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July 20, 2011

Drew Bohan, Executive Director
Commission on State Mandates
U.S. Bank Plaza Building
980 Ninth Street, Suite 300
Sacramento, California 95814

Re: CSM 02-TC-27
Test Claim of Santa Monica Community College District
Employment of College Faculty and Administrators

Dear Mr. Bohan:

I have received the Commission's Final Staff Analysis (FSA) for the above referenced test claim dated July 15, 2011, to which I respond on behalf of the test claimant.

In my response dated June 23, 2011, to the Draft Staff Analysis (DSA), I stated several reasons[1] that the program improvement funding and program-based funding formulas

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[1] From the June 23, 2011, test claimant's response to the Draft Staff Analysis:

"D. Funding Formula

Notwithstanding the absence of the cost data, the colleges are not being funded based on actual program costs. Section 84755, subdivision (b), states that the new funds will be allocated to "each district on the basis of an amount per unit of average daily attendance funded in the prior fiscal year," but only after the amount is "increased or decreased to provide for equalization." The subsequent annual funding is allocated based on full time equivalent students, which is essentially the same mechanism as average daily attendance. These allocation methods effectively negate any concept of actual cost reimbursement, which is the actual cost of the new program or increased level of service (including

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were defective as a statutory revenue source that was specifically intended to fund the costs of the state mandate in an amount sufficient to fund the cost of the state mandate for the exception to a finding of "costs mandated by the state" pursuant to Government Code Section 17556, subdivision (e). Regardless, the FSA (13) concluded that there was "a significant amount of money" appropriated every fiscal year "specifically intended by the state to fund the costs of the mandated activities." However, the FSA did not state what those amounts are or which activities these funds were applied to. Instead, the FSA relied upon the Education Code Section 84755 provision which states that the money must first be used to pay for the mandated program activities.

The FSA asserts several presumptions of fact regarding the Program Improvement Funds and Program-Based Funding. In fact, the FSA (13) established a series of rebuttable presumptions without foundation. This letter transmits information obtained from the California Community Colleges Chancellor's Office as a result of a public records request regarding the funding that is contrary to these presumptions.

Board of Governor's Agenda Action

Exhibit A 07/13-14/89 BOG Agenda Item 1: Proposed Distribution Formula for Program Improvement Funds

This agenda item proposed the formula for distributing program improvement funds allocated for the 1988-89 and 1989-90 fiscal years. It "reflected the expectation that a significant portion of the program improvement funds would be utilized for equalization." Equalization is not mandate reimbursement. It is a process to allocate additional funds to districts with historically below-average state general funding per student.

The analysis estimated the cost of reimbursing the AB 1725 state mandates to be $20 million to $25 million and planned to provide the districts "with at least that amount," but that "some districts will be required to spend 40 percent of their program improvement funds to increase the number of full-time credit instructors," a mandate from AB 1725 that is not the subject of this test claim. The analysis states that at least $40 million will be required for this purpose and will be allocated on per ADA basis.

The analysis indicates that "[s]mall districts receiving an amount per ADA will probably not receive enough to cover the full cost of all mandates." This is an acknowledgment that the ADA allocation method alone is not representative of the actual costs of the mandates.

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indirect costs which are about an additional 30% to 35% of direct costs). The funding scenario bears no relationship to the actual cost of the mandate at any college district, so as a matter of law, it cannot be presumed to be sufficient, and as a matter of law, it cannot satisfy the requirements of Section 17556, subdivision (e), as reimbursement of costs."

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The analysis identifies several AB 1725 activities "that are strongly encouraged but not mandated," and concludes that 70% of the program improvement Phase I funds would be used for both mandated and optional programs. Therefore, this ADA allocation, which was eventually adopted by the Board of Governors, makes no distinction between the mandated and optional activities. Of course, the Board of Governors had no way of knowing which AB 1725 activities are truly mandated until the Commission decides this as a matter of law.

The analysis also indicates that the ADA allowance method suffers from a further factual deficiency. The ADA allocation only applies to credit ADA. Those districts with non-credit ADA will be underrepresented and underallocated. The analysis also indicates those districts providing K-12 adult education will be similarly underallocated.

Exhibit B 09/14-15/89 BOG Agenda Item 4: Program-Based Funding Update

The background information provided for this agenda item states: "Program-based funding is method of allocation that more closely reflects actual costs. This is in contrast to the current method, which provides funds for all aspects of a district's operation based on average daily attendance (ADA)." This is a general acknowledgment of the defects of the ADA method used for the Phase I and II program improvement funding allocations.

