

APRIL 11, 2019

Community College Apportionment Issues

PRESENTED TO:

Senate Budget and Fiscal Review Subcommittee No. 1
On Education
Hon. Richard D. Roth, Chair



LEGISLATIVE ANALYST'S OFFICE

Background

State Adopted New Credit Apportionment Funding Formula in 2018-19

- The new formula has three main components.
 - **Base Allocation.** Provides funding for each credit full-time equivalent (FTE) student (\$3,727 in 2018-19), using a three-year rolling average of a district’s FTE student count.
 - **Supplemental Allocation.** Provides \$919 for every student who receives a Pell Grant, receives a need-based fee waiver, or is undocumented and qualifies for resident tuition. Student counts are “duplicated,” such that districts receive twice as much funding (\$1,838) for a student who is in two of these categories. Allocation is based on student counts from the prior year.
 - **Student Success Allocation.** Additional funding for each student achieving specified outcomes, with higher rates for the outcomes of students who receive a Pell Grant or need-based fee waiver. Allocation also is based on student counts from the prior year.

Student Success Allocation in New CCC Formula

2018-19 Amounts by Student Outcome Measure and Student Type

Outcome Measure	All Students	Additional Funding for Each:	
		Pell Grant Recipient	Need-Based Fee Waiver Recipient
Associate degree for transfer	\$1,760	\$666	\$444
Associate degree	1,320	500	333
Credit certificate requiring 18 or more units	880	333	222
Transfer-level math and English courses completed within first academic year	880	333	222
Transfer to a four-year university	660	250	167
Nine or more career technical education units completed	440	167	111
Regional living wage obtained within one year of community college completion	440	167	111



Background

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Over Next Two Years, Base Allocation to Decrease, Student Success Allocation to Increase

- In 2018-19, roughly 70 percent of formula costs stem from the base allocation, 20 percent from the supplemental allocation, and 10 percent from the student success allocation.
- The share for the base allocation is scheduled to decrease to roughly 65 percent in 2019-20 and 60 percent in 2020-21.
- The share for the student success allocation is set to increase to roughly 15 percent in 2019-20 and 20 percent in 2020-21.

New Formula Insulates Districts From Funding Losses During Transition

- New formula includes several hold harmless provisions for community college districts that would have received more funding under the previous formula.
- For 2018-19, 2019-20, and 2020-21, districts are to receive at least their total 2017-18 apportionment, adjusted for the statutory cost-of-living adjustment (COLA) each year of the period.
- Beginning in 2020-21, districts are to receive no less than the per-student rate they generated in 2017-18 under the former apportionment formula, multiplied by the current year FTE student count.
- The state also retained a longstanding one-year hold harmless provision that allows districts to receive the greater of their calculated current- or prior-year apportionment amount.



2018-19 Apportionment Shortfall

Administration Projects Higher 2018-19 Costs, Does Not Cover Shortfall

- The administration estimates apportionments cost \$69 million more than provided in the Governor's budget. The shortfall is primarily due to the student success allocation exceeding levels assumed in the *2018-19 Budget Act*.
- Based on preliminary data released at the end of February, the Chancellor's Office is now estimating an apportionment shortfall of more than \$300 million. The larger shortfall is due to higher apportionment costs and lower estimates of offsetting revenues (primarily local property tax revenue that has been revised downward).

A Few Key Considerations in Deciding Whether to Cover Apportionment Shortfall

- Covering the shortfall would signal support for the new funding formula, with its emphasis on improving community college student outcomes.
- If the Legislature chooses not to cover the shortfall, each district would have its 2018-19 apportionment amount prorated downward. The Chancellor's Office has indicated it would ensure that all colleges received at least their 2017-18 amounts, adjusted by COLA.
- Some districts—those with 2018-19 growth rates in excess of COLA—would find a downward pro-rata revision easier to accommodate, as their annual growth rates would still be relatively high.



Governor's Proposed Changes to Apportionment Formula

Postpones Scheduled Changes in Funding Formula Rates

- The 2019-20 funding formula rates would be the same as in 2018-19, adjusted for COLA.
- In 2020-21, rates would change as currently scheduled, with base rates decreasing and student success rates doubling.
- The administration indicates the proposal is intended to provide additional time for the Chancellor's Office to assess the reliability and quality of the student outcome data used to determine districts' funding allocations.

