

**A NEW APPROACH TO COMMUNITY  
COLLEGE FINANCE: SYSTEM OFFICE  
RECOMMENDATIONS BASED ON REPORT  
OF WORK GROUP ON COMMUNITY  
COLLEGE FINANCE**

**4.3**

***ACTION SCHEDULED***

***Presentation:*** Robert Turnage, Vice Chancellor  
Fiscal Policy

**Issue**

This item will present recommendations to replace the “program-based funding” formula currently used to allocate general apportionment funds to the 72 community college districts, not sooner than the 2006-07 fiscal year. These recommendations by the System Office are based on the *Report of the Workgroup on Community College Finance*, and include substantive modifications based on input from the system’s consultation process, including input from many of the districts.

**Background**

There have been recurring efforts within the system over the last several years to comprehensively improve the formulas used to allocate general apportionment and enrollment growth funds to community college districts. These efforts have never gained adequate consensus to lead to comprehensive change. Last May the Community College League of California convened a group of chief business officers, selected from 12 districts around the state, to develop a set of recommendations to restructure the community college funding model. This group completed its work in September and presented its study and recommendations to the Consultation Council in a special meeting on October 14, 2004.

The report was presented as an informational item to the Board of Governors at its meeting last November. At that time the Board was apprised that the work group’s recommendations have the potential of improving the rational basis of system funding allocations and resolving long-standing frictions that have developed from perceived inequities. They also have the potential of strengthening the system’s ability to advocate for its budgetary needs in the future. The Board

was informed that a set of recommendations could be brought to the Board for action following further review through the consultation process.

The Consultation Council held further discussions on the report at three more meetings in November, December and February. In addition, the report was discussed in multiple forums around the system. (See *Appendix 1* for a chronology.)

In January 2005, the boards of the Chief Executive Officers of the California Community Colleges (CEOCCC) and the California Community Colleges Trustees (CCCT) voted to:

- Reaffirm their support for the 2005-06 System Budget adopted by the Board of Governors last November.
- Endorse the concepts in the workgroup report as providing the basic foundation for a new system funding formula.
- Urge the System Office to address specific concerns raised and to refine, as necessary, the recommendations of the workgroup.
- Support moving the recommendations forward, upon refinement, for consideration by the Board of Governors, the Legislature and the Governor, with implementation of a new formula to begin no sooner than the 2006-07 fiscal year.

Based on all of the input described above, System Office staff presented to the Consultation Council at its February meeting several revisions to the recommendations made in the report. These revisions were intended to (1) address substantive concerns raised in previous meetings and in communications received from local districts and (2) result in a set of recommendations for the Board of Governors capable of broad system support. These revisions, and the resulting set of recommendations, are summarized in the analysis below.

## **Analysis**

The System Office recommends replacing the “program-based funding” distribution of funds to community college districts with a simpler, more equitable method. In the proposed new model, each district would receive a “basic allocation” based on the number of colleges and centers in the district, followed by equalized rates for credit and noncredit full-time-equivalent students (FTES). This would provide equitable funding while recognizing (1) fixed costs incurred regardless of institution size and (2) the unique historical circumstances surrounding the creation of different districts.

The new model includes provisions 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 provided for noncredit instruction (consistent with direction endorsed by the Board of Governors in its 2005-06 System Budget). The model includes improvements in the setting of funding caps that should allow districts to better plan and

accommodate enrollment growth. The model renews the system's commitment to equalization of funding for credit FTES, but improves upon the treatment of economies of scale associated with institution size that is built into the current law approach to equalization.

The recommended new approach to community college finance includes changes that would require approval by the Legislature and Governor through legislation, changes that would require amendment of regulations by the Board, and administrative changes that the System Office can implement without statutory or regulatory change. The details of these statutory, regulatory and administrative changes would be brought to the Board at future meetings. What is presented to the Board in this meeting is the overall conceptual approach, with the objective of obtaining the Board's permission to proceed with the necessary legislative, regulatory and administrative work.

The following is a summary of the System Office recommendations regarding a new approach for community college finance. A fuller analysis is contained in the report provided in *Appendix 2*.

