Contra Costa Community College District
SB 361/College First Allocation Model
Proposal
November 25, 2009

Introduction

Why develop a new allocation model?

For many years, the District has used a funding mechanism that does not meet its needs. The funding mechanism has no linkage between revenues and expenditures and cannot be supported by the revenues.

In the most recent self-study reports written by the colleges, the District self-identified the allocation funding model as needing modification; the accreditation teams supported the District's acknowledgment and recommended the District expedite development of a new allocation model as a "whole."

The recommended shift to a SB 361 allocation model will define finite limits on the majority of resources and expenditures and encourage fiscal accountability. The linkage of allocations to expenditures will move the District toward more fiscal stability.

When will the new allocation model be implemented?

We are projecting an implementation date of July 2010.

What strategies have been identified?

The proposal is to move the District to an SB 361 allocation model that will allocate funding based on the base revenue and per-FTES funding the state allocates to all 72 community college districts in California. The base revenue takes into consideration the economies of scale and size of colleges.

Four strategies have been identified to implement the SB 361 allocation model at 4cd. Strategy #1 is recommended because it maintains the integrity of the State SB 361 allocation model:

Strategy #1 – Adjust FTES targets to provide more FTES apportionment to Contra Costa College (CCC) to reduce the SB 361 deficit, eliminate the remaining CCC deficit, and eliminate the Los Medanos College (LMC) deficit through a planned expenditure reduction. This strategy will shift $830,799 of revenues by moving 182 apportionment funded FTEs from Diablo Valley College (DVC) to CCC and will provide a five-year expenditure reduction schedule to bring CCC expenditures down $1.4 million to align with revenues.

Strategy #2 – Use international student tuition to either provide transitionary dollars or provide permanent revenue to reduce apportionment deficits. This would require CCC to reduce $1.3 million in expenditures over a five-year period.

Strategy #3 – Consolidate responsibility for cosmetology Instructional Service Agreements (ISA) to CCC and move corresponding FTEs to CCC from LMC to provide a higher revenue base. This shift would provide $1.5 million more in revenue to CCC and allow LMC to make up FTEs through funded growth.

Strategy # 4 – This strategy will equalize the basic allocation to all three colleges, shift 182 FTES to CCC and implement CCC five-year and LMC two-year reductions.

How will the recommendations impact the colleges and the District?

The move from historical funding methods to a revenue based allocation model will be a culture shift. The shift for how we allocate funding on a college first basis will require culture changes in many areas including:

- Accountability
- Autonomy
- Transparency and accountability for District office and Districtwide allocations
- Transparency of college allocations and expenditures
- Impact and involvement of colleges in negotiations

The recommendations will also require an investment on the part of the District to allow for a five-year reduction in expenditures for CCC. This investment will require $3.6M of financial investment from the District. The use of undesignated reserves (if available), interest revenues projected at $400,000 per year (which remain outside the allocation model) and the $1,000,000 retiree health benefit contribution (if necessary) is recommended to fund the gradual reduction for a cost of approximately $3.6 million. This funding is needed to allow CCC to transition over a period of time since the recent budget reductions have been so steep. Also, deficits at CCC have taken a long time to occur and time is needed to allow the college to transition.

The recommended shift to a SB 361 allocation model will define finite limits on the majority of resources and expenditures and encourage fiscal accountability. The linkage of allocations to expenditures will move the District toward more fiscal stability.

The initial draft proposal contained two areas of focus. The first focus was on implementation issues and the second outlined four potential funding strategies. Subsequent to the development of the initial document meetings were held with the senior administrative teams at each college. They provided feedback, offered suggestions and posed a number of questions which all helped shape the document that follows.

As a result of those meetings, the plan now centers on one strategy that is being presented for consideration. It should be noted that the colleges are not in full agreement will all elements of the plan, but it is the opinion of the District Chancellor, Vice Chancellor and the consultants retained to work on this project that the following plan offers the best solution and opportunity for all three colleges to gain stability, incent creativity, establish fiscal vitality and gain greater control over their own fiscal destinies.