The agenda item proposes a new method called "target funding" and "actual funding." The new method requires the use of "workload measures" in five categories which are "an index used to determine the amount of revenue a district will receive." The Update report attached to the agenda item indicates that "adjustments" will have to be made to these category allocations to "offset economic disadvantages to small districts and colleges." Further, that a greater percentage than the previous 70% of the allocation would have to be used for equalization and "possibly 100%." Thus, equalization funding becomes the first use of the program funds and has no relationship to mandated actual cost reimbursement.

Exhibit C 11/8-9/90 BOG Agenda Item 14: Board Certification Regarding Adequate Funding For Phase II of AB 1725

This is the agenda item for the certification of the Phase II program improvement funding appropriation. The certification will also trigger the AB 1725 program-based funding model previously proposed. The certification states that the funding is "adequate" in order to trigger the AB 1725 programs and does not address the requirements of Government Code Section 17556, subdivision (e). The Board of Governor's certification was not intended to validate the standard required by Government Code Section 17556, subdivision (e), merely to trigger Phase II.

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Exhibit D 01/10-11/91 BOG Agenda Item 5: AB 1725 Status Report

This agenda item provides an update on the implementation of AB 1725. The update confirms that the Phase II reforms will become operative July 1, 1991, and that "one of the requirements of program-based funding is that for FY 1991-92, all districts will receive at least the amount of revenue they would have been entitled to receive under SB 851 [the previous funding formula]." This confirms that the program improvement funding formula is further skewed by a minimum funding level guarantee not related to mandate cost reimbursement.

The Update reports that on March 6, 1980, the Chancellor's Office issued an analysis of the FY 1989-90 program improvement plans of the districts and that "[t]he analysis indicated the great majority (85%) of the funds were being used in five different areas: full-time/part-time ratios, increasing budgets for plant maintenance and operation, adding new courses and programs, improving student services, and improving libraries and learning resources." None of these "uses" are the subject of this test claim.

The Update also reports that the $140 million in program improvement funds, thus is actual program uses, are locked into the funding base for FY 1991-92. Therefore, there is no apparent mandate reimbursement formula or actual cost allocation as part of the base for future funding.

Exhibit E 03/14-15/90 BOG Agenda Item 11: Title 5 Regulations For The Implementation Of Program-Based Funding

This agenda item proposes the Title 5 regulations for the administration of program-based funding based on the AB 1725 criteria. Program-based funding, which appears to be the method used for all fiscal years after Phase I and II, "establishes standards for the level of service in each program category and computes a corresponding level of funding to achieve and maintain those standards." It bears no relationship to mandate actual cost reimbursement.

The Update report also confirms that the Phase I and II funding was "distributed on the basis of 30 percent for equalization and 70 percent across the board per ADA," which bears no relationship to mandate actual cost reimbursement.

The transcript includes the testimony from staff at Lassen CCD, and others, describing how the plan's imperative to expend funds by specific category does not work as well for rural districts as it does for urban districts. Also see Exhibits H and I which are letters from other colleges with similar concerns. Essentially, they conclude that program-based funding is a specific spending plan and not a general revenue allocation that adversely impacts small college districts. Therefore, the program-based budgeting is not mandate reimbursement since the spending plan is for programs and activities that are not the subject of this test claim.

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Exhibit F 03/12-13/92 BOG Agenda Item 15: Funding Gap Study-Second Reading,

This agenda item reports the gap between statewide funding and "what is needed to fully support each segment's mission." The program-based funding standard is stated to be deficient by $1.58 billion. This conclusion casts doubt on any previous representation or certification as to adequacy of the funding for purposes of mandate reimbursement for all programs.

Exhibit G 07/9-10/920 BOG Agenda Item 10: Revisions to Program-Based Funding Regulation

This agenda item requests that the enrollment data used for "student services category" of program-based budgeting be changed to "unduplicated student enrollment" from the fall census data because "[i]t was universally felt that this point in time, Fall count did not adequately reflect the unduplicated student enrollment in the California Community Colleges." This is a more specific example of the deficiency of using global enrollment data for revenue allocations as a substitute for cost reporting and reimbursement. Note that Attachment B provides a summary of the program-based funding mechanism, none of which is related to actual cost reimbursement.

