Dr. Jose Fierro
President's Message
March 19, 2018

Good afternoon Colleagues,

Below please find an important update on the Governor's budget proposal. The update is lengthy, but I want to provide you with as much information as possible because **the new funding formula concerns all of us; it threatens the long-term stability of our college if implemented as proposed**.

In the short run, the proposed funding formula affects Cerritos College through a loss of nearly **$1 million** in its first year and close to **$5 million** over a four-year period. This loss of revenue clearly hinders our ability to properly serve our students and provide high quality services to our local community.

My hope is that the following update provides you with enough information to contact your state legislators and share the unintended consequences of the proposed budget. The last section of this update includes a summary of an alternative funding proposal from the 114 California community college CEOs.

Summary of *Current* Budget Proposal

The new funding formula for California community colleges is comprised of a base grant, supplemental grant, and a Student Success Incentive Grant:

- **Base Grants (50%) -** District base grants based on FTES enrollment.

- **Supplemental Grant (25%**) - Supplemental grants based on the number of low-income students that the district enrolls reflecting two factors:
  (1) enrollment of students who receive a College Promise Grant fee waiver (formerly known as the BOG Waiver), and
  (2) enrollment of students that receive a Pell Grant.

- **Student Success Incentive Grant (25%) -** Additional funding based on:
  (1) the number of degrees and certificates granted
  (2) the number of students who complete a degree or certificate in 3 years or less, and
  (3) the number of Associate Degrees for Transfer granted by the college.

- **Hold Harmless Provision -** Districts will be held harmless in the first year of implementation, meaning, they will continue to be funded based on 2016-17 levels for one year, but without COLA. **As it stands, Cerritos College will not be eligible for COLA.**

Unintended Consequences of the New Formula

Student Success/Supplemental Grant Metric Percentages (Pell, BOG, Degrees/Certificates) Drop From 50% to 25% or Less

- The formula disproportionately weighs metrics that districts cannot control; this will cause wide swings in funding.
- Pell and BOG students vary by college and community; degree completion based on a 3-year cohort favors the District where the student completes, but does not factor in performance at prior institutions.

COLA and Growth Funding is Not Allocated to "Hold Harmless" Districts

- COLA is applied year-to-year on funding rates and the basic allocation **only if a College is not in a "Hold Harmless" status**.
- This will jeopardize fiscal stability and throw districts into a cycle of decline.

FTES and Accountability Metrics are Inconsistent

- The Department of Finance uses a combination of metrics from different fiscal years, creating inconsistencies in the results; this does not follow the Trailer Bill language.

One-Year "Hold Harmless" Creates Fiscal Instability

- If a District loses funding under the proposed model in its first year, it is not truly held harmless because it will not receive any "New Revenue," i.e. COLA.
- **<u>This could cause a District like Cerritos to become fiscally insolvent and unable to recover back to base funding.</u>**
- Without three years to restore, districts cannot ensure that they will not experience large revenue drops.

Summer Shift to be Eliminated in 2017-18

- Under the current proposal, summer shift would be eliminated in 2017-18.
- Summer shift is an important flexibility model to serve students and align revenues with expenses, i.e. FTES not funded push to next fiscal year.
- This is considered by some as a way to "game the system," but in actuality, it is critical to the fiscal stability of a college.
- Ending the summer shift could also limit class offerings for students if a District is uncertain of whether or not it will receive funding for students served.

Non-Credit Students Are Not Represented

- These students are often low income and comprise a large population at many districts; as such, they need to be included in the metrics.
- Non-credit students are an important part of our communities and local economic development and should be represented in our new funding model.

Disruption of Equalization Translates into Inequality of Services Provided to Students

- Some districts will receive a higher allocation per FTES than others; as a result, students with high needs are at risk of losing services.

Multi-Year Projections Have Not Been Provided

- A multi-year projection is critical in order to determine the unintended consequences of the formula.