Page

I. New Allocation Model Implementation Issues……….………... 4

II. New Allocation Model Implementation Strategies………………..10

Implementation Issues

The proposed new allocation model will be based upon the principles inherent in the state funding formula prescribed by SB 361. Using the current funding rates:

- Each college shall receive an annual basic allocation per SB 361 as follows:
    - FTES <10,000 = $3,321,545
    - FTES >10,000 = $3,875,136
    - FTES >20,000 = $4,428,727
    - Approved Center = $1,107,182
- Credit Base Revenue shall be equal to the funded based credit FTES multiplied by the base rate of $4,564.83 in the 2010/11 fiscal year subject to COLA adjustment if funded by the state.
- Non-Credit Base Revenue shall be equal to the funded base non-credit FTES multiplied by the base rate of $2,744.9578 in the 2010/11 fiscal year subject to COLA adjustment if funded by the state.
- The Career Development and College Preparation (CDCP) non-credit base revenue shall be equal to the funded base CDCP non-credit FTES multiplied by the base rate of $3,232.0676 in the 2010/11 fiscal year subject to COLA adjustment if funded by the state.
- The base revenues for each college shall be the sum of the annual basic annual allocation, credit base revenue, non-credit base revenue, and CDCP non-credit base revenue.

The model will allocate the following revenues to the colleges and will utilize a charge back or system of assessments to fund District office, Districtwide and regulatory costs, such as retiree health benefits, banked faculty load, audit costs, and property/liability insurance.

<u>Included Revenue Sources</u>

- State Apportionment
- Lottery
- Part-time Faculty Parity
- Apprenticeship
- Office Hours/Health Insurance for Part Time faculty
- Non-resident Tuition
- Enrollment Fee Administrative Allowance
- Other Locally Generated College Revenues

The model will utilize a charge back system of assessments to fund District office, Districtwide and regulatory cost District office, Districtwide and Regulatory Allocations represent costs that are budgeted as close to actual as possible. These allocations are directly driven by the resources required to deliver assigned services and pay for regulatory requirements. These are the costs that will be charged back to the colleges.

DISTRICT OFFICE COSTS - Actual costs incurred for operation of the District office, which is responsible for providing certain centralized services such as purchasing, payroll, accounting and accounts payable, etc.

DISTRICTWIDE COSTS - Actual costs to support the District as a whole to include utilities, police services, information technology, human resources, and facility services.

REGULATORY COSTS - Actual costs associated with mandated or statutory costs that must be paid and cannot be reduced or changed, e.g. retiree health benefits, property and liability insurance, audit, etc.

A review of District office, Districtwide and regulatory costs will be conducted prior to the implementation of the model. Centralized services offered by the District office will be reviewed and evaluated regularly. Any change in future district office costs, Districtwide, and regulatory costs beyond the application of state COLA will be evaluated by the Cabinet in the spring of each year as part of the budget development process.

In making this model operational, there are a number of issues that may arise and it is the intent of this paper to outline possible solutions to some that have been identified. These will eventually become part of the District's formal written business procedures.

<u>Budget and Expenditure Responsibilities</u>

In this new SB 361 based allocation model, each college has been given a great deal of latitude in making expenditure decisions. There are, however, some basic guidelines that all of the colleges must follow:

- Requirements of the collective bargaining contracts apply to college level decisions, just as they do in the current system;
- The state required full-time Faculty Obligation Number (FON) must be maintained; care must be exercised to maintain equitable full-time/part-time balance at each of the colleges because of funding implications. Full-time faculty hire recommendations will be monitored on a Districtwide basis.
- In making expenditure decisions, the impact upon the 50% law calculation must be considered and budgeted appropriately;
- Care should be exercised in maintaining the public investment in the physical plant, facilities and grounds of the campuses;
- Allocating resources to achieve the funded level of FTES is a primary objective for all colleges.

- In order to promote similar levels of support services at each of the colleges, appropriate levels of classified and management staffing shall be maintained.

<u>Reserves and Deficits</u>

In the College First model the colleges have greater autonomy, but also greater responsibility and accountability. Colleges will be required to maintain a minimum college level reserve of 1% of its operating expenditure budget. Colleges will be allowed to retain ending balances and accrue reserves up to 7% of college operating expenditures. Any reserves over 7% will be split 60% to the college and 40% to the Districtwide reserves. Any college reserves over 5% will require a plan or explanation of the need to exceed 5%. If a college incurs a deficit for any given year, the following sequential steps will be implemented.

