and household demands. Serious achievement gaps exist for low-income and students of color. Further, educational outcomes vary widely across regions of the state.

Opportunity for Reform

Recent Efforts—In recent years, the state has implemented new programs aimed at improving community college outcomes for all populations of students. In 2012, the state established the Student Success and Support Program to provide additional funding for student matriculation services, and, in 2014, it increased funding for activities identified in colleges' Student Equity Plans. In 2016, the state created the Strong Workforce Program to support career technical education aligned with regional needs. In 2017, the Legislature funded the Guided Pathways program, which—building on prior work—creates evidence-based supports for students that are comprehensive and scaled. The enactment of AB 705 (Irwin) last year, which allows more of our students to begin their educational journeys taking college-level courses, is critical to this work. The Legislature also enacted AB 19 (Santiago), which creates a framework for investment in a College Promise that focuses on affordability in the context of Guided Pathways. Under these new policies and with the investments, community colleges have made modest progress in performance in milestone areas, with improved retention and students' completion of gateway courses and eventual educational goals.

Influence of the Local Control Funding Formula—This conversation has also been informed by the significant reform occurring in school finance in the state. In 2013, Governor Brown proposed, and the Legislature approved, the Local Control Funding Formula (LCFF), a "weighted student formula" that directs additional resources to school districts and charter schools based on the number of low-income students, English learners, and foster youth enrolled. At the same time, the approach gives these local education agencies broad flexibility to determine how to meet state priorities. This approach was a shift from the state's past approach to school finance, which allocated discretionary funds based on attendance and categorical funds restricted for specified purposes. A recent study from researchers at the Learning Policy Institute finds that increases in district resources resulting from implementation of the LCFF have had a “strongly significant” impact on average high school graduation rates.

New System-Level Goals—As was acknowledged in the *Vision for Success* (accepted by the Board of Governors in September 2017), more work in the California Community Colleges is necessary. The *Vision for Success* sets ambitious goals for the colleges, including increasing the number of students earning credentials and the numbers successfully transferring to a public university; increasing the percentage of exiting students who report being employed in their field of study; decreasing the number of units students accumulate prior to earning degrees; and closing achievement gaps among historically underrepresented students and across regions of the state.

Funding Model to Support System-Level Goals

Current System—Currently, community college districts receive funding (totaling more than $9 billion in 2017-18) through the general apportionment and categorical programs. Specifically, about two-thirds of state General Fund resources are provided to community college districts as discretionary resources through the general apportionment. The remaining state funding is provided to colleges through categorical programs, which allocate dollars to colleges for specific programs designed for specific purposes.

Under the current general apportionment model, funds are allocated to districts based on a ”base plus growth” model that primarily distributes resources to districts based on (1) the amount of funding the district currently receives and (2) the total number of full-time equivalent students (FTES) enrolled. Under this formula, colleges must achieve target enrollment to maintain general purpose funding. The model funds credit FTES, noncredit FTES, and FTES in career development and college preparation noncredit courses using separate rates. For most courses, enrollments are determined by counting the number of students enrolled in courses at the census date. Existing provisions shield districts from immediately experiencing the fiscal impact of declines in enrollment. The formula also recognizes the number of colleges and centers within a district and some other characteristics (e.g., whether a college is rural). This formula determines a total amount of resources (technically called the “total computational revenue”). In meeting this obligation, the state first determines the amount of local property tax revenues and student enrollment fees districts will collect. The remaining obligation is provided to districts from state General Fund appropriations.

Call For Change—Last year, after the Board of Governors’ acceptance of the goals presented in the *Vision for Success*, Chancellor Oakley tasked the Advisory Workgroup on Fiscal Affairs—which consists of chief business officials at the colleges and provides advice to the Chancellor on issues related to finance and business operations—with developing a new funding formula to better reflect the system’s goals and priorities.

The workgroup heard presentations from officials who had been involved in similar processes in Florida, Ohio, Tennessee, Virginia, and Washington. The workgroup also considered many alternative measures for consideration as part of a funding formula beyond the number of FTES enrolled, including measures of student success and equity. The workgroup recognized that a new allocation system would need to be reasonably stable in order to support district- and college-based financial planning. The workgroup transmitted recommendations to the Chancellor in December 2017. These recommendations included a vision statement that expressed the workgroup's intent that a new formula (1) be stable and sustainable while supporting the goals articulated in the *Vision for Success*, (2) provide incentive funding for progress in serving "disproportionately impacted populations," and (3) be responsive to the needs of the local and regional communities served by the colleges. The original recommendations of this workgroup are included as Appendix A.