Caps Year-to-Year Growth in Student Success Allocation

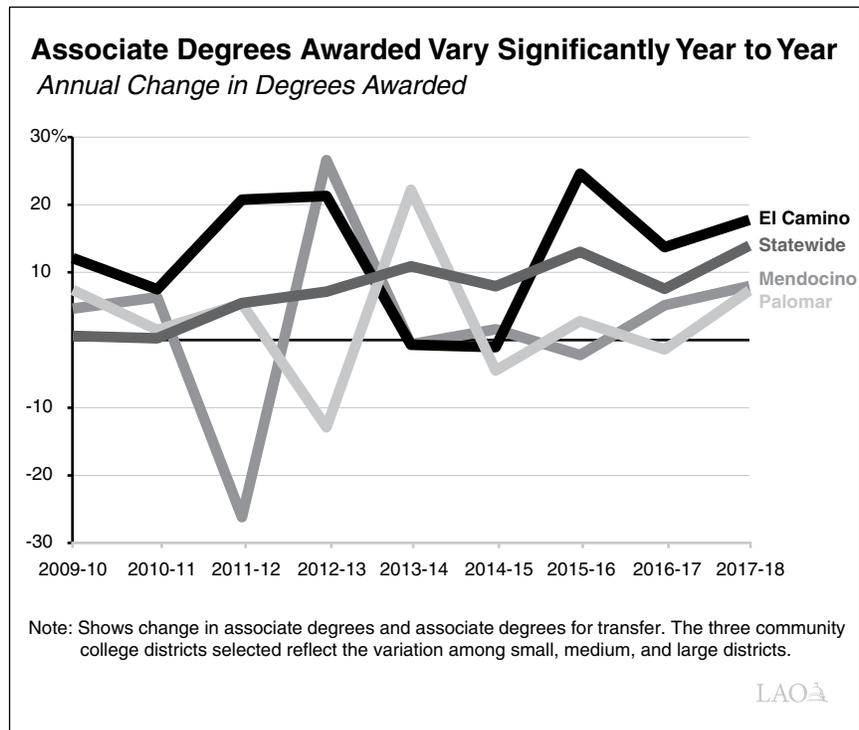
- A district's student success allocation could not increase by more than 10 percent each year.
- The proposal helps to constrain the total costs of the formula and limits the fiscal effects of student outcome data that is of potentially poor quality.



Assessment of Proposed Changes to Formula

Student Outcome Data Can Fluctuate Year to Year

- Variability is particularly large when looking at individual districts.



Several Likely Causes of Data Variability

- Data may not be accurate or collected consistently, as it has not traditionally been audited or reviewed by external entities.
- Degree counts for any particular year could be affected by administrative decisions or delays in processing or reporting.
- Data could vary because of differences in student cohorts or specific local circumstances.



Assessment of Proposed Changes to Formula

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Chancellor's Office Taking Action to Address Data Issues

- Beginning 2019-20, the Chancellor's Office will require districts' annual financial audits to include a review of all funding formula data.
- The Chancellor's Office has contracted with the Fiscal Crisis and Management Assistance Team to review the data collection and reporting processes of a sample of districts. The goal of the review is to identify ways to improve data quality and consistency. The Chancellor's Office expects to have the results of the review by early May.

Cap on Student Success Allocation Is a Crude Approach to Containing Formula Costs

- The cap could reduce incentives for districts that are making genuine improvements in student outcomes.



Recommendations

Use a Three-Year Rolling Average to Distribute Student Success Allocation

- Postponing the scheduled increase in the student success share of the formula by one year to allow for improvements in data quality and reliability seems reasonable.
- Even accurate student outcome data, however, might be prone to significant year-to-year fluctuations.
- Using a rolling average would mitigate fluctuations in district funding while still creating incentives for districts to improve student outcomes over the long run.

Explore Better Cost-Containment Options Rather Than Capping Student Success Allocation

- We recommend the Legislature explore other cost-containment options that continue to provide strong incentives for districts to make genuine improvements in student outcomes.
- For example, the Legislature could limit the amount of outcomes-based funding generated by an individual student to the highest award earned in a particular year. This would prevent districts from generating additional funding by granting students extraneous awards, yet still reward districts that see improvement in student completion.

