The Student-Centered Funding Formula

While the concept that funding should be based on the success of our most vulnerable students is well-intentioned, its implementation is flawed. The definitions of both "at-risk" and "success" have been operationalized in ways that exclude many of the students the model set out to prioritize. Under the SCFF, a "successful" student is one who completes 30 units per academic year, receives an Associate Degree for Transfer (ADT), and transfers to a CSU/UC, ideally to receive a bachelor's degree. This model rewards districts for recruiting and retaining this population, effectively incentivizing their prioritization. In practice, this can lead districts to favor these students over other enrollees, often to the detriment of the most marginalized and vulnerable students. Populations of students who are disadvantaged by their lack of priority in this model of funding include:

- First-generation students who may define success as passing a class and persisting.
- Non-traditional students, including but not limited to those working full-time jobs while attending college, older students, veteran students, English Language Learners, etc.
- Part-time students, who take on average 8.1 units per semester.
- Career education and vocational students, regardless of full- or part-time status, often cost more money to train per pupil due to equipment, supplies, and smaller class sizes.

If Californians take pride in the community colleges' social justice work, then supporting an open-access policy and adequate support services for all students becomes essential. Focusing our budget on students who already have a "leg up" does not address inequities in our economic stratification system; it simply replicates them. If we view higher education as a public good for all, our focus should be on our typical students, not the minority of "successful" full-time, already privileged community college students who comprise less than 10% of the state's total student body.

Given the Vision 2030's focus on access, it would be prudent to evaluate the model's best practices for student access to inform changes or develop a simpler, more cost-effective model.

The SCFF's complex and sometimes arbitrarily operationalized metrics currently leave many districts scrambling to meet them. The intensive data mining required to gather the metrics is costly to administer. Arguably, none of these resources directly affect the student experience and, in fact, divert funds from instruction and student support. The challenging problem that all districts face is that this necessary data mining infrastructure is not guaranteed to meet the target metrics set by the state, so this expenditure away from the classroom, away from support services, does not necessarily bring their institutions the financial benefits of meeting the metrics.

This situation is common enough to leave the majority of districts to rely on what was supposed to be "temporary" funding alternatives – "stability" and "hold harmless."In fact, there are currently six different SCFF funding models for the 64 non-basic aid districts.

COVID exacerbated the situation further by seeing unprecedented levels of enrollment drops, threatening the functionality of the SCFF funding model. The state stepped in and awarded "fictitious student enrollments" as part of the struggling district's funding formulas. This artificially inflated enrollment counted for the districts that chose to use them for a 3-year cycle, which, for the most part, has come to an end, sending some districts directly to "hold harmless."

That most California Community College districts cannot be fully funded under the SCFF is troubling in itself. More concerning, however, is that the formula has become increasingly convoluted, propped up by a series of metaphorical "band-aids,"leaving many districts uncertain from one year to the next which funding model will apply. This uncertainty underscores the fundamental instability of the SCFF.

It would behoove us to create a model that most districts can be fairly funded by, and create a contingency or alternative model for those who cannot. At least in this way we are dealing with the special circumstances of a few districts instead of the common issues of the majority of districts.

A new model would need to:

Serve a supermajority of districts without modification. For example, if 90% of districts can use this model (59/ 63 of non-basic aid districts), or if 85% can use this model (55/63 non-basic aid districts) – is this a reasonable threshold for identifying a "successful model." It's better to decide this up front as district representatives tend to advocate for the model that best serves them rather than the system.

Require less district investment to track/ report. The current expense of data mining does not serve students well. If there is to be a complexity to the model, it should be either calculated at the statewide level or upfront, rather than ongoing.

Support the majority of our students in urban areas without marginalizing our students in rural areas. These rural students and the districts that serve them do need subsidies for operational costs so they do not spend less on their students. However, the solution is not to deprive urban students of their state funding.

Provide enough stability for districts to plan for upcoming years and maintain reasonable levels of reserves. In an era of "creeping" reserve levels, providing predictable funding allows districts to maintain prudent, but not excessive, reserves.

Policy Recommendations:

To date, our system leaders have been unable to address the problems inherent in our current funding model. We recommend a new funding model that meets the parameters of the above recommendations. We

also recommend the prohibition of punitive COLA withholding for districts funded in the "Hold Harmless" category until the model creates revenue stability for most of the system's districts.

Breaking Down the Student-Centered Funding

The Basic Allocation

The SCFF funds districts using four different metrics:

1. The Basic Allocation - A lump sum given to each college within the district based on whether they are small, medium, or large;
2. Full-Time Equivalent Students (FTES) - 70% of general fund allocation;
3. Supplemental Allocation - How many students receive federal and state financial aid equalling 20% of general fund allocation; and
4. Success Rate Allocation - How many students reach "success points," 10% of general fund allocation.