Governor's January Budget Proposal—In January 2018, as part of his 2018-19 state budget, Governor Brown proposed significant changes to the community college funding model. Under the Governor's proposal, a new formula would seek to allocate about half of the dollars (statewide) pursuant to current practice, while the other half would be evenly split between providing additional support for low-income students and rewarding colleges for meeting specified student success measures. (Because the Governor's proposal would assign funding rates to the factors used in the formula, the overall percentages would change over time.) In addition, the Administration expressed its intent that the Chancellor's Office consult with community college stakeholders to develop a proposal for consideration as part of the May Revision to consolidate categorical programs, with a goal of providing flexibility to districts and improving student success. The Administration also proposes requiring community college districts to incorporate the goals of the *Vision for Success* within educational master plans—with the expectation of new links between academic and financial planning.

Collection of Input to Align the Governor's Proposal with the *Vision for Success*

Following the release of the Governor's proposal, the Chancellor's Office committed to a robust outreach effort and contacted a variety of community college stakeholders to seek their input on how best to modify and improve the Governor's proposed funding formula. The Chancellor's Office additionally administered online surveys to solicit feedback from college-based practitioners and others who may not have had the opportunity to provide input in other venues. Below is a summary of the outreach efforts of the Chancellor's Office and the processes employed. Many of the comments submitted to the Chancellor are included in Appendix B.

CEO Workgroup on Funding Formula—The Chancellor requested that the president of the Chief Executive Officers Board of the Community College League of California (CCLC) convene a working group to consider the funding proposals, including changes to the formula and the consolidation of categorical programs, and make recommendations to the Chancellor on both. The group met on January 26, February 8, February 15, and February 22, with other informal discussions. These issues were also discussed at the CCLC's CEO Board meeting on February 23 and at the statewide CEO Symposium on March 3. The group presented its report to the Chancellor on April 16.

Advisory Workgroup on Fiscal Affairs—Following the release of the Governor's proposal, the Chancellor requested that the Advisory Workgroup on Fiscal Affairs consider the implications of the proposal, determine a methodology to produce simulations, and make recommendations to improve the implementation of the formula. The workgroup met February 9, March 9, March 23, and April 13. In deliberating, the group analyzed data on various measures that might be considered as part of the formula.

Consultation Council— The Chancellor's Office presented the Governor's proposal to the Consultation Council at its meeting on February 15. The Council then held a special session on the funding formula at its meeting on March 15, where it heard directly from researchers whose work addresses many of issues raised by stakeholders—covering lessons the state can learn from K-12 school finance reform, the evidence on performance-based funding in postsecondary education in other contexts, and current measures of community college quality. Other parties working on the formula, including members of the CEO group and the Advisory Workgroup on Fiscal Affairs, also provided updates on their progress.

Faculty—The Chancellor's Office held two meetings with representatives from several faculty organizations: the Academic Senate of California Community Colleges, the Faculty Association of the California Community Colleges (FACCC), the California Federation of Teachers Community College Council, the California Teachers Association Community College Association, and the California Community College Independents. The Chancellor's Office also received written feedback from the Academic Senate and FACCC and participated in FACCC's Advocacy and Policy Conference on March 4.

Other Community College Organizations—Numerous local community college districts and consortia—including the Central Coast Community College Collaborative, the Far North Community of Practice, and the Single College-District Caucus—submitted written comments to the Chancellor concerning the Governor's proposal. The RP Group also submitted comments.

Community Leaders—At the request of the Chancellor's Office, the Campaign for College Opportunity hosted a series of three regional conversations ("Invest in Success" convenings) at the end of March. Thirty-one social justice and civil rights partners from across the state participated. The meetings focused on informing the development of a funding formula that recognizes college access and student success and prioritizes student equity. Separately, the Chancellor's Office also received recommendations from other nonprofit organizations focused on statewide leadership on equity and social justice, including California Competes, the Education Trust-West, the Hispanic Association of Colleges and Universities, and the Los Angeles Area Chamber of Commerce.

Online Surveys—In February, the Chancellor distributed a survey throughout the community college system to solicit feedback on the consolidation of categorical programs. In March, the Chancellor distributed a second survey to solicit feedback on the construction of the funding formula. The office received hundreds of responses: 265 people responded to the funding formula survey, and 2,361 to the categorical program survey. Summaries of these surveys are included in Appendix C.

