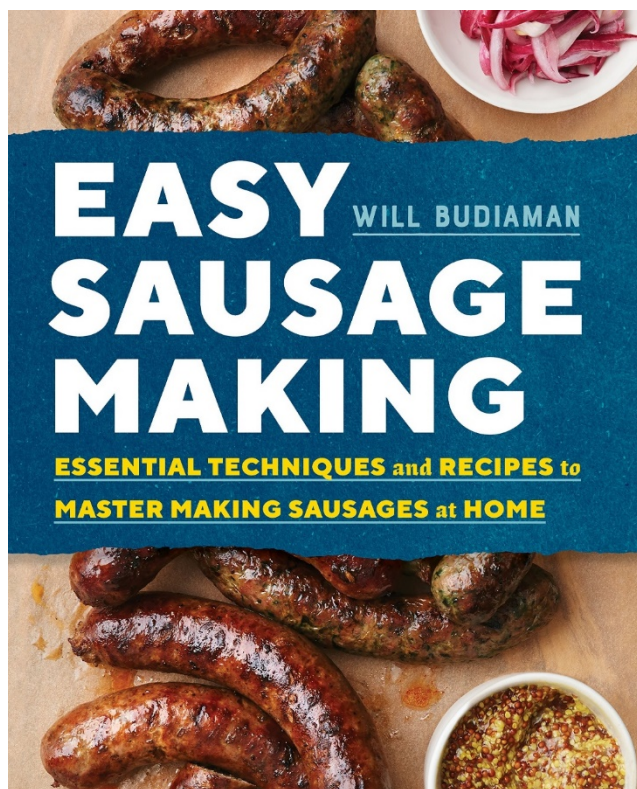




March 20, 2018

President's Waypoint: Making Sausage vs Developing a New Funding Formula?

"I know how to make sausage, and now that I've seen how laws [*and Funding Formula's*] are made, I'll stick with sausage." *Tom Colicchio*



Yes, developing a new community college funding formula is ugly, messy work! Describing the process is even worse. However, I want to keep you apprised of what is happening at the state-level, so I'm going to give it a try. As your time is precious, let me boil this down to its essence.

On January 10, 2018, Governor Brown released his proposed 2018-19 state budget. This included a new funding formula for California's 114 community colleges. It's no secret that the intent of the new formula is to move the colleges to performance-based funding that

encourages access for underrepresented students, provides additional funding for low-income students, rewards colleges' progress on improving student success metrics, and improves overall equity and predictability so that districts plan and implement programs better.

Governor's New Funding Formula.

The Governor's proposed formula is comprised of a Base Grant, Supplemental Grant, and a Student Success Incentive Grant as follows:

- **Base Grant (50% of formula)** — District base grant is based on FTES enrollment. This is the way we are currently funded and seeks to preserve our mission of general access to higher education.
- **Supplemental Grant (25% of formula)** — Supplemental grant is 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 Fee Waiver) and (2) enrollment of students that receive a Pell Grant.
- **Student Success Incentive Grant (25% of formula)** — Additional funding for: 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.

Problem with Governor's Model.

When funding simulations were run using the above percentages and incorporating data from all 114 colleges, the new formula produced dramatic winners and dramatic losers. SBCC was a dramatic winner with the simulation. The simulation estimated we would get an additional \$6.5 million next year! Given that the state community college budget is a zero-sum situation, if SBCC receives an additional \$6.5 million, it would come at the expense of colleges elsewhere in the state. In some cases, after the initial hold harmless period, some colleges were projected to go insolvent under the formula. Moreover, in terms of equity, the winners under the Governor's formula were those colleges already doing well (e.g., SBCC with numbers of transfers and degrees awarded) with losers under the formula being those that need additional funding the most (e.g., Compton). Finally, the implementation timeline for the Governor's new formula is July 1, 2018. To try to implement a dramatically new funding formula such as the one proposed in just a few months is simply unrealistic for the world's largest system of higher education.

CEO's Recommended Funding Formula.

At the recent statewide CEO meeting, the state's community college Chief Executive Officers (i.e., college presidents) began to see more clearly the issues with the new funding formula. We identified a litany of problems and discussed alternative solutions. We realized that simply telling the Governor "No Way" to a performance-based model was not going to get us anywhere, as we know he wants to move in this direction. Accordingly, the CEOs developed arguments and metrics that are more practical for the colleges, protecting the

open access elements of the community college mission, while at the same time recognizing the importance of equity of under-represented populations.

In general, instead of the Governor’s 50%/25%/25% formula (described above), the CEO’s proposed formula would be 75%/25%. Specifically, 75% of funding would be based on Access Metrics, essentially funding the way we are now based on enrollment, with the remaining 25% based on Equity Metrics, focusing on factors promoting education of under-represented populations.

With the CEO’s proposal, implementation is extremely important with a gradual shifting of funding elements toward the new formula metrics. This would provide an opportunity to experience and understand formula elements before fully implemented, correcting and modifying aspects as they are put into place.

As you can see from the table below, the CEO's formula implementation begins with 95% Access Metrics and 5% Equity Metrics, then moving at 5% per year, until achieving the full 75% Access Metrics to 25% Equity Metrics over a five-year period.

Timeline

Year 1: 2018-19	Hold Harmless to 17-18 with COLA		
	<ul style="list-style-type: none"> One-time funds to recognize district performance under Equitable Success metrics 		
Year 2: 2019-20	Hold Harmless to 18-19 with COLA		
	<ul style="list-style-type: none"> 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. Report on analysis of funding formula metrics due to the Board of Governors. 		
Implementation of Equitable Success Metrics			
Year	Access Metrics	Equitable Success Metrics	Estimated Equitable Success Dollar Amount
Year 3: 2020-21	Access: 95% 3-year average	Equitable Success: 5% 3-year average	\$419 Million
Year 4: 2021-22	Access: 90% 3-year average	Equitable Success: 10% 3-year average	\$838 Million
Year 5: 2022-23	Access: 85% 3-year average	Equitable Success: 15% 3-year average	\$1.3 Billion
Year 6: 2023-24	Access: 80% 3-year average	Equitable Success: 20% 3-year average	\$1.7 Billion
Year 7: 2024-25	Access: 75% 3-year average	Equitable Success: 25% 3-year average	\$2.1 Billion
Full Implementation	75% 3-year average	25% 3-year average	

In summary, these are the funding elements for the proposed CEO funding formula:

- **Overarching Philosophy.** Keep the formula simple, meaningful, equity-focused, and tied to student progress on an educational pathway (i.e., Guided Pathway).
- **Five Formula Metrics.** The formula will be based on five metrics as follows: Student progress (i.e., Guided Pathway momentum points), completion, transfer, employment, and earnings.
- **Two-Year Initial Transition Period.** From 2018-19 to 2019-20, hold colleges harmless during two-year initial transition period. This is consistent with implementation of other major educational finance reforms over the last twenty years (e.g., SB 361 and the K-12 Local Control Funding Formula).
- **Five-Year Phase-In Period.** From 2020-2021 to 2024-25, funding formula will begin a five-year phase-in of the new formula, allowing for testing and development of the model that is equitable for all colleges (e.g., rural, suburban, and urban colleges).
- **Full Implementation 2025-26.** New funding formula will be fully implemented in the academic year 2025-26.
- **Evaluation.** To consider the formula's efficacy and any unintended consequences, we recommend an analysis be done in years one and two, with recommendations due by June 2020.

So there you are -- See what I mean about making sausage? Not so bad anymore...

Together forward,

A handwritten signature in blue ink, appearing to read "Anthony", is positioned below the text "Together forward,".