



**REPORT OF THE
WORKGROUP ON
COMMUNITY COLLEGE
FINANCE**

September 2004

Community College League of California
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September 1, 2004

Mr. Brice Harris, President
Chief Executive Officers of the California Community Colleges

Mr. David Viar, Chief Executive Officer
Community College League of California

Ms. Michele Jenkins, President
California Community College Trustees

Dear Brice, David, and Michele:

In May of this year, you requested that a team of CBO's from across the state come together to address in a comprehensive way major funding issues facing California's community colleges. This group of twelve included small and large districts, rural and urban, multi-college and single college, equalization and non-equalization, nominal non-credit and large non-credit districts. Such a grouping allowed us to explore in depth the major elements affecting system and local district funding.

The CBO workgroup is very appreciative of the opportunity to provide input on these pressing and complex issues. Our thanks to the CEO and CCCT boards of the League for their support in this effort and more specifically, to Scott Lay of the League for his work on behalf of the system.

Given unlimited resources many funding models could be successful; however, we do not enjoy such a luxury and therefore face a more difficult task. Further, we recognize that there are a number of constraints which limit our ability to craft solutions. These constraints range from language in the state constitution to on-going practices not even recorded. To that end, some issues are easier to address than others. Finally the timeframe for our work was limited to the summer months, which was a very aggressive goal in and of itself.

The report that follows represents the sincerest of efforts to do what is best for the system and most importantly our students. There were no personal, district, or group affiliated agendas championed. Each member of this workgroup approached this charge with the utmost care and concern.

Our first objective was to determine those characteristics of what we wanted in a funding model. We referred to these characteristics continuously as we worked through the myriad of issues facing us. Having determined what we wanted in "the funding

model” we next spent time evaluating the constraints that would complicate or limit our ability to craft a model that encompassed all of these characteristics.

The workgroup spent time reviewing the current program based funding (PBF) model and the funding drivers contained in that model. In comparing the current model to the desired characteristics it was determined that PBF was found lacking. PBF is not without merit, however it was our conclusion that a better solution could be found.

With that in mind, we began a very wide-open discussion of ways to restructure the California Community Colleges funding model. Ideas and concepts were suggested, debated, and tested. Through this sifting and sorting process we arrived at a set of basic drivers which we then evaluated one against another and in combination. The model that follows is the result of many hours of deliberation. **We all should remember that there is no perfect model, but rather given the desired characteristics of the model our goal was to find one that could be broadly accepted.**

Over the last 15 years various attempts have been made to address limited and specific, perceived inequities. For the most part these actions have done little to satisfy legitimate district concerns. We feel that because we have examined the funding model in a broader comprehensive sense, that this set of recommendations has greater integrity. Three strands of twine separately are fragile and easily torn. When woven together they are much stronger and can sustain greater stress. So it is with this set of recommendations. We have attempted to weave together the recommendations so that in total, when taken together, present a strong tether, able to stand the stress of time, the ups and downs of economic cycles, and the changing demands of a large, diverse, and dynamic state. It is with a real sense of optimism that we present this report to you.

Respectfully Submitted,

Michael Hill
Chair

MH/pg

Attachments: May 25, 2004 letter from Brice Harris
Desired characteristics and constraints
List of workgroup members
Executive summary
Report of the Workgroup on Community College Funding



May 25, 2004

Mike Hill
Vice Chancellor, Administrative Services
San Jose-Evergreen CCD
4750 San Felipe Road
San Jose, CA 95135

Dear Mike:

Thank you for agreeing to chair the League's Funding Workgroup. From what I've heard, an outstanding team of CBOs has been assembled, and I'm confident you will prove a valuable leader for this effort.

At its May 18 meeting, the CEO board asked Scott Lay to seek recommendations from a workgroup of CBOs. The issues most frequently identified as needing immediate resolution are:

- the status of program-based funding
- equalization of district credit funding rates
- the computation of district and systemwide growth rates
- the noncredit rate, including its relationship with K-12 adult education and additional funds needed to serve these students
- the balance of funding between equalization, growth and noncredit funding in the annual budget
- the interaction between funding needs and available resources within and beyond Proposition 98

While the issues are numerous and the task daunting, it is essential that the system mobilize quickly to address these funding issues in time for the 2005-06 budget act. For this reason, I ask that recommendations be returned to the CEO and CCCT boards by August 31, 2004. Upon concurrence with the recommendations, we intend to forward them to the Consultation Council for system adoption and incorporation in the 2005-06 budget request.

Again, thank you for your leadership on this issue. If I may be of assistance during your deliberations, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Brice W. Harris".

Brice Harris
President
Chief Executive Officers of the California Community Colleges

CALIFORNIA COMMUNITY COLLEGES
CBO WORKGROUP ON COMMUNITY COLLEGE FUNDING
September 1, 2004

Desired Funding Model Characteristics

- a) that the model be fair
- b) simple
- c) predictable
- d) stable
- e) minimize internal system conflict
- f) timely
- g) efficient to administer
- h) adequate and sufficient to sustain operations
- i) recognize cost pressures
- j) have a multi-year application
- k) be flexible
- l) consistent
- m) accommodate good and bad years
- n) address inequities of equalization and access
- o) promote a sensible use of public funding
- p) recognize local community needs and geographic areas
- q) uses quantitative, verifiable factors
- r) protects the integrity of base funding
- s) in synch with the community college system mission and state master plan for higher ed

Constraints

- a) Proposition 98 limitations
- b) Legislature and term limits
- c) Political split of the state/geographic influence
- d) Current program-based funding model
- e) Insufficient cost-of-living adjustment
- f) Uncertainty of year-to-year funding
- g) Lack of backfill – taxes/fees
- h) Unfunded or partially funded mandates
- i) Special interest influence
- j) State economic cycles
- k) Demographics of communities served
- l) Conflicting regulations
- m) Funding – limited flexibility regarding new revenue generation
- n) Inadequate/under-funded base
- o) Gap between reasonable state funding and the Real Cost of Education
- p) Historic commitment to low fees
- q) Legislated limitations such as growth caps, AB 1725 workload measures, etc.

**CALIFORNIA COMMUNITY COLLEGES
CBO WORKGROUP ON COMMUNITY COLLEGE FUNDING**

September 1, 2004

List of Members

Pegi Ard, Cabrillo

Jim Austin, Grossmont/Cuyamaca

Tom Burke, Kern

Peter Goldstein, San Francisco

Peter Hardash, Pasadena Area

Michael Hill, San Jose/Evergreen

Tom Kesey, Mendocino-Lake

Vinh Nguyen, Los Angeles

Jerry Patton, Desert

Larry Serot, Glendale

Jon Sharpe, Los Rios

Martha Wescoat-Andes, Butte-Glenn

Staff

Scott Lay, CCLC

Report of the Workgroup on Community College Funding

Executive Summary

At the request of the boards of the California Community College Trustees (CCCT) and Chief Executive Officers of the California Community Colleges (CEOCCC), a workgroup of chief business officers from a diverse array of districts met over several months to make recommendations on changes to the community college funding formula. The following report is the product of the workgroup's deliberations and is submitted for the review of the CCCT and CEOCCC boards and the broader community college system.