## **I. Providing a stable, reliable and equitable funding allocation.**

### *I-A. Funding Allocation*

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-B. Enrollment Stability and Decline*

The mechanism for enrollment stability and decline should be enhanced.

### *I-C. Local Property Tax and Student Fee Back-fill*

The state should provide a guaranteed back-fill for shortfalls from the state's projections of (1) property tax revenue allocated to the districts and (2) student enrollment fee revenue.

### *I-D. Noncredit Instruction*

Funding for selected noncredit programs, including high school competency, pre-collegiate basic skills, workforce training and vocational education, should be provided at the per-student credit rate.

### *I-E. Rural College Access*

The state's interest in maintaining higher education access in rural areas of the state requires the provision of a special grant to rural colleges that face unusual geographic and demographic challenges.

**II. Maintaining quality instruction and student support services.**

*II-A. Cost-of-living Adjustment*

Cost-of-living adjustments should include any prior-year inflationary deficit and should be applied to college allocations, credit and noncredit funding rates, and applicable categorical programs.

*II-B. Core Operational and Institutional Needs*

The system's annual budget request should include an additional 1% increase for core operational and institutional needs.

*II-C. Lease-revenue Bonds*

Lease-revenue bonds should be excluded from the Proposition 98 calculation and re-financed in the next general obligation bond.

**III. Ensuring educational access for students.**

*III-A. Systemwide Growth Funding*

The system's annual growth request should be based on the estimated sum of all calculated district growth rates.

*III-B. District Growth Rates*

District growth rates should be changed to better reflect local needs.

*III-C. District Growth: "Banking" Mechanism*

A "banking" mechanism should be established to allow deficated growth rates to carry forward for three years.

**IV. Maintaining the state's investment in facilities and instructional equipment**

*IV-A. Scheduled Maintenance and Instructional Equipment Stability*

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

**V. Prioritizing student access to quality instruction and student services**

*V-A. Budget Priorities*

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

**Summary of changes made to the original report.** The following summarizes clarifications and changes that the System Office made to the recommendations of the original report, intended to address concerns raised during the consultation process and increase the breadth of support for this new approach to community college finance.

The workgroup report did not address the question of an implementation timeline. Clearly, the legislative, regulatory and technical development to replace program-based funding can not and will not be accomplished any sooner than the 2006-07 fiscal year. Having said that, the system must soon begin engaging the Legislature and the Governor with a proposal for necessary statutory changes, if implementation is to begin even as soon as the 2006-07 fiscal year. Regarding the present budget cycle, the system should remain committed to the Board of Governors' System Budget Request for 2005-06. Both of these efforts are consistent with each other, and both are also necessary for the system to achieve near-term and longer-term objectives.

Concerns were expressed during the consultation process regarding the "basic allocation" proposed by the workgroup for multi-college districts. The workgroup had recommended that the basic allocation for multi-college districts be calculated at \$3 million per college, without regard to college size. Upon review, this did not adequately address certain costs, and the System Office recommends a revision that would provide an allowance of \$3.5 million for colleges above 10,000 FTES and \$4 million for colleges above 20,000 FTES. (For single-college districts, the original report recommended a basic allocation of \$3 million for colleges below 10,000 FTES, \$4 million for colleges above 10,000 FTES and \$5 million for colleges above 20,000 FTES. This approach for single-college districts was regarded as appropriate and not in need of revision.)

While the workgroup's proposed formula addressed the added costs of operating small institutions better than other efforts, there remain significant needs and demographic challenges that threaten the viability of rural institutions. For these reasons the System Office recommends the addition of a "rural access grant" for colleges that face these unusual geographical and demographic challenges. In addition, the system should explore the potential of seeking a federal match for this grant.

The workgroup report had several recommendations in the area of student fees, but these recommendations failed to generate adequate acceptance among the various community college groups. The System Office thus recommends that the development of any new system policy on fees proceed through separate discussions, and that the workgroup's fee recommendations not be advanced as part of this set of recommendations on community college finance. The workgroup report also included recommendations on the utilization of categorical program funds that did not generate adequate acceptance among the groups. The integrity of the overall funding formula approach does not depend on this part of the report. The System Office recommends that the workgroup's suggestions in this area not be advanced as part of a package for changes in the allocation formula.