The Base Allocation is the initial enrollment-based component of the SCFF, which is based on the number of colleges and centers in a district and their size – determined by enrollments of credit, noncredit, career development, and college preparation (CDCP) noncredit courses, special admit students and inmates in correctional facilities. The colleges are funded based on whether they are determined to be "small," "medium" or "large."

The state identifies small, medium, and large colleges by the following thresholds:

- FTES >= 20,000 large college
- 10,000 <= FTES < 20,000 medium college
- FTES < 10,000 small college

To date, there has been no data-driven rationale for the designation of colleges as small, medium, or large. The data from the CCCCO Datamart for 2024-25 show that the smallest third range from 1408-5998 FTES, the middle third range from 6021-10570 FTES, the largest third range from 10912-26469 FTES. These numbers obviously do not reflect the current designations.

The Basic Allocation is leveled – "small colleges" are given the least, and "large" colleges are given the most. This doesn't reflect that college operational requirements and their associated costs are often similar across the state. A small college does not spend significantly less on a College President's salary than a medium or large college. In fact, they may be pressured to offer competitive compensation in order to attract or retain their presidents, especially if they are located in rural areas. The concept that small colleges "need less" is erroneous. The flawed FTES-only model revealed that they actually needed more of a subsidy to offset operational costs.

Further, the current range threshold falsely identifies artificial distinctions at the tail ends of each threshold. For FTES purposes, there is no significant difference between 9,999 FTES (small) v. 10,001 FTES (medium), yet the formula treats them differently.

Policy Recommendation:

<u>Change the funding model to a Universal Basic Allocation combined with FTES</u>

A universal allocation would provide the smaller rural districts with the subsidy they require. One method of determining a basic allocation would be to attach it to common costs. The CCC accrediting agency, ACCJC, has "Eligibility Requirements" that need to be in place to "open their doors." These include: a CEO/President, faculty, degrees, a financial authority (CBO), student support and learning services, admissions, secured student records, and institutional planning/ research, among others. Operationalizing the common costs (based on statewide averages) should be centralized with regular "reviews" to see if

and how costs change over time. A simpler formula would be to combine a universal allocation with a Full-Time Equivalent Student allocation. FTES funding can "scale up" any functions the basic allocation does not cover. This allows larger institutions to expand programs to meet the needs of their students.

Full-Time Equivalent Student Allocation

By far, the largest funding component of the SCFF is the Full-Time Equivalent Student Allocation (FTES). Unlike other education systems, FTES differs from headcount or per-pupil allocations. Currently, we calculate a "full-time student" as one who takes approximately 15 units of instruction (525 contact hours). A full-time equivalent student is calculated using 15-unit increments, regardless of how many units the individual student is taking (e.g., five students each taking a three-unit course = 1 FTES). This is problematic on multiple levels: 1) It does not match the federal definition of "full-time," which is 12 enrolled units; 2) It assumes that students taking 15 units are more expensive than those taking lower unit loads; and 3) It overlooks the additional support and resources provided to students, such as educational plans, counseling services, etc., regardless of their unit load. For example, an hour-long session with a counselor for a student taking six units and a student taking 15 units costs the college the same amount in labor. However, we are typically only getting 2/5 funding for the 6-unit student.

There are strong philosophical and equity arguments against the current FTES calculation. It originates from the upper-middle-class education model, making assumptions that college students committed to their education enroll full-time. The assumption is that they have the financial support and stability to sustain them in their endeavors, and for those that do not, simply covering the costs of tuition is enough to level the playing field. This model is antiquated, harking back to an era where higher education was accessible only to the privileged, and does not reflect the current reality of community college students as we have expanded access across class lines, underserved communities, and stages of life.

The SCFF was an attempt to channel more money to vulnerable students, but it did not address the

fundamental problem of the FTES calculation. This is because in fall 2024, only 9% of CCC students enrolled in 15+ units. Even if we recalculated the FTES to Federal financial aid thresholds of 12 enrolled units, we would only fully fund an additional 17% of CCC students.

What community colleges receive per student is currently the lowest amongst California's various publicly funded education systems. In 2024-25 per FTE expenditure for the UCs was $36,505, the CSUs spent $21,757, the K-12s spent $23,878, but the CCCs only spent $11,803.