The workgroup recommends replacing the program-based funding distribution of funds to community college districts with a simpler, more equitable method. Each district would receive a basic allocation based on the number of colleges and centers, followed by an equalized rate for all credit and non-credit FTES. This provides equitable funding while recognizing the unique circumstances surrounding the creation of our different districts.

The recommendations further include several actions to protect instruction and student services by ensuring districts are provided stable, reliable funding that is not eroded by inflationary pressures.

A significant new investment is suggested for non-credit instruction. While the workgroup is cautious about creating incentives to prioritize program areas, the workgroup discovered a clear and present need in high school competency and short-term vocational programs. The workgroup therefore recommends a process whereby academicians can identify non-credit programs meeting these needs that should receive funding equivalent to the state's level of support for credit programs.

To ensure equitable access to our colleges and to protect essential instructional and student services programs, the workgroup recommends establishing clear budget priorities for each year's state budget deliberations. Additional funding should be sought to protect core operational and instructional needs and for a more stable and effective distribution of scheduled maintenance and instructional equipment funds.

A student fee policy should be established that protects students and provides districts advance notice to avoid unnecessary and burdensome costs of administering uncertain fee levels. The workgroup further recommends that the state either backfill waived student health center fees, or allow districts to charge a reasonable fee to those students using the centers. Further, districts should be granted the authority that UC and CSU currently have to charge reasonable user fees for enhanced campus services such as technology centers and athletic facilities.

While the scope of the report does not allow for the rehabilitation of every challenge facing California's community colleges, it clearly identifies an agenda for immediate changes that will deliver equitable access for students, meet identified state needs, and ensure that quality instruction and student services remain the highest priority of our colleges.

Recommendations of the Workgroup on Community College Funding

I. Providing a stable, reliable and equitable funding allocation.	
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<i>Districts should receive an annual allocation on a per college basis with recognition for comprehensive centers, and with an equalized rate per full-time student.</i>	3
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Students should be protected with a reliable statutory cap on fee increases, with at least six months notice of a fee increase. 16

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The existing apportionment offset for student fees should be maintained. 17

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Districts should be allowed to retain all student enrollment fees for non-state supported students. ... 18

IV-D. User Fees for Enhanced Campus Services

Districts should be provided authority to charge reasonable user fees to access enhanced campus services. 19

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V-A. Scheduled Maintenance and Instructional Equipment Stability

A stable funding stream of ongoing funds should be created for scheduled maintenance and instructional equipment. 20

V-B. Categorical Programs: Local Protection

Categorical programs should be grouped by general subject area, with limited expenditure flexibility to ensure funds serve students within the district. 21

V-C. Health Services Preservation

The state should backfill student health fees waived for those students receiving BOG waivers or allow districts to charge fees to all students using campus health services. 22

VI. Prioritizing student access to quality instruction and student services.

VI-A. Budget Priorities

The annual system budget request should be prioritized to 1) protect the state's existing investment 2) increase access and quality and 3) expand and maintain programs essential to student success. ... 23

I-A. DISTRICTS SHOULD RECEIVE AN ANNUAL ALLOCATION ON A PER COLLEGE BASIS WITH RECOGNITION FOR COMPREHENSIVE CENTERS, AND WITH AN EQUALIZED RATE PER FULL-TIME STUDENT.

Background and justification: The workgroup found the current funding model, while well intentioned to justify revenue for the system, overly complex to use to distribute resources among the diverse college districts. Inconsistent funding of program-based funding precludes a fair examination of the model's effectiveness, and several reports have concluded that it should be replaced by a simpler method for distributing general apportionment funds.

Workload Measures

The workgroup evaluated which workload measures should drive funding of a replacement model. The three major factors discussed were full-time equivalent students (FTES), headcount enrollment and square footage. While FTES clearly drives most instructional costs, many institutional and student services costs rely on headcount measures. The existing maintenance and operations allocation, which accounts for 9.5% of apportionment funds, are distributed per-square foot.

When looking into headcount, however, the workgroup found significant disparities in headcount per FTES. The workgroup was unable to justify the distribution of this ratio, except for apparent safety academies, which produce large headcounts per FTES. Square footage, however, was found to be a more predictable distribution method. Rural districts tend to have more square footage per FTES than suburban and urban districts.

Upon studying the workload measures, the workgroup determined that any funding model needs to recognize the economies (and diseconomies) of scale that are built into the community college system. The program-based funding formula recognizes these scales with multiplier scale factors up to 34%. In contrast, the distribution methodology used to allocate equalization funds in the 2004-05 budget provides a maximum scale factor of 10%.

Adjusting for Economies and Diseconomies of Scale

There are two basic types of scales that can be applied. One, a multiplier, tries to identify an arithmetic scale by which to multiply the basic allocation level to account for scales. Therefore, a 1.15 multiplier could be applied to a \$4,000 per student funding rate, resulting in an actual rate of \$4,600. The advantage is simplicity; the disadvantage is the requirement to identify the appropriate multiplier and the district size ranges to which to apply it. This model is used in the 2004-05 equalization funding.

The second scale factor is to provide a basic allocation amount plus workload-driven funding provided beyond the basic allocation. For example, a district is provided a basic allocation of \$3 million, with an equal amount of \$4,000 for each FTES beyond the basic allocation. A single college district with 10,000 FTES would have an effective scale of 10%, receiving \$4,400 per student. The advantage is the creation of a near-perfect scale that adjusts automatically as

districts increase and decrease in enrollment. The disadvantage is the apparent complexity and the challenge of identifying the correct basic allocation for the diverse community college system in California.

Conclusion

After considering the different scale methodologies, the workgroup recommended using a basic allocation, with separate, fixed amounts for each credit and non-credit student. Although this leaves only one workload driver (FTES), the basic allocation serves as an adequate proxy for the workload measure of gross square footage. The basic allocation further serves as a methodology to partially address the increased fixed costs of districts with high headcount-to-FTES ratios.

DETAILED RECOMMENDATION: Districts should be entitled to an annual allocation of \$5 million per single-college district with more than 20,000 FTES, \$4 million per single-college district with greater than 10,000 FTES, and \$3 million per all other colleges. Additionally, \$1 million should be provided for centers that meet CPEC-approved standards of equal to or greater than 1,000 FTES.

Centers not-meeting current CPEC standards, but “grandfathered” or previously approved by CPEC, as eligible for state capital facilities funding should be eligible for annual allocations as follows:

>1,000 FTES:	\$1 million
>=750 FTES but <1,000 FTES:	\$750,000
>=500 FTES but <750 FTES:	\$500,000
>=250 FTES but <500 FTES:	\$250,000
Less than 250 FTES:	\$125,000

“Grandfathered” centers should be maintained at their initial annual allocation indefinitely, unless given CPEC approval, at which time they should be entitled to the \$1 million center annual allocation.

Credit FTES should be provided on a uniform basis at the 90th percentile of funded FTES in the system, rounded up to the nearest \$100. An equalization allocation should be provided in the initial years of the formula to align the credit funding of all districts.

Non-credit funds should be provided in two tiered levels on a uniform basis per district, as provided for in Recommendation I-d.