The workgroup report made recommendations regarding the shortfall of revenues for student health services at many of the colleges. This area, however, is better addressed as a "stand-alone" issue, either through advocacy of the 2005-06 budget request for a revenue back-fill or through legislation allowing all students to be charged the locally-set health services fee at a college, based on local shared governance decisions.

The workgroup recommended a “shared pot” concept of budget prioritization. Concerns were expressed as to the potential for the approach to interfere with system efforts to secure \$80 million annually in equalization funds. In addition, concerns were expressed regarding the relegation to the last priority level for restoration of prior-year cuts to categorical programs, without regard to their implications for student success. To address these concerns, the System Office recommends that:

- The system maintain its support for the 2005-06 System Budget Request, which includes \$80 million for equalization and \$30 million for noncredit enhancements, and that the “equitable access” shared item in the new funding model be prioritized so that similar amounts may be obtained in the 2006-07 fiscal year.
- The restoration of prior-year deficits due to missed cost-of-living adjustments be provided to appropriate categorical programs as well as general apportionment.
- Restoration of prior-year cuts in programs that the system determines are critical to student success should rise in priority.

## **Conclusion**

The *Report of the Workgroup on Community College Finance* reflects the focused efforts and professional expertise and judgment of a representative group of the system’s chief business officers. The work group’s recommendations, as modified through the consultation process, can significantly improve the rational basis of system funding allocations and resolve long-standing frictions that have developed from perceived inequities. This set of recommendations should strengthen the system’s ability to advocate for its budgetary needs in the future. No realistic model of community college finance can ever be devised that enjoys universal support. However, this recommended new approach to system finance has been made stronger by the extensive consultative process since release of the original report in September. The revised set of recommendations addresses the expressed concerns in meaningful ways and these recommendations now enjoy sufficient support throughout the system to move forward.

## **Recommendation**

That the Board accept the System Office report (*Appendix 2*) as the basis for a new approach to community college finance, reflecting the contributions of the *Report of the Workgroup on Community College Finance* as modified through extensive system consultation; that the Board authorize the Chancellor to proceed with necessary steps for (1) legislation addressing the broad parameters of this new funding model, (2) changes in title 5 regulations that address more detailed aspects of the model, and (3) changes in administrative practice addressing details that do not require specification in legislation or regulation; that the Board specify that these changes result in implementation of the new funding model no sooner than the 2006-07 fiscal year and not alter the 2005-06 System Budget Request.

## APPENDIX 1

### Timeline of System Consideration of the Recommendations of the Workgroup on Community College Finance

May 18	CEOCCC board votes to bring together “a group of diverse chief business officers (CBOs) to develop recommendations to be presented to a joint meeting of the CEOCCC and CCCT boards in September. Upon agreement, the recommendations would be forwarded to the districts for review and response.”
May 19	Scott Lay announces action of the CEOCCC board at a general session of the Spring Conference of the Association of Chief Business Officers (ACBO), and requests that CBOs interested in participating contact Scott.
May 25	Upon discussion between League staff and CEOCCC President Brice Harris, Mike Hill of San Jose-Evergreen named chair of the Workgroup.
Late May	Twelve CBOs from a diverse array of districts were identified through discussions between CEOCCC leadership, League Staff, and ACBO leadership.
June 17	Consultation Council was informed that the CEOCCC had formed a workgroup with the goal of having funding recommendations by early fall.
June – August	Funding Workgroup met six times and developed report.
August 19	League announced that three Leadership forums would occur in mid-September to discuss the Workgroup recommendations, the California Performance Review, and a possible community college ballot measure.
September 1	The report was published and placed on the League’s website and distributed to the CEOCCC and CCCT boards.
September 10	Report was received by CEOCCC and CCCT boards, which asked that League staff seek feedback from local districts and system leadership concurrently.
September 20-22	Report presented and discussed at Leadership Forums in Bakersfield, Fremont and Long Beach.
September 23	First Reading at Consultation Council.
September 27	Report distributed to all CEOs via electronic mail with a request to “study the report of the CBO workgroup within your district and let us know if your district leadership supports the recommendations, if there are suggestions for improvement, and the questions you have.”
October 14	Special meeting of the Consultation Council on Workgroup recommendations.
October 15	Report distributed to all CBOs in advance of ACBO Fall Conference.
October 22	Workgroup report discussed at CEOCCC meeting.
October 25	ACBO Fall Conference – General Session with panel of Workgroup members.
October 28	Academic Senate Fall Plenary Session – General Session with presentation on Workgroup report by League Staff.
November 4	Revised spreadsheet distributed to all CBOs to correct for error.
November 5	Report documents sent via electronic mail to all CEOs with request “We need to hear from you soon if you have not yet responded with your observations on the recommendations to change the community college funding formula.”
November 5	Report and interactive questions and answers posted at <a href="http://www.ccleague.org/funding">http://www.ccleague.org/funding</a> . The website location was included in the memo to all CEOs and distributed via electronic mail to all CBOs.
November 17	Workgroup report discussed at Consultation Council in Anaheim.

