FACCC Position Paper on California's Community Colleges Funding Models

California's community colleges face persistent underfunding. The state has traditionally used misguided models of "efficiency" to try to serve California's largest college population, as well as punitive measures for districts "underperforming" in the areas of student enrollment, degree achievement, and financial aid recipients.

The problems within the California Community Colleges Funding Model are complex. There are many moving pieces, and some of the more recent budget legislation was hurriedly put into place, leaving the system in a state of chaos and uncertainty. This paper will guide the Faculty Association of California Community Colleges and its members in speaking to their representatives and advocating for our system. In addition, it will provide specific recommendations for stabilizing our system's funding so we can better serve our students and our communities.

Recent Budget History

Prior to the construction of the Student-Centered Funding Formula (SCFF) in 2019, the system had pre-existing struggles with the Full-Time Equivalent Student (FTES) allocation that made up the bulk of California Community Colleges' (CCC) revenues. The FTES calculation itself was flawed, and the "butts in seats" approach encouraged practices that have been pedagogically proven to lead to higher attrition rates and equity gaps in achievement. In addition, the pipelines to higher education (the number of students enrolled in K-12) shrank over the 2010s, leading to barriers in reaching enrollment targets. The SCFF was intended to address the funding crises, particularly for rural and upper state districts that had little recourse for increasing headcounts. However, the speed with which this new funding formula was proposed, approved, and signed into law left a lot of elements of the formula undefined and unresolved. The hurried introduction, in many ways, threw the system into even more chaos as the original language divided the state districts into two categories – "winners" who benefitted from having lower enrollments and lower costs of living, and "losers" who found their budgets significantly impacted because their enrollments were higher and their populations located in high cost of living areas. The two sides began to battle one another for political influence in their attempts to preserve their funding to serve their students.

An Oversight Committee was formed by the Legislature to hash out the details. However, after two years of meeting, the formula was just as archaic as before, with few of the problems resolved. The COVID-19 pandemic exacerbated the problem with the significant attrition the system experienced as colleges all went online. The state continued to extend “Hold Harmless” – a program put into place to initially help districts transition – but it has now become the funding formula every district relies upon. Despite enrollment gains as the pandemic has subsided, as recently as Spring 2023, the Legislative Analyst’s Office projected that only two of the state’s community college districts would be able to cover their budgets under the SCFF model. The others would need to use either Hold Harmless or Stability funding. The current plan is to allow districts to remain on a form of Hold Harmless, where they are still primarily funded by FTES (but with an updated recalculated base), but be ineligible for Cost-of-Living Adjustments (COLA). In the inflationary economy we’ve experienced over the past few years, not including a COLA is equivalent to a pay cut for an individual and a serious budget cut for an institution. So not “Harmless” after all. For most districts, the future of funding is bleak.

The Student-Centered Funding Formula

The initial concept that funding should be based on access to the success of our most vulnerable students is rooted in good intentions but has been flawed in its implementation. The definitions of both “at-risk” and “success” have been operationalized in a way that excludes many of the students the model set out to target. Under the SCFF, the model or “successful” student is the one who completes 30 units per academic year, receives an Associates Degree for Transfer, and transfers to a CSU/UC, ideally to receive a bachelor’s degree. The model prioritizes these students in terms of funding, rewarding districts that recruit and retain this population. This leads to districts to, in turn, prioritize these students above other categories of enrollees, oftentimes at the expense of our most marginalized and, therefore, vulnerable students. Populations of students who are deprioritized (harmed) by this model of funding and method of thinking include:

- First-generation students may define success as passing a class and persisting.
- Non-traditional students (those who are atypical from the middle-class privilege around which collegiate education was designed), including but not limited to those working full-time jobs while attending college, older students, veteran students, English Language Learners, etc.
- Part-time students (the average part-time student takes 8.1 units per semester).
- Career Education / Vocational Students, regardless of full- or part-time status, cost more money to train per pupil (equipment, supplies, smaller class sizes), but earn the college less money per completer.

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 the inequities within our economic stratification system but rather replicates them. Is it easier for these students to complete? Absolutely. However, if we view higher education as a public good for all, then our focus needs to be on our typical students, not the minority of “successful” full-time, already privileged community college students that comprise less than 10% of the state's total student body.