In addition to the low funding per FTE by the state, CCCs are unable to subsidize their expenditure base with tuition based on full-time status. While all three systems are funded by the same definition of FTE (again, roughly 15 units), the UCs and CSUs can use federal financial aid thresholds for their tuition where 12 units is “full-time,”nine units for special populations, augmenting their revenue streams.

There are multiple arguments for lowering the FTE calculation even further to nine enrolled units when we look at the services part-time students at this level use, such as computer center services, and part-time students utilize these at higher percentages and greater numbers. The state’s funding model assumes that our services to students somehow fit the economies of scale – that we become more efficient the more students we serve – that “bigger is cheaper.” But it takes Online Learning Assistants just as long to respond to a student taking six units as it does to a student taking 15. There is no economy of scale here.

<u>So how can we make the Student-Centered Funding Formula more “student-centered”?</u>
Rethinking the FTES calculation based on the center of our student population will move the community college system to a more equitable funding scheme designed to meet the challenges that adult learners in a community college endure. It will also shift the focus from an elite minority taking 15 or more units to the typical community college student, who is enrolled part-time and uses support services.
Who are these “typical” students?

- The median age is about 22 years.
- 54% are female.
- 72% are Hispanic, and Non-Hispanic White
- 51.4% take less than 8.9 units.
- The median load is eight units per semester.
- 40% are at least 24 years old.
- 50% are continuing students.

Using nine units as opposed to 15 units in the FTES portion of the SCFF will help bring equity to statewide apportionment for community college students in the State of California. We would therefore be funded by the number of part-time equivalent students.

This equity modification to the SCFF will allow colleges to provide services to our students who need them the most. Part-time students utilize college labs, receive tutoring, counseling, and access to other campus resources, and take a significantly longer time to reach their academic goals. These students are working-class adults with family obligations and cannot take the 15+ units per semester in which efficiency in accomplishing academic goals is not a reality.

Assuming a student takes nine units per semester with the goal of obtaining an ADT of 60 units, it will take a student 6.7 terms to complete the ADT, which takes 3.3 years. This is assuming students pass every course and do not face personal challenges resulting in withdrawing from a course.

The reality is that the demographic for California has shifted significantly. It is no longer predominantly white and middle class, as it was when the 15-unit load portion of the FTES calculation was determined. Our student population is more diverse, both ethnically and economically. Our system is ill-equipped to address the enormous financial obstacles that serve as barriers to student success. The SCFF rewards

colleges and students who are more efficient in reaching their academic goals, which was not required at a time when the state was more white and middle class. There is room to correct the built-in inequities by modifying the 15-unit component of FTES calculation to nine units.

Policy Recommendations:
Recalculate FTES from 15 units to the state average of nine units.
The Supplemental Allocation

The purpose of the Supplemental Allocation is to identify "at-risk" students and reward districts with a higher number of at-risk students by fully funding this component of the SCFF. However, the model is flawed as it has a very narrow operationalized definition of "at risk," which renders many of our historically marginalized students invisible. The Supplemental Allocation is based on utilization by student head count of Pell Grants, California Promise Grants, and AB 540 fee waivers.

The problem is that such a simple formulation glaringly neglects regional differences in cost of living; part of the problem is that student income thresholds for financial aid eligibility don't account for this either. The numbers bear this out: smaller proportions of students qualify for financial aid in high-cost regions simply because they need a higher income to live there, not because their incomes raise them above the local poverty thresholds. It is a fallacy to presume that fewer students qualifying for financial aid translates to fewer students living in poverty.

The Public Policy Institute of California's Poverty Study reveals that poverty rates are consistent across district lines. The Supplemental Allocation is, therefore, unambiguously discriminatory towards students living in poverty in high-cost living areas who can't qualify for financial aid. There are large numbers of students of certain key ethnic minority groups attending college in districts that would be underfunded by the Supplemental Allocation. For example, a study of data from 2021-22 shows that 18.2% of the state's

African American students and 25.7% of the state's Pacific Islander students attended college in 13 districts in the greater San Francisco Bay Area (not counting districts on Basic Aid) that collectively generated only 11.2% of total state funding through the Supplemental Allocation.

When FACCC asked the Chancellor's Office for the opportunity to add a cost-of-living metric to address some of these inequities, the response was that too many districts would benefit from it and, therefore, it would be too costly. As a consequence, the built-in inequity of the model remains, along with the punitive withholding of COLA from districts that would have benefited from the addition of a cost-of-living metric.

This allocation is further compromised by the increase in fraudulent enrollments across the state. Fraudulent enrollments are becoming a growing problem in California Community Colleges, yet until recently, the response to this crisis has been uneven. Some districts vigilantly chase and disenroll them, while other districts essentially ignore the problem. It is only recently, in response to legislative and congressional criticism, that any system-wide plan is being put into place.