November 18	Workgroup report discussed at Statewide CEO meeting.
November 20	Workgroup report discussed at CCCT meeting.
November 22	Report documents sent via electronic mail to all PIOs and CBOs to enhance the distribution of the documents locally.
December 2	Workgroup reconvened to assess and evaluate comments received from throughout the system.
December 3	CEOCCC Board voted to endorse the concepts of the funding workgroup report and to poll district CEOs as to whether they “accept the recommendations included in the September 2004 Report of the Workgroup on Community College Finance and support their presentation to Chancellor Drummond and the Board of Governors for deliberation and appropriate action.”
December 6	Memo from CEOCCC board to all districts announcing that a poll would be taken; Report, Questions and Answers, and simulations were distributed.
December 10	Members of the Workgroup were present to discuss the report and answer questions at the Northern California CBO meeting.
December 10	Ballot distributed to each district.
December 16	Workgroup Report discussed at Consultation Council.
December 17	District CEO vote of 52-20 to “accept the recommendations included in the September 2004 Report of the Workgroup on Community College Finance and support their presentation to Chancellor Drummond and the Board of Governors for deliberation and appropriate action.”
December 20	Memo from CEOCCC board to all districts announcing the vote of district CEOs.
January 13	League staff presented and answered questions at ACCCA Budget Workshop.
January 14	CEOCCC board votes to recommend the Chancellor bring Workgroup report to the Board of Governors, and to continue to address concerns brought to the League.
January 14	CCCT board votes to: <ul style="list-style-type: none"> <li>• Reaffirm its support for the system budget request for 2005-06, including \$80 million for equalization, \$30 million for noncredit rate enhancement, and growth and COLA funding as high priorities to be pursued actively.</li> <li>• Endorse the concepts in the report of the Workgroup on Community College Finance as providing the basic foundation for a new funding formula to replace program-based funding.</li> <li>• Urge system leadership to continue to address specific concerns raised and to refine, as necessary, the recommendations of the Workgroup, with primary focus on the areas of the shared pot proposal (VI-A), the timeline to achieve equalization, the funding allocation on a per college and centers basis (I-A), and the categorical programs local protection recommendation (V-A).</li> <li>• Support the Chancellor and Board of Governors moving the recommendations forward, upon refinement, to the Legislature and Governor for discussion, with implementation to begin no sooner than for the 2006-07 budget year.</li> </ul>
February 11	Report recommendations, with revisions suggested by System Office, endorsed at the ACBO Board meeting.
February 17	Revisions suggested by System Office discussed at Consultation Council.
February 23	Revisions recommended by System Office discussed at CEO Statewide Meeting.