With our new Chancellor's Vision 2030 focus on access, it would be prudent to at least push pause on the SCFF implementation. Better still, evaluate the model for best practices for student access for the purpose of making changes or possibly constructing a more effective model altogether.

Policy Recommendations:

> *To date, our system leaders have been unable to address the problems inherent in this new funding model. We recommend our legislators extend the period of Hold Harmless for an additional two years as a stop-gap measure to give them time to address the flaws and allow further recovery from the pandemic slowdown. We also recommend the continuance of universal COLAs until the model creates revenue stability for most of the system's districts. We also support a) further evaluations from the Legislative Analyst's Office as to the effectiveness of the SCFF, and b) any efforts to replace the SCFF with a more suitable model.*

<u>The Basic Allocation</u>

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) FTES (full-time equivalent students) 70% of general fund allocation; 3) Supplemental Allocation (how many students receive federal and state financial aid) 20% of general fund allocation; and 4) the Success Rate Allocation (how many students reach "success points") 10% of general fund allocation. Each has its own issues/ arbitrariness with how they are calculated.

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 arbitrary 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 show that most colleges have FTES that range between 8,500 and 17,000, including the years prior to the COVID-19 pandemic. Providing equal base funding for FTES between 8,500 and 17,000 (the new "medium") would capture most colleges and offer greater stability for small to medium-sized colleges. Since one of our primary directives is to allow for maximum access to education across California, we need to optimize our base allocation to ensure equal opportunity for all colleges to remain financially solvent.

Policy Recommendations:

We recommend changing the thresholds for "small schools" to those colleges under 8500 FTES, for "medium schools" to those colleges that fall within the median range of 8500-17,000, and for "large schools" to those colleges over 17,000 to reflect the real enrollment numbers rather than the current arbitrary boundaries.

<u>Full-Time Equivalent Student Allocation</u>

By far, the largest funding component of the SCFF is the Full-Time Equivalent Student Allocation (FTES). Unlike other education systems, FTES is very different 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 by these 15-unit increments regardless of how many units the individual student is taking (e.g., five students each taking a 3-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 really 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 (fall 2020 Chancellor's Office data). This is because only 9.23% of CCC students are enrolled in 15+ units (fall 2022). Even if we recalculated the FTES to Federal financial aid thresholds of 12 enrolled units, we would be funding another 17.61% of CCC students fully.

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.

So how can we make the Student-Centered Funding Formula more "student-centered"? Modifying and 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 (those taking 15 units) to the typical community college student who is enrolled part-time and using support services. Who are these "typical" students?

· Median age is about 22 years.
· 54% are female.
· 72% are Hispanic, and Non-Hispanic White
· 51.4% take less than 8.9 units.
· Student load has a median of 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. What community colleges receive per student is currently the lowest amongst California's various publicly funded education systems.

2023-24	K - 12	CSU	UC	CC
Average Expenditure Per Pupil/Per FTE	$17,534	$22,260	$35,003	$11,360

This equity modification to the SCFF will allow colleges to service our students, which are more expensive to provide based on the nine units students typically take in a term. 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 less white and has 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 9 units.

<u>The Supplemental Allocation</u>

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 headcount) 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. 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. This disparity feels absurd, given that the Supplemental Allocation is the only part of the SCFF that’s ostensibly based on Equity.

Policy Recommendations:

Integrate the Cost of Living Metric into the Poverty Index

<u>The Success Allocation</u>

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 has been around for decades, going back to the late 1970s when it was first introduced in Tennessee, and it has since been adopted (and in some cases abandoned) by more than 40 states. The adoption of PBF for public higher education has been 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 can have negative unintended consequences, including “creaming,” (only recruiting or overly focusing on the success of students that have privileged K-12 educations and are therefore more likely to complete programs successfully) “gaming,” (the over-focus on the quantity rather than the quality of degrees and certificates can encourage colleges to create meaningless products in order to increase numbers) and budget/planning instability (colleges can encourage completion, create completion targets, etc. but cannot actually control the behaviors of students, so this revenue source is based on factors outside of the college’s control).

The Success Allocation attempts to control some of the unintended consequences, such as by giving additional “points” or “dollars” to at-risk students who complete the success metrics, but the definition of “at risk” is the same problematic definition used in the Supplemental Allocation, so, therefore, 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 predictable result is lower student outcomes.