Legislature—The Chancellor's Office participated in hearings in both the Assembly and the Senate on the Governor's proposal, where the office presented the system's current approach to resource allocation and conveyed the Chancellor's general support for the Governor's framework. At these hearings, and in personal meetings, members provided significant feedback. Further, as with all budget proposals, the Legislative Analyst's Office released recommendations on the Governor's proposal.

Simplified Metrics Initiative—Notably, the Chancellor's Office has also undertaken the Simplified Metrics Initiative to replace the many different metrics and key performance indicators that have been in place for the community colleges. This effort has complemented the feedback received on the funding formula. The simplified metrics focus on the critical indicators on how students are progressing along their educational journeys from recruitment to completion—graduation, transfer, or job placement (or some combination of those). The metrics focus strictly on students and their educational journeys, not on functional divisions or funding resources. Further, instead of focusing on "student equity" as a separate activity, the intent is that equity be observed across all metrics. An important part of this effort has been to limit the number of metrics to direct attention to the system's highest priorities.

Chancellor's Approach

Below, we present the Chancellor's recommendations in two parts. First, we include a table that summarizes the components of the Governor's proposal and displays our approach. In doing so, we note agreement and modifications. These recommendations begin on page 11. Our recommendations related to the consolidation of categorical programs and other issues begin on page 17. We also think it is important to address the themes that emerged from the feedback we received. Therefore, second, we discuss those themes and provide responses. That discussion begins on page 17 also.

Recommendations

Since January, the Chancellor's office has extensively reviewed and considered feedback from the multitude of stakeholders described above, analyzed research on community college funding formulas, and run numerous simulations to ensure recommendations buffer against unintended outcomes. Additionally, the Chancellor's Office identified three core principles for reform to guide our deliberations. They are to:

- Encourage progress toward the *Vision for Success* accepted by the Board of Governors.
- Recognize that districts should receive additional resources to help certain groups of students who face especially high barriers to success meet those goals.
- Make additional resources most useful to community college districts by allocating them through a formula that is sufficiently simple, transparent, and stable.

The following recommendations to modify the Governor's proposal are respectfully submitted. We believe that these recommendations could be funded within the level of resources appropriated for the California Community Colleges in the Governor's proposal (potentially with redirection of resources from funds budgeted for deferred maintenance and instructional equipment)—but that is not the approach we suggest. The needs of the community colleges are significant. Already, the colleges receive less, on a per-student basis, than school districts, the California State University, and the University of California. We believe that the goals of the *Vision for Success* would be furthered if additional resources are appropriated for the funding formula in the May Revision—so that all districts experience substantial increases in their base resources. This approach would increase the amount districts would receive per FTES, as well as the amounts received for their high-needs students and for their outcomes.

Issue	Governor’s January Budget Proposal	Chancellor’s Recommendation
Formula Construction	Overall, determines rates for various components of the formula by setting a goal that, statewide, about half of the funds would be spent on a Base Grant, a quarter would be spent on a Supplemental Grant, and a quarter would be spent on a Student Success Incentive Grant. (50-25-25 split.) Some categories of FTES, including FTES for incarcerated students and FTES for high school students admitted as special part-time or full-time students, are funded at current rates.	Overall, determines rates through a 60-20-20 split, using the same three funding elements. (Under this proposal, the Student Success Incentive Grant would function differently than the Governor’s proposal, because it would provide “premiums” to districts based on the success of high-needs students. More detail is included below.) Retains proposal to fund specified categories of FTES at current rates. Adds all noncredit FTES—including CDCP noncredit—as a category funded at current rates. (Therefore, noncredit programs would not be subject to new funding model.)
Funding Available to Implement the Formula	Includes $175 million provided in the January budget proposal explicitly for this purpose; additionally allocates $161 million (COLA) and $60 million (growth) to support costs of the formula.	Uses the funds included in the Governor’s proposal. Strongly urges the Governor and the Legislature to consider appropriating additional Proposition 98 funds for the general apportionment (above those provided in the January budget). If necessary, redirects funds included in the Governor’s proposal for deferred maintenance and instructional materials to support implementation of the formula.