Districtwide reserves represent minimum reserve levels established by the Board of trustees per Board Policy, budget guidelines and budget planning parameters as adopted each year. Setting any limits in procedure will preempt the Board prerogatives in this regard.

> <u>Step 1</u> - College reserves shall be used to cover any deficit generated by the college.
>
> <u>Step 2</u> - If the college does not have sufficient reserves to cover the deficit, then the college shall pay back any shortfall over three years starting the second year immediately following the deficit year. To the degree District-level reserves are insufficient to cover this, an additional per FTES assessment may be necessary.
>
> <u>Step 3</u> - There may be circumstances for which a college will find itself in a significantly weakened financial position, making full repayment of one or more of the three scheduled payments extremely difficult. The District Chancellor, along with the Vice Chancellor and college Presidents, could consider an application for hardship whereby one or more payments are forgiven. When this occurs, the shortfall would come from Districtwide reserves. The draw down against the Districtwide reserves may require higher assessments in subsequent years against the colleges on a per FTES basis to replenish the Districtwide reserves.

District office operations will be required to maintain at least a 1% reserve of its operating expenditure budget. District office operations will be allowed to also accrue reserves up to 7% and any reserves over 7% will be split 60% to the District office operations reserves and 40% to the Districtwide reserves. Any District office operation reserves over 5% will require a plan or explanation of the need to exceed 5%.

If District office operations incurs a deficit for any given year, the following sequential steps will be implemented

> Step 1 – District office reserves shall be used to cover any deficit generated by the District office operations
>
> Step 2 - If the District office does not have sufficient reserves to cover the deficit, then the District office shall pay back any shortfall over three years starting the second year immediately following the deficit year. To the degree District-level reserves are insufficient to cover this, an additional per FTES assessment may be necessary.
>
> Step 3 - There may be circumstances for which the District office will find itself in a significantly weakened financial position, making full repayment of one or more of the three scheduled payments extremely difficult. The District Chancellor, along with the Vice Chancellor and college Presidents, could consider an application for hardship whereby one or more payments are forgiven. When this occurs, the shortfall would come from District-wide reserves. The draw down against the District-wide reserves may require higher assessments in subsequent years against the colleges on a per FTES basis to replenish the Districtwide reserves.

Recalculation of Apportionments by the State

It is very probable that the District's revenue from apportionment will be adjusted after the close of the fiscal year in the fall, but most likely at the P1 recalculation. The P1 recalculation occurs eight months after the close of the year. Whatever the adjustment for the prior year is, either an increase or decrease to the prior year's revenues should be treated as an additional revenue item in the current (budget) year. In the event of a decrease, it would be considered a revenue reduction in the current (budget) year. The amount added or subtracted would be applied in the same ratios as the revenues were distributed in the prior year.

This adjustment affects revenues not expenditures and therefore does not directly impact District office operations. For instance, if the adjustment is upward then the colleges have additional resources available to them. District office operations would not participate in that added funding. Conversely, if the adjustment is downward, it would affect current year revenue allocations to the colleges. What will be key to keeping adjustments up or down to a minimum will be the strength of the state and District budget assumptions.

Allocation of New Revenues

COLA will be allocated against the carry-forward apportionment base of each college. The per-FTES assessments will also be increased by the funded COLA rate.

Growth in funded FTES will be allocated based on the ratios of base college-funded FTES to total District-funded FTES each college is charged to maintain." In the event that there is state funding for FTES growth and any college does not reach its growth target, the FTES will be prorated between the remaining colleges based on a revised ratio of funded FTES from the still eligible colleges.

If there are to be other considerations for allocating growth FTES, those will be established by the Chancellor in consultation with the cabinet.

Other revenues that are identified as college specific will be allocated to the affected colleges.

Revenues which are not college specific will be allocated based on total funded FTES or total FTES, which includes non-resident or apportionment FTES depending upon nature of funding."

Due to the instability of revenues, such as interest income and mandated cost reimbursements, revenues from these sources will not be part of the allocation formula. Income derived from these sources will add to the Districtwide reserves.