Here is how the recommended funding methodology would apply to three sample districts:

Large Single-College District (22,000 FTES)	Medium-Sized, Single College District with One CPEC-Approved Center (15,000 FTES)	Three-College District with Two CPEC-Approved Centers (50,000 FTES)
<p><i>Sample Funding:</i></p> <p>\$5,000,000 (allocation) + <u>\$85,800,000</u> (\$3,900 per FTES) \$90,800,000 (total revenue)</p> <p>Actual funding per FTES: \$4,127 (scale factor: 5.8%)</p>	<p><i>Sample Funding:</i></p> <p>\$5,000,000 (allocation) + <u>\$58,500,000</u> (\$3,900 per FTES) \$63,500,000 (total revenue)</p> <p>Actual funding per FTES: \$4,233 (scale factor: 8.5%)</p>	<p><i>Sample Funding:</i></p> <p>\$11,000,000 (allocation) + <u>\$195,000,000</u> (\$3,900 per FTES) \$206,000,000 (total revenue)</p> <p>Actual funding per FTES: \$4,120 (scale factor: 5.6%)</p>
<p>For comparison purposes, assumptions include only credit FTES. Non-credit would also be provided on a uniform per-FTES basis.</p>		

Cost estimate: \$250 million for equalization phased in over three to five years
Implementation: Statutory (Education Code § 84750)
 Regulatory
 Budget Bill Language

I-B. A LIMITED ENROLLMENT STABILITY AND DECLINE MECHANISM SHOULD BE ESTABLISHED.

Background and justification: During the institution of fees in the eighties, some districts experienced significant losses of students. Upon losing the funding for those students, the districts were subsequently forced to significantly reduce course offerings and services, which resulted in further losses of students and, therefore, funding. Because enrollment growth was provided on the district's lower base, some districts have never recovered from significant historic declines.

In AB 1725 (1989), a mechanism was created to protect districts from this "downward spiral." The mechanism allowed a district to restore its pre-decline cap anytime over the subsequent three years without regard to the district's normal growth cap (decline mechanism), and reduced the funds for the lost students proportionately over three years (stability mechanism).

The stability and decline mechanism was eliminated in the 2003-04 budget process with pressure by the Department of Finance and with little public debate. Now, districts face the prospect of the downward spiral again, and several districts are encountering decline resulting from fee increases and budget cuts.

The workgroup recommends restoring the stability and decline mechanisms. In recognition of the political difficulties with a simple restoration, the workgroup suggests a 10% cap on stability revenue, waivable by the Chancellor upon specified findings.

DETAILED RECOMMENDATION: The three-year stability and declining enrollment mechanism to protect student access should be restored, with a 10% cap on stability funding and a one-third annual reduction of lost revenue for three years, and three years to restore the pre-decline enrollment level. The 10% cap could be waived by the Chancellor upon the finding that the decline was associated with a natural disaster or was otherwise outside of the control of the district.

Cost estimate: No additional state cost
Implementation: Statutory (Education Code § 84750)
Budget Bill Language

I-C. THE STATE SHOULD PROVIDE A GUARANTEED BACKFILL ON LOCAL PROPERTY TAXES AND STATE-PROJECTED STUDENT FEE REVENUE.

Background and justification: Each year, the community college general apportionment (the basic, non-categorical funds provided to each district) are provided by using assumptions of anticipated property tax and student fee revenue, with the balance made up with state general fund revenue. These combined apportionment funds provide the general funding supporting instruction and student services in community colleges.

In the last ten years, the State budget has repeatedly miscalculated property tax and student fee revenues by projecting above actual collections; thereby providing less than adequate state general funds for the general apportionment. Because the revenue shortfall is not discovered until late in a year, the shortfall threatens year-end operations and summer session offerings.

In the event of property tax shortfalls, the state automatically backfills K-12 districts consistent with the system's continuous appropriation. Community colleges are not provided the same protection.

The community college system has repeatedly sought protection against property tax and student fee revenue shortfalls through a legislatively provided backfill, but persistent opposition from the Department of Finance has prevented the legislation from passing. The workgroup believes that the system should continue seeking the protection.

Alternatively, the system should seek the ability to reduce growth funds by the amount of a projected shortfall. While this could result in more unfunded growth, the workgroup believes that protecting base funds is the highest priority for all districts.

DETAILED RECOMMENDATION: The annual forecast of local property tax and student enrollment revenues by the Department of Finance should be guaranteed with a supplemental state general fund allocation in the event state-projected local apportionment revenues fall below projections. Alternatively, the state should allow the enrollment growth allocation to be reduced and used to backfill the lost local apportionment revenue.

Cost estimate: Unknown; likely no additional Proposition 98 costs
Implementation: Statutory (Backfill)
Budget Bill Language (Growth flexibility)

I-D. INCREASED FUNDING SHOULD BE PROVIDED FOR NON-CREDIT PROGRAMS INCLUDING HIGH SCHOOL COMPETENCY, WORKFORCE TRAINING AND VOCATIONAL EDUCATION.

Background and justification: Non-credit instruction provides a demonstrated gateway to enrollment in credit programs, entry or re-entry into the job market, as well as critical life skills for new parents and older adults. Specifically, non-credit instruction:

- Provides immigrants with English language skills needed to gain employment, become citizens, or pursue further academic study
- Provides students in need of remedial coursework with basic skills in reading, writing, and computation
- Provides vocational education students with the skills needed for job entry or re-entry, as well as career advancement or change
- Provides disabled students with the basic skills or vocational education they need to achieve maximum independence,
- Provides parents in trouble with the law with alternatives to incarceration, and provides child development students with educational labs,
- Provides older adults with a variety of educational opportunities that help to keep them mentally and physically fit.

Furthermore, the long term plan for the community colleges, entitled “The Real Cost of Education” and adopted by the California Community Colleges’ Board of Governors in March of 2003, clearly endorses the full integration of non-credit as an equal partner into the community colleges.

Issues with Current Non-credit Funding Rate

Current apportionment funding for non-credit enrollment is far less than the amount provided for credit enrollment. This disparity typically places those community college districts that offer non-credit programs in a position where they are unable to provide funding for full-time faculty, faculty office hours, libraries, learning resource centers, and tutors. Consequently, these program elements, critical to the success of non-credit students, are often missing from non-credit programs. In addition, compensation for faculty and classified employee staff as well as general support costs in districts with large non-credit programs are similar to the costs these districts incur for credit programs.

The current level of apportionment for non-credit, approximately 56% of the credit rate, simply does not provide adequate funding for those non-credit programs that endeavor to support job readiness, provide a gateway to enrollment in credit classes, and provide adequate funding to attract and retain quality faculty and staff.

DETAILED RECOMMENDATION: Apportionment funding should be increased for non-credit enrollment in the areas of English as a Second Language, Citizenship, Remediation and Basic Skills, and Vocational or Occupational Education. This should be accomplished in a series of

incremental improvements, with a goal of raising total apportionment funding for the “Tier 1” non-credit courses (described below) to an equivalent amount of the state support rate for credit enrollment (credit rate minus statewide student fee rate for fee-paying student).