Issue	Governor's January Budget Proposal	Chancellor's Recommendation
Implementation Timeline ("Hold Harmless")	Phases-in the new formula by committing to a "hold harmless" period generally specifying that, in 2018-19, a district would not receive less in total funds than the district received in 2017-18 and that, beginning in 2019-20, a district would not receive less per FTES than the district received in 2017-18. (Many districts would see the additional benefit of the formula beginning in 2018-19. That is, if the formula calculation for 2018-19 year exceeds the amount a district received in 2017-18, the district would receive the additional dollars in 2018-19.)	Extends "hold harmless" provision proposed in January budget by committing that, in 2018-19 and 2019-20, a district would not receive less in total funds than the district received in 2017-18 (with that 2017-18 amount adjusted for changes in cost-of-living in 2018-19). Consistent with the Governor's proposal, districts benefiting under the new formula would receive the additional dollars beginning in 2018-19.
Authority to Limit District Year-to-Year Funding Increases	None.	Provides the Chancellor with authority to limit the year-over-year funding increase a district can earn under the formula, with the intent that such a provision would allow all districts to achieve year-over-year growth given limited resources. (The intent of the Chancellor's Office would be to use such authority on a very limited basis and only when critical to the financial health of the system.)

Issue	Governor's January Budget Proposal	Chancellor's Recommendation
Calculation of Base Grant	Funds budgeted FTES and a basic allocation consistent with the existing system. Ends the practice of "summer shift" and gives districts choice of the fiscal year in which summer enrollments are counted. Retains rural allocations.	Calls for a "Base Allocation," which funds budgeted FTES and a basic allocation consistent with the existing system. However, uses a three-year weighted FTES average (weighting the current year at 50 percent and the two trailing years at 25 percent each). (In 2018-19, uses a two-year average—with 2017-18 and 2018-19 each weighted at 50 percent.) Ends the practice of "summer shift" by consistently counting summer session enrollments in the fiscal year that follows the summer term. This change would be effective 2019-20, with summer 2019 enrollments included in the 2019-20 fiscal year. Ends enrollment "stability funding." Generally equalizes per-FTES credit funding rates for all districts. Consistent with the Governor's proposal, retains rural allocations.

Issue	Governor's January Budget Proposal	Chancellor's Recommendation
Calculation of Supplemental Grant	Provides additional funding based on the number of low-income students a district enrolls, as measured by the enrollment of students receiving federal Pell Grants (using a cohort measure) and also those receiving College Promise Grants, with data from the past year.	Calls for an "Equity Allocation," which provides districts with additional resources based on the enrollment of (1) low-income students and (2) first-generation college-going students. Low-income students are defined as students who are any of the following: (1) Pell Grants recipients, (2) California College Promise Grant recipients age 25 and over, or (3) AB 540 defined students. First-generation college-going students are those who indicate neither parent has attended college (as reported on CCC Apply). All of these would be based on total counts from the prior year. Using the 20-percent allocation to determine the overall funding for this allocation, the rates for each of the measures would be determined for 2018-19 based on a calculation of "points." Students meeting one of the above-noted characteristics (low-income or first-generation college-going) generate 1 point in the formula calculation. Students with both characteristics generate 1.5 points. Beginning in 2019-20, the rates calculated in 2018-19 would be the basis for the apportionment.

Issue	Governor's January Budget Proposal	Chancellor's Recommendation
Calculation of Student Success Incentive Grant	Provides districts with additional resources based on the number of students meeting the following outcomes: • Earning a degree or certificate. • Earning a degree or certificate in three years or less. • Earning an Associate Degree for Transfer (ADT). All of these would be based on total counts from the prior year.	Calls for a "Student Success Allocation," which provides districts with additional resources based on the number of students meeting a more broadly-defined set of outcomes. Using the 20-percent allocation to determine the overall funding for this allocation, the rates would be determined for 2018-19 based on a calculation of "points." A single student could generate points for one outcome within each of the following categories (with all of the counts generated from prior year data): **Progression** • Completion of both transfer-level mathematics and transfer-level English within the first year of enrollment. (3 points) **Outcomes** • Completion of an ADT. (4 points) • Completion of an associate degree or California community colleges baccalaureate degree. (3 points) • Credit certificates 16 units or greater. (2 points) • Completion of nine career technical education (CTE) units. (1 point) **Wages** • Attainment of a regional living wage after one year of completion. (1 point) Provides districts with additional resources based on the number of disadvantaged students (as defined by the Equity Allocation) meeting any of the above outcomes. Specifically: • For a student who is either a low-income student or a first-generation student (but not both), the student would generate an additional set of points equal to the number generated above. • For a student who is both a low-income student and a first-generation student, the student would generate an additional set of points equal to the number generated above multiplied by 1.5.