District AB 1725 Compliance Reporting

J 04/14/90 Chancellor's Letter to Santa Monica CCD regarding the district's Program Improvement Plan for the FY 1989-90 Apportionment

K 03/01/91 Chancellor's Letter to Santa Monica CCD regarding the district's Program Improvement Plan for the FY 1990-91 Apportionment

These two letters indicate that Santa Monica CCD's Program Improvement Plans for Phase I and II were reviewed and approved. The letters also confirm that the information in the plan is not based on actual costs nor are the mandate activities identified, so the plan cannot be a basis for a presumption that the funds received were first used, or used at all, for mandated activities that are the subject of this test claim, or any mandated activities. Any presumption that the Phase I and II funding was sufficient and properly applied based on these plans is without foundation.

Evidentiary Presumptions

This evidence from the Chancellor's Office is contrary to the presumptions made in the FSA. The Board of Governor's may have certified that there was adequate funding to implement the mandates, but the actual Phase I and II funding formulas were constructed to equalize historic and current funding inequities for college programs. The individual district Program Improvement Plans were not based on actual costs, did not certify or prove that any funds were first used for mandates that are the subject of

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this test claim, or any state mandates, and thus fail as a presumptive factual basis for the Board of Governor's certification that adequate funds were provided for any or all AB 1725 mandates. Further, as reported by Chancellor's office staff, most of the funds were delivered in the form of equalization and used to hire faculty for the purpose of increasing the ratio of full-time faculty to part-time faculty, which is not a subject of this test claim.

The program-based funding, which is the presumed source of sufficient reimbursement for future years after Phase I and II, is actually a targeted spending plan for programs other that those which are the subject of this test claim. It is not a general revenue allocation. It is not the mandate reimbursement funding mechanism intended by the Legislature. Therefore, it cannot be presumed to be an ongoing statutory source of funding for the mandates which are a subject of this test claim in an amount sufficient to fully fund those mandates.

Certification

By my signature below, I hereby declare, under penalty of perjury under the laws of the State of California, that the information in this submission is true and complete to the best of my own knowledge or information or belief, and that the attached documents, if any, are true and correct copies of documents received from or sent by the state agency which originated the document.

Executed on July 20, 2011, at Sacramento, California, by

Keith B. Petersen

Keith B. Petersen

C: Commission electronic service list

Exhibits attached:

A	07/13-14/89	BOG Agenda Item 1: Proposed Distribution Formula for Program Improvement Funds-Second Reading
B	09/14-15/89	BOG Agenda Item 4: Program-Based Funding Update-A Report
C	11/8-9/90	BOG Agenda Item 14: Board Certification Regarding Adequate Funding For Phase II of AB 1725: First Reading, Action Scheduled. Submitted without appendices. Available upon request.
D	01/10-11/91	BOG Agenda Item 5: AB 1725 Status Report-A Report.

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Attachment: AB 1725 Second Major Update (October 1990)

E	03/14-15/90	BOG Agenda Item 11: Title 5 Regulations For The Implementation Of Program-Based Funding-Second Reading, Action Scheduled. No attachment available. Included: "Verbatim Transcription Of Presentations From Audience."
F	03/12-13/92	BOG Agenda Item 15: Funding Gap Study-Second Reading, Action Scheduled. Submitted without attached "Funding Gap Study." Available upon request.
G	07/9-10/920	BOG Agenda Item 10: Revisions to Program-Based Funding Regulation- Second Reading, Action Scheduled.

<u>District Responses to the Program-Based Funding Formula</u>

H	04/22/91	Kern CCD Letter to Chancellor transmitting a resolution objecting to the implementation method (proposed Title 5 regulations) for Program-Based Budgeting
I	04/26/91	Lake Tahoe CCD Letter to Chancellor transmitting a resolution objecting to the implementation method (proposed Title 5 regulations) for Program-Based Budgeting

<u>District AB 1725 Compliance Reporting</u>

J	04/14/90	Chancellor's Letter to Santa Monica CCD regarding the district's Program Improvement Plan for the FY 1989-90 Apportionment. Not included here are the district-prepared schedules and Chancellor's analysis worksheets and notations. Available on request.
K	03/01/91	Chancellor's Letter to Santa Monica CCD regarding the district's Program Improvement Plan for the FY 1990-91 Apportionment. Not included here are the district-prepared schedules and Chancellor's analysis worksheets and notations. Available on request.