The Statewide Academic Senate, in conjunction with the Statewide Association of Chief Instructional Officers is the appropriate group for reviewing which Taxonomy of Programs (TOPs) codes should or should not be eligible for the improved level of funding. In addition to increased appropriations, implementing changes in apportionment funding for non-credit would require System Office approval and would likely necessitate amendments to both the California Education Code and Title 5 Regulations. The workgroup discussed the following TOPs codes as possible non-credit program areas that would qualify for Tier 1 funding:

- a. Any non-credit courses of vocational program TOP codes
- b. Any non-credit courses in the following TOP codes:

4930.11 - Job Seeking/Changing Skills	4930.70 – Reading Skills, Precollegiate
4930.12 – Study Skills	4930.71 – Reading Skills, College Level (including speed reading)
4930.20 – Communication Skills	4930.72 – Skill Development
4930.21 – Writing	4930.80 – English as Second Language – General
4930.22 – Speech	4930.81 – English as Second Language – College Level
4930.30 – Learning Skills, Handicapped	4930.82 - English as Second Language – Survival Level
4930.31 - Living Skills, Handicapped	4930.90 – Citizenship
4930.32 – Learning Skills, Learning Disabled	4931.00 – Vocational ESL
4930.33 - Learning Skills, Speech Impaired	5200.00 - Accounting
4930.40 – Computational Skills	7040.00 - Computer Programming
4930.41 – Pre-Algebra (Basic Math/Arithmetic)	7990.00 - Computer Information Science
4930.42 – Algebra, Geometry, and Trigonometry	
4930.60 – Adult Basic Education (Grade 1-8)	
4930.62 – High Scholl Diploma Program/G.E.D	

Non-credit instruction that is not related to one of the above specific categories, or “Tier 2” classes would not receive this improved level of funding.

Finally, any improvement in non-credit funding should include standards to ensure that non-credit programs receiving the higher level of funding more closely align with the requirements of credit programs.

Cost estimate:	\$120 million (<i>estimated based on likely applicable non-credit programs</i>)
Implementation:	Statutory (Education Code § 84750) Regulatory Budget Bill Language

II-A. COST-OF-LIVING ADJUSTMENT SHOULD INCLUDE ANY PRIOR YEAR INFLATIONARY DEFICIT AND SHOULD BE APPLIED TO BOTH THE COLLEGE ALLOCATIONS AND CREDIT AND NON-CREDIT FUNDING RATES.

Background and justification: Currently, the K-12 education system uses a revenue limit mechanism, which specifies a dollar per student funding rate for all districts. This allows an easy measurement of funding lost in any year in which a COLA is not provided through the creation of a “revenue limit deficit.” While community colleges have sought similar funding, it has not been provided, partially because the deficit tracking methodology is more difficult.

The funding formula proposed by the workgroup would allow easy tracking of funding deficits, and the workgroup recommends incorporating deficits into each year’s budget request as part of the COLA request.

While the workgroup discussed the insufficiency with the current COLA calculation (implicit price deflator for state and local government services), the workgroup did not have sufficient time to evaluate alternative measurements of costs pressures.

DETAILED RECOMMENDATION: The cost-of-living adjustment should be an accurate measurement of the cost increases of human resources, benefits, goods and services required of community college districts. The calculated rate should be adjusted to account for any prior year cost-of-living adjustment that was not provided or provided below the calculated level. The cost-of-living adjustment should be applied to college allocations, as well as credit and non-credit funding rates.

Cost estimate: \$92 million for COLA not provided in 2003-04

Implementation: Statutory (Education Code § 84750)

II-B. THE SYSTEM'S ANNUAL BUDGET REQUEST SHOULD INCLUDE AN ADDITIONAL 1% INCREASE FOR CORE OPERATIONAL AND INSTITUTIONAL NEEDS.

Background and justification: The recent compacts between the Governor and the University of California and California State University systems recognizes that normal inflationary adjustments for compensation and goods and services do not allow the institutions to protect core investments in technology and program services. The community college system has similarly lost ground as the COLA inadequately funds actual increases in human resources and goods and services.

Beyond the calculated COLA, a 1% increase should be provided to fund non-human resource institutional needs. While this would not provide significant qualitative improvement, it would provide districts resources to avoid reducing program services to meet inflationary costs.

DETAILED RECOMMENDATION: The annual budget request should include an additional 1% for core operational and institutional needs, which should be applied to both college allocations and the credit and non-credit funding rates.

Cost estimate: \$45 million annually

Implementation: Budgetary

II-C. LEASE REVENUE BONDS SHOULD BE EXCLUDED FROM THE PROPOSITION 98 CALCULATION AND INCLUDED IN THE NEXT GENERAL OBLIGATION BOND.

Background and justification: When the voters approved Proposition 98 in 1988, the clear intention was to increase the state’s investment in educational services, and that capital facilities costs were to be funded outside of Prop. 98. The legislature recognizes this by funding debt service on general obligation bonds outside of the Prop. 98 guarantee.

On two significant occasions, the state has issued lease-revenue bonds for community college projects—in the mid-1990s when a statewide general obligation bond measure failed and in 2002 to try to move funds quickly into the state’s ailing economy. The outstanding debt on these projects requires funds that would otherwise be available for community college instructional and student support services to pay approximately \$50 million in annual debt service

At the first opportunity, these lease-revenue bonds should be refinanced through conversion to general obligation bond debt. With the next bond expected in 2006, this converting these projects to general obligation bond would allow between \$50 million and \$75 million to become available for other community college priorities.

DETAILED RECOMMENDATION: The approximately \$50 million currently being repaid out of Proposition 98 General Fund and being attributed to community colleges should be refinanced in the next state general obligation bond, thus freeing up \$50 million in funding for student programs and services.

Cost estimate: Between \$50-\$75 million annual (*General Fund cost for ten years*)
Implementation: Legislative (*inclusion in next general obligation bond act*)

III-A. THE SYSTEM’S ANNUAL GROWTH REQUEST SHOULD BE BASED ON THE ESTIMATED SUM OF ALL CALCULATED DISTRICT GROWTH RATES.

Background and justification: Each fall, the system develops budget change proposals (BCPs) and submits them to the Department of Finance and legislature for funding in the following year’s budget. The Education Code provides that the request for growth should be at least the change in adult population. The system regularly asks for an amount in excess of this rate, with a 3% annual request becoming the norm.

Meanwhile, district growth rates are determined using a multi-factored formula measuring adult population, high school graduation, new facilities and participation rate. The calculations can either exceed or fall short of the statewide request, and there has been little effort to match the statewide request with the stated growth entitlements of each district. If the statewide growth rate is below the sum of all district growth rates, and most districts reach their cap, each district’s growth funding is deficated to the available funding level.

The workgroup recommends synchronizing the system’s growth request with the calculated growth rates of each district. While this may require using preliminary data or estimates for the new facilities factor in the BCP, formulaic budget requests (such as COLA) are frequently updated throughout the year.

DETAILED RECOMMENDATION: In the annual Budget Change Proposal (BCP), the system should request a growth amount required to fund each district’s growth rate.

Cost estimate: \$40 million annually (*estimate, depending on statistical measurements and facility expansion*)

Implementation: Statutory (Education Code § 84750)

III-B. DISTRICT GROWTH RATES SHOULD BE CHANGED TO BETTER REFLECT LOCAL NEEDS.

Background and justification: Currently, individual district growth rates are computed by creating a blended factor reflecting the change in high school graduates and adult population. The rates are subsequently inflated to measure the higher of a “participation rate” factor and/or the percentage increase in square footage in state-approved facilities. Each district is awarded a minimum growth rate of the greater of 1%, or 100 FTES.