Issue	Governor's January Budget Proposal	Chancellor's Recommendation
Funding for Interventions	Authorizes the Chancellor to direct that a district use up to 3 percent for assistance.	Retains the Governor's proposal.
Future Changes to the Formula	Authorizes the Board of Governors to amend the formula with concurrence from the Department of Finance (which is required to consult with the Legislative Analyst's Office) and notification to the Joint Legislative Budget Committee.	Retains the Governor's proposal.

Categorical Program Consolidation—The Governor's proposal called on the Chancellor's Office to make recommendations to consolidate its numerous categorical programs. Informed by our consultation with the field (through an online survey) and consideration of feedback from various constituents, there appears to be general agreement that consolidation of the **Student Success and Support Program** (SSSP), the **Student Success for Basic Skills Program**, and the **Student Equity program** (a subset of the SSSP) into a single categorical program could help colleges meet the goals in the *Vision for Success* under the Guided Pathways framework. The Chancellor's Office recommends such an action. Additionally, the Chancellor's Office recommends, beginning in 2018-19, implementing the methodology by which the dollars are allocated for this new program to align with the funding formula. We think it would be sensible to allocate dollars to districts using the same methodology used to allocate the Base Allocation and the Equity Allocation, as described in our recommendations above. Further, we recommend a "hold harmless" provision, whereby a district would not receive less in 2018-19 and 2019-20 from the new consolidated categorical program than the sum of the amounts the district received from the programs in 2017-18. This new program must further the system's equity goals—namely, the *Vision for Success* goals around closing achievement gaps. For that reason, we recommend that any related statute make clear that the dollars appropriated for this purpose are expected to be used in support of the local student equity plans.

Funding to Encourage Full-Time Faculty Hiring—Additionally, the Chancellor's Office recommends the creation of a new categorical program that would encourage the addition of new **full-time faculty**. The budget and legislative request approved by the Board of Governors in September 2017 made a similar request. The state made a similar investment in the 2015-16 budget. The Faculty Association of the California Community Colleges presented research to the Board of Governors highlighting the link between full-time faculty and the outcomes our system is trying to encourage. Consistent with the intent of the funding formula itself, we recommend that additional funds be included in the May Revision for this purpose.

Automatic Adjustments to State Appropriations for General Apportionment—For the Local Control Funding Formula used to fund school districts and charter schools, existing law adjusts the state appropriation to account for changes in the factors used to determine apportionments, including average daily attendance and property tax revenues, following the enactment of the annual budget act. Historically, the community colleges have not enjoyed fiscal protection against uncertainty in budgetary estimates. The Chancellor's Office recommends that the Governor and Legislature provide for, in statute, an automatic backfill for changes in estimates that occur after the enactment of the annual budget. Doing so will ensure that funds are available to all districts to implement the new formula and recognizes that the new formula adds some fiscal uncertainty.

Themes and CCCCO Responses

Below, we describe themes that emerged from our consultation with system stakeholders and other interested parties and note how the Chancellor's Office's recommendations respond to these concerns.

Concerns About "Skimming"—Over the years, many community college constituencies have opposed funding formulas that include student success or outcome components because of concerns that those formulas would create a financial incentive for colleges to "skim" students (only serving the most likely to succeed) as a means to demonstrate the outcomes. Those concerned suggest that colleges that choose to enroll historically underserved students could be penalized financially.

The recommendations of the Chancellor's Office actively seek to avoid such consequences. Recent research suggests that special incentives for the success of targeted student groups—in other states, sometimes called "premium" points—can alleviate concerns about "skimming" behavior. In line with this research, the Chancellor's Office seeks to financially "reward" colleges for serving and successfully completing those students to whom our system must pay far more attention (including low-income students, as defined, and first-generation college-going students).

Definition of High-Need Student Populations—Almost every piece of the feedback received by the Chancellor's Office offered alternative student characteristics for inclusion in the computation of the supplemental allocation intended to direct additional resources to students in front of whom existing systems place high barriers to success. Suggestions included separating out (and counting) foster youth, active duty military students and veterans, English learners, CalWORKs recipients, adult learners, and "skills-builders," among others. Additionally, social justice organizations suggested specifically including metrics that call out achievement gaps among racial and ethnic groups. Lastly, a large majority of online survey respondents supported the inclusion of financial need, special need, and ethnic and racial characteristics in the funding formula. The clear theme throughout these comments is for the funding formula to take into account a broader set of factors—beyond economic factors—for defining high-need student populations.