## **APPENDIX 2**

# **SYSTEM OFFICE RECOMMENDATIONS ON A NEW APPROACH TO COMMUNITY COLLEGE FUNDING REPORT**

**SYSTEM OFFICE  
RECOMMENDATIONS ON A  
NEW APPROACH TO  
COMMUNITY COLLEGE FUNDING**



*MARCH 2005*

**SYSTEM OFFICE  
CALIFORNIA COMMUNITY COLLEGES**



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*Interim General Counsel*

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## EXECUTIVE SUMMARY

There have been recurring efforts over the last several years to comprehensively improve the formulas used to allocate general apportionment and enrollment growth funds to the 72 community college districts. These efforts have never gained adequate consensus to lead to comprehensive change. Last May the Community College League of California and its Board of chief executive officers convened a group of chief business officers, selected from 12 districts around the state, to develop a set of recommendations to restructure the community college funding model. Their work culminated in the *Report of the Workgroup on Community College Finance* of September 2004.

This report—the System Office’s recommendations to the Board of Governors on a new approach to community college funding—is based on the workgroup’s report, but modified in key respects to address concerns that were raised in the consultation process.

In this report the System Office recommends replacing the “program-based funding” distribution of funds to community college districts with a simpler, more equitable method. In the proposed new model, each district would receive a “basic allocation” based on the number of colleges and centers in the district. In addition to this basic allocation, each district would receive equalized rates for its full-time-equivalent students (FTES). This would provide equitable funding while recognizing (1) fixed costs incurred regardless of institution size and (2) the unique historical circumstances surrounding the creation of different districts.

The new model includes provisions to protect instruction and student services by ensuring that districts are provided stable, reliable, funding that is not eroded by inflationary pressures. A significant new investment is provided for noncredit instruction. The model includes improvements in the setting of district funding caps that would allow districts to better plan and accommodate enrollment growth. The model renews the system’s commitment to equalization of funding for credit FTES, but improves on the treatment of economies of scale built into the current-law approach to equalization.

The recommended new approach to community college funding includes changes that would require approval by the Legislature and Governor through legislation, changes that would require amendment of regulations by the Board, and administrative changes that the System Office can implement without statutory or regulatory change. The details of these statutory, regulatory and administrative changes would be brought to the Board in the near future. What is presented to the Board in this report is the overall conceptual approach, with the objective of obtaining the Board’s permission to proceed with necessary legislative, regulatory and administrative work. If the Board accepts this report, implementation of the new funding model would take place not sooner than the 2006-06 fiscal year.

## **PROVIDING A STABLE, RELIABLE AND EQUITABLE FUNDING ALLOCATION**

### **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 and the System Office 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 percent 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 percent. In contrast, the distribution methodology used to allocate equalization funds in the 2004-05 budget provides a maximum scale factor of 10 percent.

#### **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 noncredit 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

Single college 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 single college district of 10,000 FTES or less. Multi-college districts should receive an annual allocation of \$4 million per college exceeding 20,000 FTES, \$3.5 million per college exceeding 10,000 FTES, and \$3 million per college of 10,000 FTES or less. In addition, \$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:

Greater than 1,000 FTES:	\$1 million
Greater than or equal to 750 FTES but Less than 1,000 FTES:	\$750,000
Greater than or equal to 500 FTES but Less than 750 FTES:	\$500,000
Greater than or equal to 250 FTES but Less than 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.

Noncredit funds should be provided as described in *Recommendation I-D*.

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

<b>Large Single College District (22,000 FTES)</b>	<b>Medium Sized, Single College District with One CPEC- Approved Center (15,000 FTES)</b>	<b>Three College District with Two CPEC-Approved Centers (50,000 FTES)</b>
<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>\$12,500,000 (allocation) + <u>\$195,000,000</u> (\$3,900 per FTES) \$207,500,000 (total revenue)</p> <p>Actual funding per FTES: \$4,150 (scale factor: 6.4%)</p>
<p>For comparison purposes, assumptions include only credit FTES. Noncredit would also be provided on a uniform per-FTES basis.</p>		

**COST ESTIMATE:** \$265 million for equalization phased in over three to five years  
**IMPLEMENTATION:** Statutory (Ed. Code § 84750)  
 Regulatory  
 Budget Bill Language

## **I-B. ENROLLMENT STABILITY AND DECLINE MECHANISM SHOULD BE ENHANCED**

### **BACKGROUND AND JUSTIFICATION**

During the institution of fees in the 1980's, 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 (1988), a mechanism was created to protect districts from this "downward spiral." The mechanism allowed a district to restore its pre-decline cap any time over the subsequent three years without regard to the district's normal growth cap (decline mechanism), and reduced the funds for the lost students gradually over three years (stability mechanism).