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Board of Governors
California Community Colleges
July 13-14, 1989

PROPOSED DISTRIBUTION FORMULA FOR PROGRAM IMPROVEMENT FUNDS 1

Second Reading, Action Scheduled

Background

Assembly Bill 1725 (Chapter 973, Statutes of 1988) was signed into law on September 19, 1988. Subject to the allocation of $140 million, the concepts of program-based funding, as described in Section 21 of the bill, are to be implemented during the 1991-92 fiscal year. Until that time, program improvement funds are to be spent according to the provisions of *Education Code*, Section 84755 (Appendix), which was added by Section 21.7 of the bill. The purpose of this agenda item is to propose a formula for distributing any program improvement funds that may be allocated for the 1988-89 or 1989-90 fiscal years.

Analysis

The task force report on the program-based funding model reflected the expectation that a significant portion of program improvement funds would be utilized for equalization. By starting with the lowest-revenue districts, the intent was to bring district revenue as close as possible to the level needed to fund all of the standards. However, AB 1725 includes several State mandates for districts that are to be implemented in two phases. The mandates in Phase I become operable when $70 million has been appropriated for program improvement on an annual basis. Phase II occurs when a total of $140 million has been appropriated. The State is required to provide funds to cover the cost of implementing all of its mandates. The annual cost of mandates in Phase I is estimated to be between $20 and $25 million statewide. Since all districts must comply with the mandates, it will be necessary to provide them with at least that amount. In fact, as will be described later, some districts will be required to spend 40 percent of their program improvement funds to increase the number of full-time credit instructors. This expenditure will be in addition to the $20 to $25 million mentioned above. Small districts receiving an amount per ADA will probably not receive enough to cover the full cost of all mandates. To resolve this dilemma, it is proposed that no district receive less than $125,000. Therefore, to satisfy the requirements for adding instructors, and to guarantee that enough funds are provided to cover the cost of the mandates, it will be necessary to provide at least $40 million to all districts on a per ADA basis.

Furthermore, AB 1725 contains several activities that are strongly encouraged but not mandated. Examples include increased emphasis on placement centers, transfer rates, and affirmative action. To satisfy the mandates and provide some funds for optional activities, the Chancellor's Office proposes that 70 percent of program improvement funds be allocated to districts on a flat amount per ADA. Consequently, $49 million of the $70 million in Phase I would be used for this purpose. The remaining 30 percent would be appropriated as equalization funds, using the method described in *Education Code*, Section 84705. This method provides funds to those districts whose revenue per ADA is the lowest in the state, and attempts to bring them as close as possible to the statewide average.

Once districts have allocated funds to satisfy the mandates, all remaining funds, including equalization funds, must be appropriated for one or more of the 19 items listed in subsection (b) of *Education Code*, Section 84755 (Appendix). Item 12 on that list involves the increased hiring of full-time instructors. Depending on its current ratio of full-time credit instructors, a district will be required (*Education Code*, Section 87482.6) to allocate a certain portion of its program improvement funds toward increasing their number, as follows:

A. If a district's ratio of full-time credit instructors is below 67 percent, the district must allocate at least 40 percent of its program improvement funds toward increasing the number of such instructors.

B. If a district's ratio of full-time credit instructors is between 67 percent and 75 percent, the district must allocate at least 33 percent of its program improvement funds toward increasing the number of such instructors, to the extent necessary to bring the ratio to 75 percent.

C. If a district's ratio of full-time credit instructors is at or above 75 percent or above, it will not be required to spend program improvement funds toward increasing their number as long as the ratio remains at that level.

The regulations for implementing the requirement to increase the number of full-time credit instructors are included elsewhere in this agenda. However, to the extent that these requirements have not been met by Fiscal Year 1991-92, funds will be withheld from the district during that year and subsequent years.

Program improvement funds allocated on an ADA basis are to be computed using total ADA, both credit and noncredit. This appears to be a problem, since up to 40 percent of the funds must be used to employ credit instructors. To solve this problem, discussions have been held via the consultation process in general, and specifically with representatives of districts with a large proportion of noncredit ADA. During

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these discussions it has been agreed that while funds will be computed on the basis of both credit and noncredit ADA, all funds will be apportioned to the credit ADA.

This procedure will help solve a problem that many large noncredit providers have encountered in the last few years; i.e., the conversion of courses from noncredit to credit status. Pressure to convert courses has been especially heavy in the area of basic skills. The conversions involve additional costs and the procedure outlined above will provide funds for that purpose.

Additionally, this procedure will help alleviate a potential problem with K-12 adult education providers. One facet of the current finance mechanism was introduced to eliminate the criticism that community colleges offering noncredit classes had a significant financial advantage over K-12 adult education providers. This criticism is likely to surface again if any extra amount is added to the revenue for noncredit ADA.