The Chancellor's Office also found the sole use of economic factors to be constraining. For that reason, we recommend that the funding formula also provide additional funding based on the number of **first-generation college-going students** as part of the Equity Allocation, with premiums awarded to districts for the success of these students as part of the Student Success Allocation.

The Chancellor's Office believes that adding first-generation status is critical to achieving the aims of the formula. While the groups of first-generation students and low-income students overlap, they are not identical. Less than one quarter of first-generation students report income in the lowest quartile. While first-generation students at the California community colleges are almost twice as likely to receive a Pell Grant, only 21 percent of first-generation students are Pell Grant recipients, based on our system's data. First-generation status, even if a student is not low-income, has a significant negative impact on a student's persistence and success. One study found that, after controlling for race, income, financial aid, and other factors, first-generation students were 1.3 times more likely drop out of college; another suggested that students who were "doubly-disadvantaged" (both low-income and first-generation) were more than four times more likely to leave college after the first year, with the odds of graduating in a timely way also reduced.

With regard to making funding allocations on metrics directly tied to race and ethnicity, the Chancellor's Office exercised an abundance of caution, being careful not to broach state and federal legal boundaries, including provisions of Proposition 209. However, our clear intent is that this funding formula promote equity in educational outcomes. Student data will continue to be disaggregated based on race and ethnicity, which will allow colleges, social justice leaders, and others to monitor the progress of specific subpopulations of students.

Additionally, the Chancellor's Office recommends defining "low-income students" using a broad measure. In addition to Pell Grant recipients, the definition includes two additional student populations: (1) AB 540 students (most of whom likely are undocumented immigrant students) and (2) adults age 25 and older receiving the California College Promise Grant.

By creating incentives around the Pell Grant, the formula also would respond to concerns that financially-needy students are not receiving financial aid for which they are eligible. Prior research has found that many low-income students do not file the Free Application for Federal Student Aid (FAFSA) because of the complexity of the process, which evidence that the hurdle prevents many students from going to college at all. More recently, researchers at the Wheelhouse Center at the UC Davis School of Education found that one in five California community college students who submitted the FAFSA and were eligible for the Pell Grant did not receive their awards. Further, the study found variation across campuses, suggesting that policies and practices at campuses could affect whether, and which, students get paid. The Chancellor's Office recommendations would create a strong incentive for colleges to help students access these needed funds.

The Chancellor's Office believes these characteristics capture students with the most significant barriers to success under the current system. While many other students in our system have needs that should be addressed by our colleges, including an especially broad definition of need as part of the Equity Allocation would undermine the purpose of targeting additional resources to the students with the highest needs. Additionally, the recommendation balances the state's and districts' need to streamline the measures used in funding formula with the call from social justice advocates to more accurately capture high-need students.

Identification of Appropriate Student Success Metrics—Several parties believe that the formula would be strengthened by including key **progression** and **wage outcome metrics**. The Chancellor's Office heard their suggestions and crafted its recommendation to include in the formula (1) completion of transfer-level mathematics and transfer-level English within the first year of enrollment and (2) student attainment of a regional living wage within one year of community college completion. The first measure is a strong indicator that a student is on track for transfer, consistent with the Guided Pathways framework our office is implementing and with the developmental education reform embodied in AB 705, and the second offers a tangible benefit—to both the student and the community—of educational participation.

Additionally, districts expressed concerns that the **data** collected for purposes of the funding formula would be inconsistent with current system-level streamlining and simplification efforts and that the quality of the data would hinder districts' ability to benefit from the formula.

Colleges and other parties have expressed concern about the use of the metric around first-generation students since the data have been poorly reported in the past. The Chancellor's Office believes that first-generation data submitted by districts will significantly improve starting with the fall 2017 term. Previously, districts had submitted data on first-generation students as part of a special population count, which included a limited number of students. However, starting in summer 2017, data on first-generation students are included in the required reporting for all enrolled students in a given term. (Given the data challenges prior to 2017, in testing the recommendations contained in this document, the Chancellor's Office constructed a measure of first-generation students using correlations with other characteristics for which data have been more accurate.)