The gradual reduction of funding in the stability 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 and System Office recommend restoring the stability mechanism to include the gradual funding reduction feature of prior law. In recognition of the political difficulties with a simple restoration, the workgroup and System Office suggest a 10 percent 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 percent 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 percent 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 (Ed. 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 often 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 the fiscal year has virtually closed, the shortfall can threaten year-end operations and summer session offerings.

In the event of property tax shortfalls, the state automatically backfills K-12 districts consistent with that 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 SELECTED NONCREDIT PROGRAMS INCLUDING HIGH SCHOOL COMPETENCY, BASIC SKILLS, WORKFORCE TRAINING AND VOCATIONAL EDUCATION**

#### **BACKGROUND AND JUSTIFICATION**

Noncredit 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, noncredit 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, and
- 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 2003, clearly endorses the full integration of noncredit as an equal partner into the community colleges.

#### **ISSUES WITH CURRENT NONCREDIT FUNDING RATE**

Current apportionment funding for noncredit enrollment is far less than the amount provided for credit enrollment. This disparity typically places those community college districts that offer noncredit 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 noncredit students, are often missing from noncredit programs. In addition, compensation for faculty and classified employee staff, as well as general support costs in districts with large noncredit programs, are similar to the costs these districts incur for credit programs.

The current level of apportionment for noncredit, approximately 56 percent of the credit rate, simply does not provide adequate funding for those noncredit 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 noncredit 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 these noncredit 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 noncredit would require System Office approval and would likely necessitate amendments to both the Education Code and title 5 regulations. The workgroup discussed the following TOP codes as possible noncredit program areas that would qualify for Tier 1 funding:

- a. Any noncredit courses of vocational program TOP codes

b. Any noncredit courses in the following TOP codes:

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

Noncredit 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 noncredit funding should include standards to ensure that noncredit programs receiving the higher level of funding more closely align with the requirements of credit programs.

**COST ESTIMATE:** \$120 million (*estimated based on likely applicable noncredit programs*)  
**IMPLEMENTATION:** Statutory (Ed. Code § 84750)  
 Regulatory  
 Budget Bill Language

## **I-E. THE STATE’S INTEREST IN MAINTAINING HIGHER EDUCATION ACCESS IN RURAL AREAS OF THE STATE REQUIRES PROVISION OF A SPECIAL GRANT TO RURAL COLLEGES THAT FACE UNUSUAL GEOGRAPHICAL AND DEMOGRAPHIC CHALLENGES**

### **BACKGROUND AND JUSTIFICATION**

While the workgroup’s proposed formula addresses the added costs of operating small colleges more satisfactorily than other methods, there remain significant needs and demographic challenges that threaten the viability of the rural institutions. Colleges serving rural areas of the state generally face stagnant or declining budgets in the foreseeable future, even under the model proposed by the workgroup. Many of the residents in these areas are distant from campuses or centers. Prospects for enrollment growth tend to be poor due to lack of population growth or due to migration of young adult residents to metropolitan areas. Indeed, many rural colleges are currently in enrollment decline. Also, almost without exception, the rural colleges do not qualify for equalization funds. The state does have an abiding and compelling interest in maintaining higher education access for its rural residents, and it can do this at a very modest cost (\$5 million or less annually).

### **DETAILED RECOMMENDATION**

The system should seek authorization of an annual “rural access grant” of \$500,000 per eligible college. In addition, the system should seek a potential federal match based on rural economic development considerations.