This agenda item was presented for First Reading at the May 1989 meeting. The Board is now being asked to adopt the recommended formula below, which has been reviewed through the Consultation Process and approved at all appropriate levels.

Recommended Action

That the Board of Governors adopt the following formula for the distribution of program improvement funds, pursuant to Assembly Bill 1725:

1. All funds are to be allocated as follows:

   a. Seventy percent on the basis of an amount per ADA, both credit and noncredit, with the understanding that no district will receive less than $125,000.

   b. Thirty percent for equalization following provisions of *Education Code*, Section 84705.

2. The amount computed for noncredit ADA is to be included in the credit portion of each district's revenue.

Staff Presentation: *Joseph Newmyer, Vice Chancellor*
Fiscal Policy

Gary L. Cook, Administrator
Fiscal Services

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Board of Governors
California Community Colleges
September 14-15, 1989

PROGRAM-BASED FUNDING UPDATE 4

A Report

Background

This agenda item is presented to the Board of Governors as a progress report on program-based funding. AB 1725 requires the Board to submit a report on the basic structure of program-based funding to the Legislature and the Governor in March 1990. The report is to contain the Board's "criteria and standards" for implementing the program-based funding mechanism. Systemwide implementation of the new funding mechanism is scheduled for July 1, 1991, provided that adequate program improvement funds, as certified by the Board, have been allocated. These provisions are found in Section 84750 of the *Education Code* and in Section 70 of AB 1725, which are included as Attachments A and B, respectively, of the report that follows.

Program-based funding is a method of allocation that more closely reflects actual costs. This is in contrast to the current method, which provides funds for all aspects of a district's operation based on average daily attendance (ADA).

Program-based funding will provide two amounts for each district:

1. Target funding amount
2. Actual funding amount

The target funding amount will be determined by defining standards that are then translated into a level of funding necessary to meet these standards. The actual funding amount will be determined by formulas that attempt to bring each district's allocation as close as possible to the target funding amount.

Analysis

The staff report that follows refers to a Task Force on Community College Financing, which was established by the Legislature. During an 18 month period, the Task Force designed the essential components of program-based funding. It is the work of the Task Force, along with innumerable discussions held with many groups in and out of the Consultation Process, that is reflected in this item.

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The Legislature has estimated that program-based funding can be implemented on July 1, 1991, if a total of $140,000,000 in program improvement funds has been provided by that time. If the Board of Governors, consistent with this estimate, concurs that adequate funding has been provided, and if an additional $70,000,000 in program improvement funds are appropriated, program-based funding will be implemented on July 1, 1991.

Staff Presentation: *Joseph Newmyer, Vice Chancellor*
Fiscal Policy

Gary L. Cook, Administrator
Fiscal Services

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Update on Program-Based Funding

Categories

In order to implement program-based funding, it is necessary to define the categories that drive the need for funds. The Task Force on Community College Financing proposed five categories, which have been accepted by all groups: Instruction, Instructional Services, Student Services, Maintenance and Operations, and Institutional Support. The Board's instruction to keep the process simple is met by keeping the number of categories small.

Standards

Probably the most innovative and influential recommendation of the Task Force was its proposal that **standards** be developed, refined, and periodically updated for each of the five categories. The standards do not determine the actual allocation, but they do determine the level of service and the corresponding funding deemed appropriate for each category. Along with the categories established for program-based funding, the standards will provide the justification and rationale for the appropriate level of funding for community colleges. In addition, the standards furnish a framework within which the needs of students receive primary consideration.

Instruction

For Instruction, the Task Force recommended two specific standards: (1) the ratio of full-time instructors, and (2) the student/faculty ratio.

Section 35 of AB 1725, enacted as *Education Code* Section (ECS) 87482.6, states that

> " . . . the Legislature wishes to recognize and make efforts to address longstanding policy of the board of governors that at least 75 percent of the hours of credit instruction in the California Community Colleges should be taught by full-time instructors."

To demonstrate this commitment, districts are required to allocate up to 40 percent of their program improvement funds toward increasing the number of full-time credit instructors. This standard will remain in effect until the Board adopts official criteria and standards for program-based funding. The Task Force recommendation for the second standard was that the student/faculty ratio should be 25 to 1. A work group is currently considering these and other standards as the system moves toward implementation of program-based funding.