Various constituents expressed their concern over outcome measures related to **transfer**. There appeared to be broad support for using a "transfer-ready" measure, which is in the control of the colleges, over a measure that many feel to be out of a college's control, such as successful transfer to a four-year college or university. The Chancellor's Office too struggled with this distinction. We eventually landed on use of the successful completion of the Associate's Degree for Transfer (ADT)—created by the Legislature in 2010 through SB 1440 (Padilla)—as the recommended measure of whether a student is prepared for transfer. The Chancellor's Office also believes use of this measure mitigates against the unwanted consequence of encouraging districts to enter into transfer agreements with for-profit colleges and universities over public colleges, especially if the public colleges are constrained in their ability to enroll significant numbers of new transfer students. The Chancellor's Office also is making significant strides in making the ADT the preferred transfer pathway. Last month, Chancellor Oakley announced a new partnership with the University of California that would guarantee transfer admission to students who had completed an ADT. We are having similar discussions with the Association of Independent California Colleges and Universities, which represents 78 private, nonprofit colleges and universities in the state.

Colleges were very concerned about the lack of student success measures related to **noncredit instruction** in the Governor's proposal. Given that the Chancellor's Office is excluding both regular noncredit and CDCP noncredit from inclusion in the funding formula (instead funding those enrollments at current rates and under current practice), we saw no immediate need to include success measures specifically related to noncredit completion.

Many parties were concerned that the funding formula would discourage colleges from offering **CTE** and **"skills-builder"** courses in favor of the more highly rewarded and less expensive transfer curriculum. The Chancellor's Office shared these concerns, and we believe several recommendations respond specifically to them. Under our recommendation, the following student success outcomes could encourage high-quality CTE programs: (1) the number of credit certificates in excess of 16 units awarded (essentially capturing CTE certificates); (2) the number of students completing 9 CTE units (to capture "skills-builder" students); and (3) the number of students attaining a regional living wage within one year of community college completion (to capture the economic benefit of community college accruing to students and communities).

Implementation Concerns—From members of the Legislature to districts, numerous parties have expressed their concern over the **speed** with which the proposed formula is both being created and is slated to be implemented.

The funding formula conversation builds on policy deliberations over the past decade, including discussions around the Student Success Task Force in 2011 and 2012. Further, as noted earlier, after the Governor's proposal, the community college system sprang into action to analyze, critique, and make recommendations related to a new formula. The feedback has been robust, and the Chancellor's Office believes that many of the fundamental issues associated with this change have been discussed in depth.

The **timeline** for implementation has caused angst among district leaders. The CEO group recommended a lengthy formula phase-in of seven years. The Chancellor's Office believes that a two year phase-in period, during which districts are "held harmless" at their current funding level, is appropriate. The Chancellor's Office also agrees with the need, identified by the CEOs, the Workgroup on Fiscal Affairs, and many others, to provide a cost-of-living adjustment (COLA) on those 2017-18 amounts. Doing so will ensure that all colleges receive additional resources to support rising costs. Like the Administration, though, the Chancellor's Office recommendation would begin providing additional dollars through the new formula—recognizing districts' needs and performance—beginning in 2018-19.

Several districts expressed concern that the new formula would reverse a 2006 plan to **"equalize"** per-student funding across districts. The intent of the Governor's proposal—which the Chancellor's Office supports—is that a rational and equitable formula should do more than just provide equal funding per student across the system. This new formula would compensate districts for the higher costs they incur to educate and serve students who face higher barriers to success and reward districts for seeing these students through to successful outcomes. Under this model, districts that serve similar numbers of students in total—and similar numbers of high-needs students—and that achieve similar outcomes would receive similar levels of funding.

Benefits of a New Formula—The majority of online survey respondents felt that a new funding formula would result in more conversations about students' educational goals, college outcomes, and the development of local policies that align with funding components. The Chancellor's Office's review of the research suggests this is reasonable. In other states, the evidence suggests that institutions become more aware of state goals when "performance funding" models are implemented. Institutions also tend to make changes to try to achieve the goals. In those states, institutions began to use data to inform decision-making, increase institutional funding dedicated to instruction, improve developmental education and tutoring, change course sequence and curricula to better serve students, and provide professional supports to improve teaching among faculty, among other changes. Given appropriate and supporting actions by the Governor, the Legislature, and the system, we believe that these funding formula changes will encourage alignment of programs and services at the local level with the state's priorities and help bridge the gap between the various initiatives at play. More specifically, because it is linked to the *Vision for Success* and the Guided Pathways framework, the formula will ensure the focus remains on student success.