Faculty Obligation Number (FON) Rates are not Addressed in the Proposed Budget

- Current model uses 100% FTES to adjust, and the new model would only use 50% FTES.
- As FTES would now count for half of the model rather than 100%, would the FON rates similarly go up or down by half of the growth/decline?

Alternative Model to the Governor's Proposal

To ensure effective implementation of this proposal, **<u>the CEO Funding Formula Workgroup recommends a 7-year implementation process.</u>** A thoughtful and incremental transition process is consistent with the implementation of major education finance reforms over the last twenty years, including SB 361 and the K-12 Local Control Funding Formula. Specifically, the 7-year implementation timeline would include two years of hold harmless and an incremental 5-year phase-in process. This allows districts to plan and make data-informed adjustments that enhance student success.

Beginning in year three, funding would be allocated according to the Access and Equitable Success metrics. The percentage allocated based on the Equitable Success metrics would increase by 5% each year until full implementation in 2025. It should be emphasized that each 5% increase represents approximately $400 million in system-wide funding, more than enough to stimulate systemic change. At full implementation, over $2 billion would be dedicated to the metrics outlined in the Equitable Success category.

A comprehensive review of the new Student-Focused Funding Formula necessitates an analysis that includes the impact of regulations such as the FON and 50 percent law. To consider the formula's efficacy and any unintended consequences, the CEO Funding Formula Workgroup recommends an analysis be done in Years one and two, with recommendations due by June 2020.

The Governor's proposal for a new funding formula offers a means to highlight our students' transformational academic achievements, and enables California Community Colleges to demonstrate our efficacy as comprehensive and results-oriented institutions of higher education. Primary goals of the recommendations are to protect postsecondary education access to economically disadvantaged and underrepresented students, reward districts' intentional efforts to advance student success and completion, and to recognize and support the comprehensive mission and indispensable role of California's public community colleges.

Timeline

<table>
<tr><td>Year 1: 2018-19</td><td colspan="3">Hold Harmless to 17-18 with COLA
One-time funds to recognize district performance under Equitable Success metrics</td></tr>
<tr><td>Year 2: 2019-20</td><td colspan="3">Hold Harmless to 18-19 with COLA
One-time funds to recognize district performance under Equitable Success metrics
Summer FTE assigned to the fiscal year in which the final day of instruction was held.</td></tr>
<tr><td colspan="4">Implementation of Equitable Success Metrics</td></tr>
<tr><td>Year</td><td>Access Metrics</td><td>Equitable Success Metrics</td><td>Estimated Equitable Success Dollar Amount</td></tr>
<tr><td>Year 3: 2020-21</td><td>Access: 95%
3-year weighted average</td><td>Equitable Success: 5%
2-year average (of 18-19 and 19-20)</td><td>$419 Million</td></tr>
<tr><td>Year 4: 2021-22</td><td>Access: 90%
3-year weighted average</td><td>Equitable Success: 10%
2-year average (of 19-20 and 20-21)</td><td>$838 Million</td></tr>
<tr><td>Year 5: 2022-23</td><td>Access: 85%
3-year weighted average</td><td>Equitable Success: 15%
2-year average (of 20-21 and 21-22)</td><td>$1.3 Billion</td></tr>
<tr><td>Year 6: 2023-24</td><td>Access: 80%
3-year weighted average</td><td>Equitable Success: 20%
2-year average (of 21-22 and 22-23)</td><td>$1.7 Billion</td></tr>
<tr><td>Year 7: 2024-25</td><td>Access: 75%
3-year weighted average</td><td>Equitable Success: 25%
2-year average (of 22-23 and 23-24)</td><td>$2.1 Billion</td></tr>
<tr><td>Full Implementation</td><td>75%
3-year weighted average</td><td>25%
2-year average</td><td></td></tr>
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Best,
Jose Fierro, D.V.M., Ph.D.
President/Superintendent