<u>Summer FTES</u>

There may be times where it is in the best financial interest of the District to shift summer FTES between fiscal years. When this occurs, the first goal will be to shift FTES from all three colleges in the same proportions as the total funded FTES for each of the three colleges. If this is not possible, then care needs to be exercised to ensure that any such shift not create a manufactured disadvantage to any of the colleges. If a manufactured disadvantage is apparent, then steps to mitigate this occurrence will be developed.

Restoring "borrowed" FTES should occur on the same basis as it was drawn down up to the levels of FTES borrowed. If it cannot be restored in that fashion, care should be taken to evaluate if a disadvantage is created for any college.

Borrowing of summer FTES is not a college-level decision, but rather a District-level determination. It is not a mechanism available to individual colleges to sustain their internal FTES levels. Attempting to do so would raise the level of complexity on an already complex matter to a level that could be impossible to manage and prove detrimental to the district as a whole.

<u>Long-Term Plans of the Colleges</u>

Each of the colleges has a long-term plan for facilities and programs. The Chancellor, in consultation with the Presidents, will evaluate additional funding that may accrue to the colleges beyond what the model provides. The source of this funding will also have to be identified.

Shifting of Resources between Colleges and Mitigating Impacts of the New Model

To the degree that the required full-time faculty numbers for each college are out of sync with the ratios as established by the District based on FTES ratios, correction of the imbalance will occur, as there are vacancies at the college in excess of its required number.

1. The District will establish for each college an FON based the ratios of funded FTES. Each college's ratio multiplied by the Districtwide FON will become the college's FON. Each college's FON will be adjusted annually based on changes in funded FTES and subsequent requirements by the state regarding the FON. Each college shall be required to fund at least that number of full time faculty positions. If the District falls below the FON and apportionment is taken away, that reduction shall lower the revenues of colleges causing such apportionment loss.

2. If the imbalance is internal and the District as a whole is at or above its FON, the college or colleges below the required number shall increase its positions to maintain its individual FON.

Presently each college is above the estimated college FON, and as such, no actions are required.

Periodic Review of These Procedures

The move to this new model will take some time to sort out any remaining issues and evaluate the effectiveness of the procedures outlined herein. It is suggested that at regular three-year intervals the model is reviewed along with the procedures to determine what adjustments, if any, are necessary. The goal is to keep the model fresh and responsive to the changing community college system landscape. It is also recommended the model be reviewed and adjusted after the first full year of implementation.

Options to Achieve Balance in the Actual Resources Allocated to Each College

In the initial stages of implementation, it is probable that the existing college allocations/expenditures will not be consistent with the new model. A college having to make reductions with those funds moving to one or more college needs time to restructure its operation. **Because the District is facing declining resources at the time of implementation, this adjustment is more difficult.**

The implementation strategy that follows is intended to be sensitive to this circumstance and seeks to provide the most reasonable opportunity for success.

Proposed Implementation Strategies

Strategy #1

Adjust FTES targets to provide more FTES apportionment to CCC to reduce the SB 361 deficit, eliminate the remaining CCC deficit and eliminate the projected LMC deficit through planned expenditure reduction.

- Target CCC FTES level at 6,199 (2008/09 actual) for 2010/11 budget year instead of reducing by 3.39% to 6,017. The 182 additional paid FTES adds $830,799 to apportionment revenue;
- With no paid growth in the near term, total District-paid apportionment FTES in 2010/11 remains at 29,837 (revised District base);
- Reduce DVC target by 182 to 15,393 FTES;
- Restore DVC reduction on a priority basis with future funded growth;
- After apportionment adjustment, the CCC deficit is $1,450,021;
- Develop four-year deficit reduction plan beginning in 2011/12 applied to the $1,450,021 with annual subsidy provided by District funding until deficit removed in 2014/15. Under this scenario, CCC's ongoing expenditures would be reduced by 1.02% per year over the next five years;

Table 1

CCC Reduction Plan	Reduction	District Funding
2010/11	$ 0	$1,450,020
2011/12	$ 362,505	$1,087,515
2012/13	$ 362,505	$725,010
2013/14	$ 362,505	$362,505
2014/15	$ 362,505	
Total	**$1,450,020**	**$3,625,050**

- Any additional ongoing local revenue could be used to offset expenditure reduction in any given year.