In addition to the standards mentioned above, the work group is considering comparative data as a possible basis for other standards; for example, faculty salaries and expenditure per full-time student. Some firm recommendations are expected in time for the Board's November and/or January meetings.

Instructional Services

For Instructional Services, the Task Force recommended that the standard be based on the minimum standards established for community colleges by the American Library Association. These have been modified to include media services. The Library/Learning Resource Center Advisory Committee is updating the standards and will have a report ready by early November.

Maintenance and Operations

Standards for Maintenance and Operations are being studied by the Facilities Task Force, which operates under the auspices of the Consultation Committee for the Chief Business Officers. The Facilities Task Force is concentrating on the study of University of California/California State University standards, which is discussed below. The group anticipates that the findings from this study can form the basis for the primary standard for community colleges. In addition, the Task Force will be reviewing comparative data from other states.

Institutional Support

Some comparative data are being gathered for the Institutional Support category. However, the initial conclusion is that the method of funding for this category will accommodate needs that are usually a direct reflection of the activity in other categories; that is, by funding this category as a percentage of the budget, the allocation will increase automatically to cover the additional cost of administering any new programs.

Workload Measures

It is necessary to define a "workload measure" for each of the five categories. A "workload measure" is an index used to determine the amount of revenue a district will receive. Currently, for all practical purposes, the only workload measure used to determine district funding is the unit of average daily attendance (ADA). For program-based funding, ECS 84750 specifies the following workload measure for each category:

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Category	Workload Measure
Instruction	Full-Time Equivalent Students (FTES)
Instructional Services	FTES
Student Services	Based on Headcount
Maintenance and Operations	Based on Square Feet *(Owned and Leased)*
Institutional Support	Percentage of Total Revenue

Full-Time Equivalent Students

AB 1725 did not define "Full-Time Equivalent Students" (FTES). Currently, ADA in semester courses is determined by counting the enrollment at two different times during the semester, called the census weeks, and applying an absence factor (.911) to the average of these two computations. Staff proposes that FTES be defined as it was by the Task Force; i.e., FTES would be modified from the current ADA definition by eliminating the absence factor and the second census week. This would provide a workload measure more closely aligned with those used by the other segments of California higher education.

Student Services

The workload in Student Services is more closely related to the number of students enrolled rather than the number of units for which they enroll. Therefore, it makes sense that the workload measure for this category be based on headcount. The categorical allocation for matriculation is currently funded on the basis of a weighted headcount that involves new, continuing, and basic skills students. Since new students require more services, especially in assessment and counseling, more funding is provided for them. Basic skills students also generate an extra allocation because of the additional services they require.

Staff proposes a similar weighted-headcount workload measure for determining the primary allocation for Student Services. The Matriculation Advisory Committee is currently studying this formula and will propose changes if any are deemed necessary. Financial aid representatives are considering workload measures for students that reflect costs in that area. Staff anticipates that there will be a minimum of four workload measures for Student Services.

Maintenance and Operations

By contrast, staff anticipates there will be only one workload measure for Maintenance and Operations: square feet. Some preliminary work in this area has been done by a consultant who conducted a joint study for the University of California

(UC) and the California State University (CSU). From a study of two community colleges, the same consultant has concluded that an allocation based on square feet would closely approximate the overall costs for this category. The consultant currently is studying several additional colleges to determine if other factors such as size should be considered.

Institutional Support

In the category of Institutional Support, the workload is driven by activity in the other four categories. According to ECS 84750 dollar volume is to be used to measure this overall activity. Consequently, the workload measure for Institutional Support will be a percentage of the total revenue for each district.

Basic Rates

Once workload measures and standards are established for each category, funding formulas can be developed. The first step is to compute the total allocation required for a given category, based on the level of service established by the standards for that category. Next, a rate per workload measure must be computed that will produce a district allocation that approximates the amount needed to fund the established level of service. In Maintenance and Operations, for example, computing the cost of maintaining the prescribed level of service involves over 100 different measures. Among these are the maintenance costs for different types of flooring, different types of landscaping, and different types of air conditioners. Once all of these costs are aggregated, a uniform dollar amount per square foot must be established that will approximate the overall cost of providing the prescribed level of service. Preliminary studies have shown that this simplified method for computing revenue for this category will produce the needed allocation.

Adjustments to some and possibly all of the categories will be needed to offset the economic disadvantages to small districts and colleges. The Task Force on Community College Financing recommended that the adjustment for small districts be changed so that it would phase out at 10,000 FTES rather than the current 3,000 ADA. Additionally, it was recommended that the adjustment for small colleges in a multi-college district phase out at 5,000 FTES.