The Success Allocation is not based on a history of improved outcomes in other states. Actually, 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 who engage in proven Best Practices for student success, such as meeting recommended counselor/student ratios.*

<u>The 50% Law</u>

The 50% Law (as defined by Education Code 84362 and California Code of Regulations Section 59200) was established in 1961 for the K-12 and California Community Colleges system. This law requires spending at least half of the college’s general fund on instruction. This law aimed to ensure small class sizes and limit the growth of administration on campuses.

Its measurement is somewhat complicated – there are certain expenditures paid for out of a general fund that are “exempt” – in other words, they don’t “count” towards the denominator with which the 50% is ascertained. Then instructional costs – primarily faculty salaries, academic salaries (educational administrators), and instructional aides – become the numerator. Districts report their compliance with the 50% Law annually to the State Chancellor’s Office.

In 2000, a 50% audit was conducted by the state, which identified multiple non-compliant districts. CCCI (California Community College Independents), with support from FACCC (Faculty Association of California Community Colleges), heard complaints from across the state from union presidents who were concerned that their districts were currently in non-compliance. In response, CCCI and Assemblymember Freddie Rodriguez petitioned the Joint Audit Committee to perform a 50% Law Compliance audit, which passed this summer. The Community College League of California (our professional organization for CCC CEOs and Trustees) came out strongly in opposition (especially the districts who were identified by CCCI in the Audit request), and when they were unable to convince the Joint Audit Committee to abandon the audit, they changed tack, and now are advocating for an abolishment of the 50% Law altogether, arguing that it is antiquated and arbitrary. These administrators are pointing to the evolving needs of the California Community Colleges students, where many students experience homelessness and lack of basic needs. The argument is based on claims that colleges need to provide “wrap-around” services for students. It is true that California Community Colleges are providing more services for students’ economic and healthcare needs, but the programs doing this work are funded by categorical programs that are not in the 50% calculation, so their objections ring hollow.

It is absolutely true that the 50% Law has a much different impact on expenditures today than it did in 2000 when the last audit was conducted, but not in the way the League is arguing it is outdated. One significant change in the funding model for community colleges is the significant increase of categorical funding to the overall operational budget. In the 2000-01 budget, the Public Policy Institute reported that categorical funding constituted about 9.1% of the system’s budget. Currently, that number is closer to 30%. What does that mean for the 50% Law? It means that the 50% Law ensured that districts spent 46.7% of their budgets on instruction in 2000-2001. The state-wide average amount of general funds used on instruction is 51.01%. With the increase in categorical funding, this means districts spend an average of 37-40% on instruction. Over the past 20 years, the categorical creep meant that districts could spend progressively less of the total budget on instruction.

The original law was to ensure that public funds for education be spent on the instruction of students. The intent was to keep classroom sizes low and limit administrative “bloat.” However, “bloat” is still seen. The current average salary of college presidents and superintendents is $284,504, with additional benefits of up to $99,000 for housing and car costs being added to many salaries. In the years 2012-2022, there was a 20% enrollment drop in the California Community Colleges system and a 45% growth in administrative positions at these same colleges. That is why part of the upcoming 50% Law audit includes an analysis of this administrative creep. This audit will examine ten randomly chosen community colleges in the

California system and their compliance with the 50% Law. Records will be examined from at least five and possibly 10 years, dependent upon record review results. The audit report will be available in Spring 2024.

Policy Recommendations:

Preserve 50% Law. Create a maximum percentage for administrative costs.

75/25 Ratio

In 1988, the California State Legislature passed AB 1725, and Governor Deukmejian signed the bill into law. Within this law (Education Code 87843.6), there are provisions aimed at increasing the proportion of for-credit classes taught by full-time faculty in all community colleges to 75%. It establishes a set of benchmarks along with corresponding incentives and penalties to gauge progress toward this objective. Unfortunately, none of these benchmarks are followed or enforced. In fact, research shows that there are minimal instructional faculty "program improvement allocations" as part of statewide apportionment, and this is not addressed in the SCFF.