DETAILED RECOMMENDATION: Each district’s growth rate should incorporate one-quarter of the difference between their primary county’s unemployment rate and “full employment,” not to exceed two percent. Additionally, each district’s growth rate should incorporate one-third of the district’s three-year overcap enrollment, which should replace the existing “participation rate” factor. “Overcap enrollment” should be enrollment generated between 102% and 110% of the district’s funded enrollment cap. The new facility factor should be retained for those facilities below a capacity load requirement, but should be fully incorporated into growth rates over three years instead of the existing ninety percent over two years. The 1%, or 100 FTES, minimum growth allocation should be retained and should not be reduced in years in which a systemwide growth deficit is applied.

Cost estimate: \$50 million (*annual*)
Implementation: Statutory (Education Code § 84750)
 Regulatory

Current Growth Rate Calculation	Recommendation
A. adult pop. change x college pop. over 21 +	A. adult pop. change x college pop. over 21 +
B. high school graduates change x college population under 21 +	B. high school graduates change x college population under 21 +
C. (statewide average participation rate - district participation rate) <i>or</i>	C. one-quarter of the district’s primary county’s unemployment rate over full employment, not to exceed 2% +
D. one-half of 90% of the change in the new state-approved facilities being brought online)	D. one-third of the district’s three-year overcap (between 102% and 110% of cap)
	<i>Add E only if the sum of A through D is less than or equal to 10%, a new facilities factor should be applied to bring the district up to, but not exceeding, 10%. If A through D exceeds 10%, do not apply E, and use the fully calculated rate of A through D.</i>
	E. one-third of 100% of the change in the new state-supportable facilities being brought online.

III-C. A “BANKING” MECHANISM SHOULD BE ESTABLISHED TO ALLOW DEFICITED GROWTH RATES TO CARRY-FORWARD FOR THREE YEARS.

Background and justification: Each year, the system requests a growth allocation to the legislature. In recent years, the request was made based on a statewide policy goal (i.e. 3% for 33,000 FTES), rather than being based on the actual sum of all district growth rates. If the amount provided by the legislature is insufficient to fund the growth of all districts (up to their growth rates), the rates of all districts are reduced on a pro-rata basis. This results in the loss of potential growth, and the entitlement is permanently lost. Districts have difficulty identifying the proper number of courses to schedule, with the risk of too many classes being offered when growth is deficated.

District growth rates are highly variable, due to highly volatile high school graduation rates and the timing of the introduction of new facilities. This can provide a significant impediment to access if a district had a high growth rate in a year in which a systemwide deficit was applied.

The workgroup recommends allowing districts to carry-forward this lost student access opportunity from a statewide deficit for up to three years. The deficated growth factor would be supplemental to the district’s calculated growth rate in three subsequent years, and should be incorporated into the system’s growth request. This mechanism allows districts to protect student access despite variable growth rates and the ebb and flow of the state’s general fund. With the flexibility allowed with apportionment reporting during the summer, courses offered but unfunded in a deficit year could be funded in the immediate subsequent year.

DETAILED RECOMMENDATION: If a deficit was applied to growth funding in the prior year, district growth rates should be adjusted the following year by the amount of the prior year deficit. This should be accomplished with a “banking” mechanism, allowing a district to receive credit for FTES calculated in the district’s growth rate, but unfunded because of a systemwide deficit, for three years subsequent to the deficit to the degree it was not funded in one of those three subsequent years

Cost estimate: \$20 million (*annual*)
Implementation: Statutory (Education Code § 84750)
Regulatory

IV-A. STUDENTS SHOULD BE PROTECTED WITH A RELIABLE STATUTORY CAP ON FEE INCREASES, WITH AT LEAST SIX MONTHS NOTICE OF A FEE INCREASE.

Background and justification: This year, the Governor entered compacts with the University of California and California State University providing that students should not face fee increases greater than the annual change in per capita personal income, nor more than 10% in any single year. While the Legislature could still elect to not increase fees, providing a ceiling for students and families to plan for college costs is sensible and should be consistent among the three segments.

In past years, the Legislature has reduced fees when the state's general fund is healthy and increased fees by more than the statutory ceiling when funds fall short. Any consistent statutory fee policy will require the discipline of the Legislature to be successful.

Additionally, the lack of a coherent fee policy has led the Legislature to increase fees in years in which the state's general fund is most strained with the student fee revenue replacing general funds that otherwise would have been allocated to the system. Thus, students have been asked to pay more for their education in years in which instruction and student services were being reduced. Any fee policy must ensure that students benefit from fee increases through qualitative increases in their education.

The workgroup further discussed the need to create a more effective BOG waiver program that ensured that increased investments in federal financial aid benefit students and institutions. With the limited time and financial aid expertise available for the workgroup, no recommendations were developed. However, the workgroup recommends that a financial aid task force be convened to make recommendations in this area.

DETAILED RECOMMENDATION: Community college enrollment fees should not increase by more than the annual change in California per capita personal income, or by more than 10% in any one year. Fee increases should not go into effect until at least six months after the statute is enacted. Any additional fee revenue should result in the increase in funding per full-time student of state-determined funds.

Cost estimate: No additional costs
Implementation: Statutory (Education Code § 76300)

IV-B. THE EXISTING APPORTIONMENT OFFSET FOR STUDENT FEES SHOULD BE MAINTAINED.

Background and justification: Currently, student enrollment fee revenue is blended with state general fund and local property taxes to meet the apportionment (general, per-student funding) provided to each district. A district's general fund share for the apportionment is determined by first subtracting ninety-eight percent of the collected student enrollment fees and the amount of local property taxes collected on the district's behalf.

The current system, however, was deemed advantageous because it ensures that districts with a disproportionately high number of state-mandated student enrollment fee waivers are not penalized. Although alternatives are available (i.e. providing a state-level offset allocation), the administrative burden for an essentially cosmetic change was not deemed worthwhile.

As detailed in Recommendation IV-a, fee increases should result in an increase in the state-determined funding per student to ensure that students benefit from increased student contributions.

DETAILED RECOMMENDATION: To avoid a disproportionate impact on districts with a large number of fee waivers, the existing apportionment offset for student fees should be maintained.

Cost estimate: No additional costs
Implementation: No implementation necessary

IV-C. DISTRICTS SHOULD BE ALLOWED TO RETAIN ALL STUDENT ENROLLMENT FEES FOR NON-STATE SUPPORTED STUDENTS.

Background and justification: Currently, 98% of all enrollment fees collected by districts are used as an offset to their state apportionment. This includes the enrollment fee revenues collected for non-state supported students, including both non-resident students and students above the district's enrollment cap. At the present time, non-resident students pay the enrollment fee and non-resident tuition. Although the state does not provide support for these students, it counts 98% of these students' fee revenue toward the district's apportionment.

For a district with 1,000 over-cap FTES and 500 non-resident students, this apportionment offset of fee revenue costs the district \$1.2 million, even though the state is not providing any support for the students paying the fees. Allowing the district to keep the fees for these students will soften the impact of over-cap students, while awaiting the additional apportionment funds in future years.

DETAILED RECOMMENDATION: Districts should be allowed to keep student enrollment fee revenue collected for non-resident, international and over-cap students.

Cost estimate: \$20 million (*annual*)
Implementation: Statutory (Education Code § 84751)

IV-D. DISTRICTS SHOULD BE PROVIDED AUTHORITY TO CHARGE REASONABLE USER FEES TO ACCESS ENHANCED CAMPUS SERVICES.