**COST ESTIMATE:** \$5 million  
**IMPLEMENTATION:** Statutory (new Education Code section)  
Regulatory  
Budget Bill Language

## **MAINTAINING QUALITY INSTRUCTION AND STUDENT SUPPORT SERVICES**

### **II-A. COST-OF-LIVING ADJUSTMENT SHOULD INCLUDE ANY PRIOR YEAR INFLATIONARY DEFICIT AND SHOULD BE APPLIED TO THE COLLEGE ALLOCATIONS, CREDIT AND NONCREDIT FUNDING RATES, AND APPLICABLE CATEGORICAL PROGRAMS.**

#### **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 cost 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, credit and noncredit funding rates, and applicable categorical programs.

**COST ESTIMATE:** \$92 million for COLA not provided in 2003-04

**IMPLEMENTATION:** Statutory (Ed. Code § 84750)

## **II-B. THE SYSTEM'S ANNUAL BUDGET REQUEST SHOULD INCLUDE AN ADDITIONAL ONE PERCENT 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 recognize 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 one percent 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 one percent for core operational and institutional needs, which should be applied to both college allocations and the credit and noncredit funding rates.

**COST ESTIMATE:** \$45 million annually

**IMPLEMENTATION:** Budgetary

## **II-C. LEASE REVENUE BONDS SHOULD BE EXCLUDED FROM THE PROPOSITION 98 CALCULATION AND REFINANCED 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 Proposition 98. The Legislature recognizes this by funding debt service on general obligation bonds outside of the Proposition 98 guarantee.

On two significant occasions, the state has issued lease-revenue bonds for community college projects—in the mid-1990's 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, 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 the 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 annually (*General Fund cost for ten years*)

**IMPLEMENTATION:** Legislative (*inclusion in next general obligation bond act*)

## **ENSURING EDUCATIONAL ACCESS FOR STUDENTS**

### **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 percent 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 deficiated 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 Budget Change Proposal (BCP), formulaic budget requests (such as COLA) are frequently updated throughout the year.

#### **DETAILED RECOMMENDATION**

In the annual 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 (Ed. 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 one percent, 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 percent and 110 percent 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 one percent, 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 (Ed. Code § 84750)  
 Regulatory

Current Growth Rate Calculation	Recommendation
A. adult pop. change x college pop. over 21 + B. high school graduates change x college population under 21 + C. (statewide average participation rate - district participation rate <i>or</i> D. one-half of 90% of the change in the new state-approved facilities being brought online)	A. adult pop. change x college pop. over 21 + B. high school graduates change x college population under 21 + C. one-quarter of the district’s primary county’s unemployment rate over full employment, not to exceed 2% + 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 presents a growth allocation request to the Legislature. In recent years, the request was made based on a statewide policy goal (i.e., 3 percent 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 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 (Ed. Code § 84750)  
 Regulatory

## **MAINTAINING THE STATE'S INVESTMENT IN FACILITIES AND INSTRUCTIONAL EQUIPMENT**

### **IV-A. A STABLE FUNDING STREAM OF ONGOING FUNDS SHOULD BE CREATED FOR SCHEDULED MAINTENANCE OF FACILITIES AND FOR INSTRUCTIONAL EQUIPMENT**

#### **BACKGROUND AND JUSTIFICATION**

Throughout the early 1990's, 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 1990's, 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

# **PRIORITIZING STUDENT ACCESS TO QUALITY INSTRUCTION AND STUDENT SERVICES**

## **V-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 for maintenance of the base 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 deficits for general apportionment, missed COLA and core operational and institutional needs (including applicable categorical programs).
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 noncredit funding improvements are complete*).
  - a. Enrollment growth (*provisionally 65 percent*)
  - b. Interdistrict equalization (including additions of colleges or centers) (*provisionally 27 percent—intended to produce annual increments of \$80 million*)

- c. Noncredit funding improvement (*provisionally 8 percent—intended to produce annual increments of \$30 million*)
- 4. Program improvement to increase the standard rate per FTES.
- 5. Appropriate categorical program funding:
  - a. Restoration and deficit elimination
  - b. Program expansion

Note: Within this general framework, the system should retain flexibility to place exceptional priority on the restoration of prior-year cuts in those categorical programs determined to be critical to student success.

**COST ESTIMATE:** No additional state cost

**IMPLEMENTATION:** Regulatory