Next Steps

Budget Action—We hope that these recommendations will be included in the Governor's May Revision. We look forward to working with the Department of Finance and the Legislature to answer questions and provide the details necessary to enact the formula, including data related to the components included in final budget deliberations.

Advisory Committee—The Chancellor's Office received multiple recommendations for the Chancellor to create an advisory committee to monitor implementation. Should a new formula be enacted, the Chancellor would create this advisory committee. The committee would have several charges. First, it would advise the Chancellor's Office in the creation of regulations and guidance during the implementation period. Second, it would monitor this new use of data and make recommendations on any necessary interpretations of data definitions. Finally, it could consider topics that were not specifically addressed in the legislation being considered this year. These could include the relationship between noncredit funding and the Adult Education Block Grant, the structure of the basic allocation, the impact of the formula on existing regulations (such as the "50 percent law" and the faculty obligation number), alignment of various career-technical education programs, and incentives for innovation in instructional delivery, including through online education.

District Alignment with *Vision for Success*—The Governor's proposal requires community college districts to align their educational master plans and their budgets with the goals of the *Vision for Success*. We believe that represents sensible policy. With the enactment of a new formula, the Chancellor's Office would develop guidelines to help districts do so.

Capacity-Building Efforts—As a new formula is implemented, the Chancellor's Office will need to work with community college districts to build the capacity necessary to meet the formula's goals. The *Vision for Success* includes a core commitment of pairing high expectation with high support. This work would build on recent investments, which have transformed the Chancellor's Office and created a cross-functional approach to support that spans divisions. The foundation of these efforts is a continuous quality improvement process—focused on student need—grounded in equity and research. These efforts outline a process for growth, experimentation, and change led and supported by faculty, staff, and administrators at all levels of the system. Over the last few years, the Chancellor's Office has developed a unique understanding of college culture and is pairing subject matter expertise to meet district and college needs. The office offers continuum of resources, including workshops and webinars, a professional learning network, communities of practice focused on thematic areas, partnership resource teams, facilitators, and other materials and tools aligned with the *Vision for Success* goals and commitments and the Guided Pathways framework.

Formula Modifications—As discussed above, the Governor's proposal allows for the Board of Governors to modify the funding formula with approval from the Department of Finance. We believe this authority is necessary to allow the office to mitigate against unintended consequences. As required by the proposed statute, we would notify the Legislature prior to making changes.

Evaluation Plan—The funding formula makes significant changes to state policy, and it is critical that these changes be accompanied by rigorous evaluation of their effects. In the short term, we should understand how funds are distributed and whether the new formula impacts the types of students served at the colleges and the types of programs colleges offer. Other policy questions may require data that would be generated years after the change in funding. Fundamentally, we should understand whether—and how—the new formula affects the outcomes that are central to the *Vision for Success*. Upon enactment of a new formula, the Chancellor will work with the Governor and the Legislature to solicit plans for formal evaluation. In future years, the Chancellor's Office is committed to submitting reports detailing the findings from those evaluations.

Appendix A—Report of the Advisory Workgroup on Fiscal Affairs

The December 2017 report of the Advisory Workgroup on Fiscal Affairs is attached.

Appendix B—Feedback

Feedback received from the following organizations is attached:

Received	Entity
May 1	Los Angeles Area Chamber of Commerce
April 26	California Competes
April 16	CEO Funding Formula Workgroup
April 13	The Research and Planning Group
April 10	Campaign for College Opportunity
April 6	Central Coast Community College Collaborative
April 5	College of the Canyons
March 29	The Education Trust-West
March 29	Foothill-De Anza Community College District, Kern Community College District, Los Rios Community College District, Peralta Community College District, San Diego Community College District, and City College of San Francisco
March 20	Legislative Analyst’s Office
March 19	Hispanic Association of Colleges and Universities
February 21	Far North Community of Practice
February 12	Single College-District Caucus
February 1	Academic Senate for California Community Colleges
January 26	Faculty Association of California Community Colleges

(This list reflects documents that were presented to the Chancellor’s Office through official capacities and in a format easily transmittable. Please contact us for additional detail about feedback received.)

Appendix C—Surveys

Summaries of the two surveys administered by the Chancellor's Office—on the funding formula and on categorical program consolidation—are attached.