- An investment of funds will be required to assist in transitioning the District over a five-year timeframe to the SB 361 funding model. It is recommended the funds come from interest revenues first, undesignated reserves second, and if needed from the $1M Retiree Health Benefit contribution as noted in Chart 1:

Chart 1

Fiscal Year	Retiree Health Contribution/ Undesignated Reserve (if available)	Interest	Subsidy	Balance
FY 10/11	$ 1,000,000	$ 400,000	$ 1,450,020	-$ 50,020
FY 11/12	$ 700,000	$ 400,000	$ 1,087,515	-$ 37,535
FY 12/13	$ 350,000	$ 400,000	$ 725,010	-$ 12,545
FY 13/14	$ 0	$ 375,050	$ 362,505	$ 0
FY 14/15				
Total	**$ 2,050,000**	**$ 1,575,050**	**$ 3,625,050**	

Table 2

ENDING BALANCE PROJECTIONS					
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
CCC	-$1,450,020	-$1,087,515	-$ 725,010	-$ 362,505	0
DVC	$1,464,156	$1,464,156	$1,464,156	$1,464,156	$1,464,156
LMC	-$ 551,369	-$ 551,369	-$ 551,396	-$ 555,686	$ 555.686

Eliminate Projected LMC deficit through planned expenditure reduction.

- Develop two-year expenditure reduction plan applied to the $551,396 deficit projected for LMC.
- Year one remaining deficit would be funded from District funds.

Table 3

LMC Reduction Plan	Reduction	District Funding
2010/11	$275,698	$ 275,698

2011/12	$275,698	
Total	**$551,396**	**$275,698**

- LMC expenditures would require .8% reduction each year over the next two years
- Under the SB 361 revenue based allocation model, contingent upon available state funding, basic allocation funding in the amount of $1,107,182 would accrue to LMC upon formal Brentwood center approval by the California Post Secondary Education Commission. This additional revenue could mitigate expenditure reduction.

Table 4

ENDING BALANCE PROJECTIONS					
	2010/11	2011/12	2012/13	2013/14	2014/15
CCC	-$1,450,020	$1,087,515	- $725,010	-$ 362,505	0
DVC	$1,464,156	$1,464,156	$1,464,156	$1,464,156	$1,464,156
LMC	-$ 275,698	0	0	$1,107,182	$1,107,182

Strategy #2

Use international student tuition revenue to either provide transitionary dollars or provide permanent revenue to reduce apportionment deficits.

- Total international student revenue estimated for 2009/10 is $7,894,272. Expenses associated with this revenue total $1,761,270. The estimated net revenue therefore is $6,133,002.
- The current practice is to combine the international student tuition revenue with other unrestricted revenues in the District and distribute it based upon expenditure requirements among the colleges, the District office and Districtwide services.
- The assumption therefore, is that the revenue goes out in proportion to total expenditures by site application: 51% to DVC, 22% to CCC and 27% to LMC.
- The methodology used in Exhibit I is to allocate revenue to the colleges generating it and allocate the international student expense in the same manner.
- Since DVC is the primary service location for international students, this allocation methodology does provide significantly more local revenue in the form of non-resident tuition.
- Either on an ongoing basis or as a temporary implementation strategy to eliminate deficits at LMC and CCC, the international student tuition revenue could be allocated as follows:
    - Sixty percent (60%) of net international education revenue to DVC; allocating 60% of the net revenue to DVC presumably provides more than they are receiving under the existing system.
    - Split the balance 60/40 to CCC and LMC, respectively;
    - Any new additional non-resident tuition from international students in the future would be allocated to the college generating it. Associated expenses would be expensed to that college as well.
- CCC would need to reduce down the $1.4 million deficit over a five-year period in equal increments.

Table 5

ENDING BALANCE PROJECTIONS					
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
CCC	-$1,354,682	-$1,354,682	-$1,354,682	-$1,354,682	-$1,354,682
DVC	$ 688,917	$ 688,917	$ 688,917	$ 688,917	$ 688,917
LMC	$ 182,910	$ 182,910	$ 182,910	$1,290,092	$1,290,092

Strategy #3

Consolidate responsibility for cosmetology Instructional Service Agreements (ISA) to CCC and move corresponding FTES to CCC from LMC.