Two methods for accommodating small size are still being studied. One would be to follow the current method, using a formula that increases the revenue per workload measure in such a way that recognizes size and phases out at the 5,000 or 10,000 FTES level. A second method would involve allocating an initial block grant to every college and then providing a flat dollar amount per workload measure, no matter how many measures are generated. The second method is easier to understand, but is in some instances more difficult to develop. In any case, staff will probably recommend

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that some financial relief should be provided to small districts and colleges in one or more of the five categories.

Equalization

For 1989-90, 30 percent of the $70,000,000 appropriated for program improvement was allocated for equalization; the remaining 70 percent was allocated across-the-board on a per ADA basis. As approved by the Board of Governors, the same distribution percentages will be used for the second $70,000,000. However, depending on the amount provided for program improvement in the future, staff probably will recommend that a larger percentage – possibly 100 percent – be allocated to equalization.

While the basic concept of equalization will be similar under program-based funding, the goal will be modified. Currently, the goal is for each district's revenue per ADA to be as close as possible to the statewide average. For 1989-90, staff anticipates that every district will receive funds in excess of 98 percent of the statewide average, and that at least 44 districts will receive equalization funds. Under program-based funding, the goal will be for each district to receive an amount equal to the aggregate cost of funding the standards in all five categories. Each district's prior-year revenue will be measured against the aggregate cost and those at the lowest percentage of this goal will receive the first allocation of equalization funds. For example, in the early simulations of program-based funding, the lowest revenue district received 68 percent of the apportionment needed to fully fund the standards. The first amount of equalization funds would be allocated to this district until its percentage of apportionment was increased to that of the second lowest district. Those two districts would then receive funds to bring them up to the level of the third lowest district. This process would be continued until all equalization funds had been allocated.

Implementation

As noted earlier, systemwide implementation of program-based funding is scheduled to begin during 1991-92, provided that adequate program improvement funds have been allocated. Anticipating adequate funding, staff plans to have a simulation of program-based funding allocations ready in the spring of 1990. This simulation would be based on data for 1989-90. Refinements would be made and a second simulation would be done for 1990-91. With this schedule, full implementation should occur on July 1, 1991. Further, updates on progress in all aspects of program-based funding will be brought to the Board in November and January in anticipation of meeting the March 1990 deadline for a report to the Legislature and the Governor.

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Board of Governors
California Community Colleges
November 8-9, 1990

BOARD CERTIFICATION REGARDING ADEQUATE FUNDING FOR PHASE II OF AB 1725 14

First Reading, Action Scheduled

Background

In providing the blueprint for major changes in the California Community Colleges, Assembly Bill 1725 (Chapter 973, Statutes of 1988) was developed at a time when the State had insufficient resources to provide full funding for reform. The bill was also developed with the understanding that its various provisions would have to be implemented over time. The Legislature recognized that sweeping changes could not be completed overnight, and that both the Board of Governors and districts would need time to develop the policies, procedures, and structures for carrying out the specifics of reform.

Section 70 of AB 1725 (Appendix), dubbed the "trigger provision," provides for reforms to be implemented in two stages: "Phase I" and "Phase II." Certain specified reforms become mandatory with each phase, which is triggered when the Board of Governors certifies in writing to the Governor and the Legislature that adequate funding has been provided for that phase. The Legislature provided its estimate that $70 million would be needed for each phase.

In July of 1989, the Legislature appropriated $70 million to the Board of Governors for Phase I of reform. In September of that year, the Board adopted a certification that, effective June 30, 1990, adequate funding would be provided for Phase I.

Analysis

As a result of the 1990-91 State Budget, and the recent passage of Senate Bill 1446 (Chapter 1321, Statutes of 1990), the second $70 million has been appropriated to the Board of Governors for Phase II of reform. These funds will be allocated to districts during the course of 1990-91, with final funds reaching them by June 30, 1991.

With the Board's certification that adequate funding has been provided for Phase II, the final two AB 1725 reforms will be triggered: program-based funding and tenure reforms. Consistent with the approach used in 1989, the certification provides that effective June 30, 1991, districts will have been provided adequate funding for Phase II reforms.