Background and justification: Community colleges are required to charge an enrollment fee (currently \$26 per unit), and are allowed to charge other limited fees to support campus services. These fees are broken into two categories—mandatory and permissive. The mandatory fees include those permitted by statute and expressly allowed to be charged to all students (such as health fee) and all users (such as the parking fee).

There are another category of fees that are allowed under the permissive authority of Education Code section 70902. These fees are for optional services provided by the district, such as telephone registration. According to a 2002 System Office memorandum, these fees for optional services may not be charged for services for which local districts receive state funding.

Under this rationale, the System Office opined that a technology fee collected at a district was prohibited, although the campus made separate, state-funded computers available for non-technology fee paying students.

The workgroup recommends statutory changes clarifying that districts may charge user fees for certain services that enhance the campus environment if not fully funded by the state.

DETAILED RECOMMENDATION: Districts should be provided authority to charge means-tested user fees to enhance access to enhanced campus services such as computer laboratories and athletic facilities, so long as those facilities are not fully funded by the state. Board of Governors' waiver (BOG) recipient students should be entitled to a waiver of these campus-based fees.

Cost estimate: No additional cost
Implementation: Statutory

V-A. A STABLE FUNDING STREAM OF ONGOING FUNDS SHOULD BE CREATED FOR SCHEDULED MAINTENANCE AND INSTRUCTIONAL EQUIPMENT.

Background and justification: Throughout the early 1990s, funding for instructional equipment and scheduled maintenance was largely based on the amount of “Proposition 98 settle-up” funds available. These were one-time funds that were block granted to districts. As the state’s economy picked up toward the late 1990s, significant ongoing investments were provided in these areas, with each item provided \$49 million annually.

DETAILED RECOMMENDATION: A stable funding stream should be block-granted to districts for scheduled maintenance (awarded per square foot) and instructional equipment (awarded per FTES), with a uniform \$3:\$1 state:local required match.

Cost estimate: No additional state cost

Implementation: Budgetary

V-B. CATEGORICAL PROGRAMS SHOULD BE GROUPED BY GENERAL SUBJECT AREA, WITH LIMITED EXPENDITURE FLEXIBILITY TO ENSURE FUNDS SERVE STUDENTS WITHIN THE DISTRICT.

Background and justification: Currently, at the end of the year, unused funds in several categorical programs are made available to other community college districts. This often results in a frenetic expenditure of funds on campuses distant from the original designee of the funds.

The workgroup recommends first making up to 10% of the total allocation for categorical programs available for similar purposes on the campus receiving those funds. Therefore, child care funds remaining in the CalWORKs program could be made available for child care for other needy students.

DETAILED RECOMMENDATION: Categorical programs should be grouped by general category. Districts should have the ability to transfer up to 10% of the funds from a discrete item for a similar purpose before funds are “pooled” for use by other districts.

Cost estimate: No additional state cost
Implementation: Budgetary

V-C. THE STATE SHOULD BACKFILL STUDENT HEALTH FEES WAIVED FOR THOSE STUDENTS RECEIVING BOG WAIVERS OR ALLOW DISTRICTS TO CHARGE FEES TO ALL STUDENTS USING CAMPUS HEALTH SERVICES.

Background and justification: The Education Code requires community college districts that operated campus health centers during the 1986-87 fiscal year to maintain service levels provided that year. The law further allows districts to charge a fee to students for the operation of the centers, which is currently capped at \$12 per semester.

Districts are required to waive the health services fee for students that receive Board of Governors' fee waivers. Recent financial aid outreach efforts have significantly increased the number of fee waivers on many campuses. Because the campuses with the most fee waivers often serve a disproportionate number of economically disadvantaged students, they often have a higher demand for campus-based health services. The increasing number of fee waivers, together with the heightened demand for a state-mandated level of services, threatens the fiscal integrity of maintaining campus health services.

The system has repeatedly sought augmentations to offset the state-mandated waiver of fees. While not met with significant opposition, the budget request often fails for insufficient available state funding. While the workgroup believes that the system should continue seeking state funding, alternative revenue sources should be considered.

The workgroup suggests allowing colleges to charge a health fee to those students who receive a BOG waiver and who use the health services. Currently, the state requires co-payments and small premiums for many Medi-Cal and Healthy Families services, which are targeted at the same economic cohort as the BOG waiver program.

DETAILED RECOMMENDATION: The state should provide an annual allocation in the state budget to offset health center revenue lost by granting the mandatory health fee waiver to students receiving Board of Governors' enrollment fee waiver. If the state is unwilling to provide the offset funding, districts should alternatively be allowed to collect fees from all students using campus health centers.

Cost estimate: \$15 million (*annual*) (*for fee backfill*)
\$0 (*for more permissive fee*)

Implementation: Budgetary

VI-A. THE ANNUAL SYSTEM BUDGET REQUEST SHOULD BE PRIORITIZED TO 1) PROTECT THE STATE'S EXISTING INVESTMENT; 2) INCREASE ACCESS AND QUALITY AND 3) EXPAND AND MAINTAIN PROGRAMS ESSENTIAL TO STUDENT SUCCESS.

Background and justification: Each year, state community college leaders meet to develop a proposed budget package. Aside from existing statutory guidance that suggests funding COLA, growth and program improvement, there's little guidance for the prioritization of new revenues available for community colleges.

The workgroup suggests establishing a clear prioritization for budget requests, which would provide integrity to the overall funding model. To ensure the maintenance of program quality, proper inflationary adjustments must be provided to all areas of funding affected by inflationary pressures, and funding must be provided to offset for those items not measured by traditional cost indexes (such as extraordinary retirement, insurance and health cost increases). Only after sufficient funds have been provided should funds be provided to increase student access or to expand programs.

DETAILED RECOMMENDATION:

The annual budget request should prioritize adjustments in the community college budget as follows:

1. Restore any prior year apportionment and missed COLA and core operational and institutional needs deficit.
2. Adjust for compensation and price increases.
 - a. Adjust for statutory COLA to cover compensation and benefit increases.
 - b. Adjust for core operational and institutional needs.
3. Provide funding for equitable access (*shared pot, split to allow multi-year implementation until equalization and non-credit funding improvements are complete*).
 - a. Enrollment growth (65%)
 - b. Interdistrict equalization (incl. additions of colleges or centers) (27%)
 - c. Non-credit funding improvement (8%)
4. Program improvement to increase the standard rate per FTES
5. Appropriate categorical program funding:
 - a. Restoration and deficit elimination
 - b. Program expansion