- At the present time, both LMC and CCC have contracts with a private contractor to provide direct cosmetology instruction under an ISA.
- These agreements provide for the District to receive apportionment revenue under the rules of ISAs while paying the contractor for direct instruction on a per student hour basis.
- The cost of instruction appears to be considerably cheaper under these agreements than it is for other instructional programs, resulting in significant revenue over expenses generated from the arrangement.
- Instruction occurs at the contractor's location.
- Administrative responsibility for the programs and agreements has been assigned at each of the colleges.
- In 2008/09 Cosmetology FTES derived from the contracts with Paris Beauty Schools:
  - LMC 470 FTES
  - CCC 85 FTES
- It is our understanding that the numbers at both colleges are projected to be reduced in 2009/10 due to reduced potential for paid apportionment FTES and/or reduced demand resulting from the economic turndown.
- It may be more efficient to consolidate the program under one administrator at a single college location. This consolidation would allow movement of credit for the FTES to be moved from a college with significant growth prospects apart from this program to one where program growth may be limited. Movement of 340 FTES (LMC enrollment projected for 2009/10) from LMC to CCC would provide $1,558,438 additional apportionment revenue to CCC. Based upon 2008/09 invoices, the District paid Paris Beauty School $397,762 for the instruction provided by them for the LMC program. The net gain/loss from this strategy for CCC and LMC is $1,160,676.
- LMC could "make up" lost FTES through future apportionment growth either at the college site or the Brentwood Center, provided fully-funded growth is funded at the state level.

Table 6

ENDING BALANCE PROJECTIONS					
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
CCC	-$1,090,144	-$1,090,144	-$1,090,144	-$1,090,144	-$1,090,144
DVC	$2,294,955	$2,294,955	$2,294,955	$2,294,955	$2,294,955
LMC	-$1,755,675	-$1,755,675	-$1,755,675	-$ 648,493	-$ 648,493

- The only way this works is if there is sufficient paid apportionment growth in 2010/11 to make up for the LMC loss in cosmetology revenue. This seems unlikely given projections of California's economic conditions in the 2010/11 year. This may be a strategy to be evaluated later for reasons of organizational efficiency when growth funding becomes available and the Brentwood Center is approved and funded, etc.

<u>Strategy #4 (includes Strategy #1)</u>

Equalize Basic Allocation to all three colleges; shift 182 FTES to CCC and implement CCC five-year and LMC two-year reductions.

- The SB 361 funding formula provides B*asic Allocation* dollars based upon college size in a multi-college district as follows:
  - o FTES < 10,000 = $3,321,545
  - o FTES > 10,000 = $3,875,136
  - o FTES > 20,000 = $4,428,727
  - o Approved Center = $1,107,182
- If, in fact, there is a need to recognize a higher level of ongoing, structural expenditures at CCC and LMC, the "Basic Allocation" could be equalized so that each college receives the same amount. This "equalization" approach requires no additional dollars, and simply distributes the total allocation in a manner different from the state formula.
- *If all Basic Allocations were equalized (excluding the Center allocation), each college would receive* $*3,506,753*.
- The purpose of the Basic Allocation and equalized funding per student approach is to recognize the diverse composition of community college districts; and when applied locally, achieves this recognition as well. The allocations provide some recognition to funding fixed costs contingent upon college size. The "center" funding recognizes, to some degree, the fixed costs associated with operating outreach centers.
- It would seem advisable to fund FTES at the same level at all three colleges. The current credit rate is $4,564.83.
- The Basic Allocation augmentation approach was used in the Los Angeles District when the allocation model was changed to mirror the SB 361 approach. The decision to augment was based upon an analysis of Administrative and Maintenance and Operations costs for the smaller colleges in the District. These costs ranged from $3.1M to $4.1M annually.

<u>Table 7</u>

ENDING BALANCE PROJECTIONS*					
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
CCC	$1,264,721	-$ 948,541	-$ 623,361	-$ 316,181	0
DVC	$1,095,773	$1,095,773	$1,095,773	$1,095,773	$1,095,773
LMC	$ 366,097	-$ 183,048	0	$1,107,182	$1,107,182

*Assumes equal Basic Allocation for each of the three colleges