We consciously use the term "fraudulent enrollments" as opposed to "fraudulent students" because the latter gives the impression that it is individual students who are enrolling under false pretenses. This is not the case – the fake enrollments are a consequence of organized criminals who flood the system with applications for the primary purpose of obtaining financial aid in order to defraud our federal and state governments.

This is a problem for the financial solvency of our system for multiple reasons:

1. When governments are defrauded, taxpayers are defrauded. As public institutions, we should be taking every measure necessary to ensure that we are being good stewards of taxpayer money. We need to maintain community trust and to demonstrate that we are trustworthy in how we report our

financial and enrollment data to the public.

2. Real students are being denied access to classes. This means real students are having difficulty signing up for class to advance their progress towards degrees and certifications, as well as potentially their access to financial aid if they cannot maintain the required course load for eligibility.
3. It is a labor issue. Full-time faculty face the common experience of having classes canceled at the last minute when it is discovered that the majority of enrollments are fraudulent. This threatens their full-time load, usually resulting in them taking classes from more vulnerable part-time faculty. These part-timers then face a dual constraint of losing classes themselves AND having them taken from full-timers. This puts our most vulnerable employees into even more precarious work conditions.
4. It shrouds real enrollments that indicate growth or decline. Districts report financial and data enrollments multiple times a year, including in annual reports. Fraudulent enrollments are included in this data unless there are measures to remove them. Some districts are more aggressive in monitoring than others, creating difficulty in truly identifying growth or decline trends across the state.

Regarding the SCFF, fraudulent enrollments create a direct conflict of interest. The SCFF rewards districts for enrollments, enrollment growth, and bonuses for the number of financial aid recipients. Vigilant monitoring of fraud means a loss of revenue for the districts in two ways: the labor and technology it takes to disenroll the fake students, and the loss in potentially all four components of the SCFF, but particularly with regard to the financial aid recipient headcount of the Supplemental Allocation.

The instability of financial aid due to the dissolution of the Department of Education and the current administration's animosity towards California and its residents is another cause for concern regarding the stability of the supplemental allocation.

Policy Recommendations:

Integrate the Cost-of-Living Metric into the Poverty Index. Create system-wide barriers to fraudulent enrollments.

The Success Allocation

The Success Allocation is based on the premise that colleges are more effective if they are rewarded for their students' completion behaviors. This is called Performance Based Funding (PBF), and many states have experimented with this model of funding, with most politicians finding the model philosophically attractive but ultimately discovering that it is operationally difficult.

PBF for public higher education goes back to the late 1970s when it was first introduced in Tennessee. It has since been adopted, and in some cases abandoned, by more than 40 states. The adoption of PBF for public higher education is based on the theory it will improve student outcomes. Empirical research demonstrates it does not: four decades of experimentation with PBF for public higher education throughout the U.S. suggest it will not improve student outcomes in CCCs and may have negative unintended consequences.

Among the consequences are “creaming,” the practice of recruiting or disproportionately prioritizing students with more privileged K–12 educational backgrounds who are already more likely to complete programs successfully; “gaming,” an overemphasis on quantity rather than quality that can incentivize colleges to create low-value degrees or certificates simply to boost completion numbers; and budgetary and planning instability, since colleges may encourage completion and set targets but ultimately cannot control student behavior, leaving this revenue stream dependent on factors beyond institutional control. The success allocation attempts to mitigate some of the unintended consequences through giving

additional “points” or “dollars” to at-risk students who complete the success metrics; however, the definition of “at-risk” is the same problematic definition used in the supplemental allocation, so it is not indexed for regional costs of living. Because this “equity allocation” is narrowly defined and because it is set up on a zero-sum basis, it will reduce funding for districts in higher-cost-of-living areas that also serve large numbers of underrepresented students. The result is lower student outcomes.

The success allocation is not based on a history of improved outcomes in other states. Empirical research finds funding levels to be one of the best predictors of student outcomes in public higher education. Both the supplemental and the success components of the SCFF have the potential to reduce funding for colleges that serve low-income students in high-cost-of-living areas and colleges that serve larger numbers of poorly served K-12 students, who are the students who need the most support. Overall, the colleges and districts already relatively successful in promoting certificates, degrees, and transfer will be rewarded with additional resources, thus reinforcing their success in a dynamic called the “performance paradox.” Those less successful in this regard will lose funding, thus further depressing student outcomes.

Policy Recommendations:

Eliminate the Success Allocation. Instead, reward colleges and districts that engage in proven best practices for student success, such as meeting recommended counselor/student ratios.