Cost estimate: No additional state cost

Implementation: Regulatory

Staff Analysis

Funding Workgroup Recommendations

Arguments in Support and Opposition

Recommendation I-A: Basic Allocation	Arguments in support:										
<p>Districts should be entitled to an annual allocation of \$5 million per single-college district with more than 20,000 FTES, \$4 million per single-college district with greater than 10,000 FTES, and \$3 million per all other colleges. Additionally, \$1 million should be provided for centers that meet CPEC-approved standards of equal to or greater than 1,000 FTES.</p> <p>Centers not-meeting current CPEC standards, but “grandfathered” or previously approved by CPEC, as eligible for state capital facilities funding should be eligible for annual allocations as follows:</p> <table style="margin-left: 40px; margin-top: 10px;"> <tr> <td style="padding-right: 20px;">>1,000 FTES:</td> <td>\$1 million</td> </tr> <tr> <td>>=750 FTES but <1,000 FTES:</td> <td>\$750,000</td> </tr> <tr> <td>>=500 FTES but <750 FTES:</td> <td>\$500,000</td> </tr> <tr> <td>>=250 FTES but <500 FTES:</td> <td>\$250,000</td> </tr> <tr> <td>Less than 250 FTES:</td> <td>\$125,000</td> </tr> </table> <p>“Grandfathered” centers should be maintained at their initial annual allocation indefinitely, unless given CPEC approval, at which time they should be entitled to the \$1 million center annual allocation.</p> <p>Credit FTES should be provided on a uniform basis at the 90th percentile of funded FTES in the system, rounded up to the nearest \$100. An equalization allocation should be provided in the initial years of the formula to align the credit funding of all districts.</p> <p>Non-credit funds should be provided in two tiered levels on a uniform basis per district, as provided for in Recommendation I-d.</p>	>1,000 FTES:	\$1 million	>=750 FTES but <1,000 FTES:	\$750,000	>=500 FTES but <750 FTES:	\$500,000	>=250 FTES but <500 FTES:	\$250,000	Less than 250 FTES:	\$125,000	<p>Arguments in support:</p> <ul style="list-style-type: none"> • The mechanism provides a simpler, more equitable funding formula for basic funding that can be readily understood by community college personnel and legislators. • The foundation plus equalized funding per student model creates a scale that recognizes the diverse composition of our community college districts. • The foundation grants closely approximate the existing Maintenance and Operations funding provided to each district. • The sliding scale approach to grandfathered centers recognizes the fixed, but diminished, costs associated with operating outreach centers. • After adjusting for the scale factors of different district composition, students should be funded at the same rate regardless of which college district they attend. • The integrity of the equalized model of foundation plus student funding relies on funding colleges and centers equally. • The addition of colleges and approved centers is a multi-year process and it will take several years of the increased foundation grant to compensate for costs incurred for approval. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • Some districts, particularly large, single-college districts, would receive more equalization funds under a pure per-FTES model that does not provide a scale factor. • The foundation grants should be larger, as the “fixed” costs for districts far exceed the foundation grants. • The Department of Finance may oppose the increased cost of equalization under this methodology. • A district converting a center to a college would receive a significant (\$2 million) windfall in one year. The system has other budget priorities that should be funded before the addition of colleges and centers.
>1,000 FTES:	\$1 million										
>=750 FTES but <1,000 FTES:	\$750,000										
>=500 FTES but <750 FTES:	\$500,000										
>=250 FTES but <500 FTES:	\$250,000										
Less than 250 FTES:	\$125,000										

Funding Workgroup Recommendations
Arguments in Support and Opposition

Recommendation I-B. Enrollment Stability and Decline	
<p>The three-year stability and declining enrollment mechanism to protect student access should be restored, with a 10% cap on stability funding and a one-third annual reduction of lost revenue for three years, and three years to restore the pre-decline enrollment level. The 10% cap could be waived by the Chancellor upon the finding that the decline was associated with a natural disaster or was otherwise outside of the control of the district.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • Local districts are subject to external enrollment pressures, including student fee changes, natural disasters and economic conditions. The current law requirement that districts must fully recover lost enrollment within one year can trigger a “downward spiral” in which districts reduce courses and services immediately after enrollment decline, thereby making it more difficult to retain and attract students. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • At a time of significant enrollment demand in community colleges, it doesn’t make sense to provide districts funding for students who left more than one year ago.
Recommendation I-C. Local Property Tax and Student Fee Backfill	
<p>The annual forecast of local property tax and student enrollment revenues by the Department of Finance should be guaranteed with a supplemental state general fund allocation in the event state-projected local apportionment revenues fall below projections. Alternatively, the state should allow the enrollment growth allocation to be reduced and used to backfill the lost local apportionment revenue.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • Under the existing system, incorrect projections of property tax and student fee revenue leads to an unpredictability in district operations, affecting student course offerings. • When the state overestimates community college property tax revenues, there is usually a corresponding need to increase general fund spending under Proposition 98. It is more sensible to ensure that the funds stay within community colleges and are allocated. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • The Legislature often backfills property tax shortfalls for community colleges. Under the current system, this allows state leaders to do so in the context of the larger budget picture and the Proposition 98 guarantee. • Student fees are not in the same category as local property tax revenue and there is no state obligation to guarantee any level of student fee revenue.

Funding Workgroup Recommendations
Arguments in Support and Opposition

Recommendation I-D. Non-credit Instruction	
<p>To remedy the disparity, apportionment funding should be increased for non-credit enrollment in the areas of English as a Second Language, Citizenship, Remediation and Basic Skills, and Vocational or Occupational Education. This should be accomplished in a series of incremental improvements, with a goal of raising total apportionment funding for the “Tier 1” non-credit courses (described below) to an equivalent amount of the state support rate for credit enrollment (credit rate minus statewide student fee rate for fee-paying student).</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • The existing funding level for non-credit programs is woefully insufficient, and this will infuse a significant amount of funds to increase the quality of program offerings and support services. • The programs suggested for a higher level of funding are key to the economic success of California and, therefore, the community colleges. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • The proposal to “differentiate” funding by program areas appears to prioritize programs with non-credit instruction. • The projected \$120 million cost to increase the funding for noncredit programs would nearly double the funding for noncredit instruction, at the cost of other community college priorities.
Recommendation II-A. Cost-of-Living Adjustment	
<p>The cost-of-living adjustment should be an accurate measurement of the cost increases of human resources, benefits, goods and services required of community college districts. The calculated rate should be adjusted to account for any prior year cost-of-living adjustment that was not provided or provided below the calculated level. The cost-of-living adjustment should be applied to college allocations, as well as credit and non-credit funding rates.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • The application to both the foundation and FTES-driven rates ensures ongoing equalization. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • None
Recommendation II-B. Core Operational and Institutional Needs	
<p>The annual budget request should include an additional 1% for core operational and institutional needs, which should be applied to both college allocations and the credit and non-credit funding rates.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • The cost-of-living adjustment is insufficient for inflationary pressures beyond human resources. In recent years, insurance, energy and other costs have eroded student services and investment in facilities as colleges are facing escalating costs. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • If the existing COLA is insufficient, the mechanism should be changed, rather than adding a new item.

Funding Workgroup Recommendations
Arguments in Support and Opposition

Recommendation II-C. Lease-Revenue Bonds	
<p>The approximately \$50 million currently being repaid out of Proposition 98 General Fund and being attributed to community colleges should be refinanced in the next state general obligation bond, thus freeing up \$50 million in funding for student programs and services.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • Proposition 98 was intended to be used only for classroom instruction and support services, not capital facilities. • This will enable approximately \$50 million annually to be used for community college instruction and student services <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • If moved to general obligation bonds, this would increase non-Proposition 98 debt service costs.
Recommendation III-A. Systemwide Growth Request	
<p>In the annual Budget Change Proposal (BCP), the system should request a growth amount required to fund each district's growth rate.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • This aligns the calculation of district growth rates with funding requested from the legislature, thereby eliminating the annual "deficit factor" applied to enrollment growth funds. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • This will increase the costs of community college growth, and could create pressure to increase the community college share of Proposition 98.
Recommendation III-B. District Growth Rates	
<p>Each district's growth rate should incorporate one-quarter of the difference between their primary county's unemployment rate and "full employment," not to exceed two percent. Additionally, each district's growth rate should incorporate one-third of the district's three-year overcap enrollment, which should replace the existing "participation rate" factor. "Overcap enrollment" should be enrollment generated between 102% and 110% of the district's funded enrollment cap. The new facility factor should be retained for those facilities below a capacity load requirement, but should be fully incorporated into growth rates over three years instead of the existing ninety percent over two years. The 1%, or 100 FTES, minimum growth allocation should be retained and should not be reduced in years in which a systemwide growth deficit is applied.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • The incorporation of an unemployment factor measures a significant source of community college demand currently not measured in the formula. • Changing from participation rate to a limited unfunded factor allows districts to demonstrate unfunded demand and some level of funding certainty for that demand. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • The statewide sum of growth rates will likely increase between 0.75% and 1% with the incorporation of new factors.