Further, when earmarked funding is passed specifically for community college districts to hire full-time faculty (such as in 2018-19), the state auditors found that districts were not using the monies for this purpose. In 2023, a trailer bill was passed, and Education Codes 87890-87894 provide guidance for how districts should report how the funding is being spent, including a report on their 75/25 progress and the progress districts are making towards diversifying their faculty. Unfortunately, the enforcement language is weak: "The Legislature shall be informed of any community college district that fails to comply with this article, and each failing community college district shall be subject to notice at a meeting of the Board of Governors of the California Community Colleges." (Cal. Ed. Code § 87893) Our legislators were understandably displeased with the misuse of funds, but they are also unaware that the changes in Education Code alone are insufficient to change the system's behavior.

Policy Recommendations:

Hold the Chancellor's Office, the Board of Governors, and the Districts accountable for how full-time hiring monies are spent. Reward districts for making progress towards their 75/25 ratio. Engage in punitive steps for districts losing ground or making no progress. Create a similar full time to part-time ratio for non-credit instruction. Conceptualize the Faculty Obligation Number (FON) more in line with the 75/25 goals. Create more categorical pots for hiring faculty positions.

Categorical Funding

Over the past 20 years, the state has significantly increased the amount of funding allocated to categorical programs. These designated categories, supported by additional funding beyond the general fund, are primarily Equity Programs – those that target specific populations that legislators have identified as being traditionally marginalized or excluded from higher education.

Most of these funds provide necessary support systems to address the disproportionate impact these groups face in their rates of success. Programs such as EOPS, Services for Disabled Students, CalWorks, etc., have been strengthened by this increased investment. What makes categoricals unique is that the districts are restricted in terms of what they can use these funds for – they must go to the student population targeted.

However, there is no codified formula for categorical funds. They have historically been viewed as “extra monies” and are often earmarked for reduction in economic downturns. This puts entire populations of students in peril as most districts rely exclusively on these “extra” funds to cover the expenses of their equity programs. We need to secure and ensure permanent and ongoing funding for these programs to meet statewide equity goals. Additionally, administrative professional organizations are currently advocating for increased flexibility regarding categorical funds. Essentially, the push allows the districts/colleges to determine the investment in their programs at the local level. However, this conflicts with the intent of the creation of the programs and their funding from the get-go. Each of these categorical programs was created with a target population in mind because their historical exclusion from higher education requires a greater investment now.

Policy Recommendations:

Formalize categorical monies using base allocation and FTES metrics. Reject flexibility of categorical dollars and instead advocate for targeted funds for target populations.

Appendix 1: History of CCC Funding Formulas and General Critiques/Evaluations of the Student Centered Funding Formula

Budget Presentation FACCC A&P 2022

Linden, Robert (2022) Understanding the SCFF - While not an evaluation, it is a good outline of its history and intent.

LAO (2023) The 2023-4 Budget California Community Colleges

LAO (2022) The 2022-3 Budget Analysis of Major CCC Proposals - Failure of Oversight Committee is addressed.

CCCCO (2023) Vision 2030

A & P Conference 2021 - The equity failures of the SCFF

Hold Harmless Talking Points

Appendix 2: Base Allocation

Base Allocation

Appendix 3: FTES Recalculation

Chabot-Las Positas College Friday Faculty Focus, February 3, 2023

CCCO Unit Load Status

2022 Saving the SCFF

FACCC FTES

Appendix 4: Supplemental

Position Paper Points for Supplemental Allocation

Supplemental Study 2023

SCFF Equity Coalition 2021 Virtual Lobby Week

Student Centered Funding Formula Impacts Equity

PPIC (2023) Poverty in California

[California College Promise Grants Do Not Correspond to Poverty Rates]

Appendix 5: Success Allocation

[2022 Saving the SCFF]

Appendix 6: The 50% Law

[2023-126 Audit Scope and Objectives]

[The 50% Law]

[50% Law Summary]

Appendix 7: 75/25 Ratio, The Faculty Spending Audit, and the Growth of Non-Credit Instruction

[California community colleges rely too much on part time faculty and misspend funds, audit finds.]

[Community College Funding: Enforcing the 75/25 Rule]

[The 75/25 Goal and the Growth of Non-Credit Instruction]

[The State Auditor's Report on the State of Full Time Faculty Hires, the FON, and Our Progress Towards the 75/25 Ideal Ratio]