Funding Workgroup Recommendations

Arguments in Support and Opposition

Recommendation III-C. District Growth: Banking Mechanism	
<p>If a deficit was applied to growth funding in the prior year, district growth rates should be adjusted the following year by the amount of the prior year deficit. This should be accomplished with a “banking” mechanism, allowing a district to receive credit for FTES calculated in the district’s growth rate, but unfunded because of a systemwide deficit, for three years subsequent to the deficit to the degree it was not funded in one of those three subsequent years</p>	<p>Arguments in support:</p> <ul style="list-style-type: none">• Under the existing system, if a district’s growth rate is high during a year in which a significant growth deficit is applied (i.e. 2003-04), the entitlement to increased funding is lost permanently. Since growth rates are highly variable, this can cause significant disparities in student access to different districts. <p>Arguments in opposition:</p> <ul style="list-style-type: none">• This will likely further increase the growth deficits, possibly creating a never-ending stream of “banked” growth, never to be funded..
Recommendation IV-A Student Fee Stability and Reliability.	
<p>Community college enrollment fees should not increase by more than the annual change in California per capita personal income, or by more than 10% in any one year. Fee increases should not go into effect until at least six months after the statute is enacted. Any additional fee revenue should result in the increase in funding per full-time student of state-determined funds.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none">• This would create a parallel between the fee policy for community colleges and that agreed to between the Governor and the University of California and California State University systems.• By ensuring a six-month lag between the increase in fees and the requirement for students to pay, the administrative costs of district fee implementation would decrease. <p>Arguments in opposition:</p> <ul style="list-style-type: none">• After two years of significant fee increases, community college fees should be decreased or frozen for several years.

Funding Workgroup Recommendations
Arguments in Support and Opposition

Recommendation IV-B Student Fee Revenue: Apportionment Calculation	
<p>To avoid a disproportionate impact on districts with a large number of fee waivers, the existing apportionment offset for student fees should be maintained.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • Maintaining the apportionment adjustment for student fees is the most equitable and least administratively burdensome methodology of distributing revenues from the systemwide enrollment fee. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • Student fee revenue should stay local, so students know that the fees they pay directly benefit their education, not that of students at other districts.\.
Recommendation IV-C Student Fee Revenue: Non State-Supported Students	
<p>Districts should be allowed to keep student enrollment fee revenue collected for non-resident, international and over-cap students.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • The current system of requiring districts to turn over fee revenue collected from students for whom the state is no providing funds makes little sense. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • This proposal would require a \$20 million increase in apportionment funds to offset the lost revenue.
Recommendation IV-D User Fees for Enhanced Campus Services	
<p>Districts should be provided authority to charge means-tested user fees to enhance access to enhanced campus services such as computer laboratories and athletic facilities, so long as those facilities are not fully funded by the state. Board of Governors' waiver (BOG) recipient students should be entitled to a waiver of these campus-based fees.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • UC and CSU campuses are expanding the services provided to students with state-of-the-art health and recreation centers and technology that are not supportable within the current community college funding and fee structure. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • Once the door is opened, districts will nickel and dime students, something the Legislature has deliberately sought to limit.

Funding Workgroup Recommendations
Arguments in Support and Opposition

Recommendation V-A Scheduled Maintenance and Instructional Equipment Stability	
<p>A stable funding stream should be block-granted to districts for scheduled maintenance (awarded per square foot) and instructional equipment (awarded per FTES), with a uniform \$3:\$1 state:local required match.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • A stable amount for maintenance and equipment will allow districts to plan ahead and schedule investments in this area. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • By lowering the match requirement for scheduled maintenance, the state could be seen as stating that it is deserving of less funding by districts, when maintenance needs are reportedly very high.
Recommendation V-B Categorical Programs: Local Protection	
<p>Categorical programs should be grouped by general category. Districts should have the ability to transfer up to 10% of the funds from a discrete item for a similar purpose before funds are “pooled” for use by other districts.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • Allowing districts to first use remaining categorical funds for similar purposes before funds are redistributed around the state ensures that districts have the option of addressing comprehensive student needs. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • The state appropriates categorical funds for specific purposes. If the funds cannot be used by one district, they should be provided to districts that can use them.
Recommendation V-C Health Services Preservation	
<p>The state should provide an annual allocation in the state budget to offset health center revenue lost by granting the mandatory health fee waiver to students receiving Board of Governors’ enrollment fee waiver. If the state is unwilling to provide the offset funding, districts should alternatively be allowed to collect fees from all students using campus health centers.</p>	<p>Arguments in support:</p> <ul style="list-style-type: none"> • On many campuses, students rely on health centers as primary health care providers. To ensure the financial viability of the centers, the impact of student fee waivers must be mitigated. • If a state backfill is not provided, a modest fee for services serves students relying on the health center better than the curtailment of services. <p>Arguments in opposition:</p> <ul style="list-style-type: none"> • Student health care is not the responsibility of community college districts and, instead of seeking more state or student funding, the mandate should be eliminated and districts operating optional centers should discontinue the service.

Funding Workgroup Recommendations
Arguments in Support and Opposition

Recommendation VI-A	
<p>The annual budget request should prioritize adjustments in the community college budget as follows:</p> <ol style="list-style-type: none">1. Restore any prior year apportionment and missed COLA and core operational and institutional needs deficit.2. Adjust for compensation and price increases.<ol style="list-style-type: none">a. Adjust for statutory COLA to cover compensation and benefit increases.b. Adjust for core operational and institutional needs.3. Provide funding for equitable access (<i>shared pot until equalization and non-credit funding improvements are complete</i>).<ol style="list-style-type: none">a. Enrollment growth (65%)b. Interdistrict equalization (incl. additions of colleges or centers) (27%)c. Non-credit funding improvement (8%)4. Program improvement to increase the standard rate per FTES5. Appropriate categorical program funding:<ol style="list-style-type: none">a. Restoration and deficit eliminationb. Program expansion	<p>Arguments in support:</p> <ul style="list-style-type: none">• To maintain the integrity in the funding model, clear funding priorities must be established.• If the system has clear priorities with the support of districts, the system's perceived division in recent budgets could be eliminated. <p>Arguments in opposition:</p> <ul style="list-style-type: none">• To maximize revenue to the community college system, the system needs to annually evaluate the priorities of both the Governor and the Legislature. In the end, the Governor will propose, and the Legislature will allocate, funds pursuant to their priorities.