Recommended Action

The Board of Governors adopt the following certification of adequate funding for AB 1725 Phase II reforms:

CERTIFICATION

In accordance with subsection (e) of Section 70 of Chapter 973 of the Statutes of 1988 (as amended by Chapter 1071 of the Statutes of 1989), the Board of Governors certifies that, effective June 30, 1991, adequate funding will have been provided to community college districts for Phase II of transitional program improvement and for applicable State mandates, as authorized in Section 84755 of the *Education Code*. By June 30, 1991, therefore, community college districts shall have completed necessary work to implement Sections 21 (program-based funding) and 36 to 49, inclusive (tenure reforms), of Chapter 973 of the Statutes of 1988; and on July 1, 1991, said provisions shall become mandatory with regard to implementation and ongoing administration by community college districts.

Staff Presentation: *Thomas J. Nussbaum, Vice Chancellor*
Legal Affairs and General Counsel

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Board of Governors
California Community Colleges
January 10-11, 1991

AB 1725 STATUS REPORT 5

A Report

Background

Assembly Bill 1725 (Chapter 973, Statutes of 1988) became effective on January 1, 1989. Many of its reform provisions were conditional upon two trigger mechanisms, each of which, in turn, is conditional upon the provision of adequate funding. The Board has certified that, effective June 30, 1990, adequate funding was provided for Phase I of AB 1725 reform; and that, effective June 30, 1991, adequate funding would be provided for Phase II. With six months remaining before Phase II is triggered, it is appropriate to review the status of AB 1725 reform.

Analysis

During the two years since AB 1725 became law, the Board of Governors and the community college districts have been involved in an enormous variety of implementation activities. Generally speaking, the focus of the Board, district governing boards, and others has been on an issue-by-issue or policy-by-policy basis. While Chancellor's Office staff has developed two major updates to apprise the Board, the districts, the Legislature, and others on the activities of reform, there remains a need to focus on the overall progress and effects of reform.

This agenda item provides the Board with an overview of the entire reform package, including the extent to which it has been implemented by the districts. *AB 1725: Second Major Update*, a report provided to the Board in October and included in the Attachment, will be the basis for the overview. In addition, staff will present the preliminary results of a survey of the districts regarding their reform activities. The survey, which relates to the need to apprise the Legislature, the Board, and others of district progress in implementing reform, is intended to be completed in advance of upcoming legislative hearings and the Board's meeting in March.

Staff Presentation: *Thomas J. Nussbaum, Vice Chancellor*
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Janet L. Hake, Associate Vice Chancellor
Reform Coordination

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ATTACHMENT

AB 1725: Second Major Update
(October 1990)

I. Mission

A. **Mission Statement:** A recently enacted piece of legislation (Senate Bill 1570, Nielsen, Chapter 1587, Statutes of 1990) makes slight modifications and additions to the mission statement enacted in Assembly Bill 1725. SB 1570 moves the community college mission statement from *Education Code* Section 66701 to *Education Code* Section 66010.4. New Section 66010.4 is a consolidated statement of the missions of the California Community Colleges, the California State University (CSU), and the University of California (UC).

For community colleges, the "primary" mission continues to be academic and vocational instruction at the lower division level, through, but not beyond, the second year of college. Remedial instruction, English as a Second Language (ESL), adult noncredit instruction, and student support services continue to be designated as "important and essential" functions. Community services continues to be designated as an "authorized" function. New language has been added regarding the institutional research function:

> "The community colleges may conduct, to the extent that state funding is provided, institutional research concerning student learning and retention as is needed to facilitate their educational missions."

AB 462 (Hayden), a more global policy statement regarding all of public education, has been vetoed by the Governor.

In summary, the AB 1725 mission statement remains essentially intact, and districts continue to have the primary responsibility for defining and interpreting the terms "primary mission," "important and essential function," and "authorized function." For further information, contact Carole Richard.

B. **Transfer Core Curriculum:** AB 1725 requires the Board of Governors, the Trustees of the California State University, and the Regents of the University of California to jointly develop, maintain, and disseminate a common core curriculum in general education. The three intersegmental Academic Senates have taken primary responsibility for developing this policy, and in late July of this year, reached agreement on recommendations.

The recommendations of the intersegmental Academic Senates will be introduced into Consultation in October, and will be considered by the Board of Governors for first reading at its January 10-11, 1991, meeting. Implementation details regarding the core curriculum are being worked out by the intersegmental senates, and implementation is planned for Fall 1991.

For a copy of the proposal, or for further information on the transfer core curriculum, contact Rita Cepeda or the statewide Academic Senate office.

C. **Remedial Limit:** AB 1725 requires the Board of Governors to adopt a specific regulation (the legislation essentially dictates the text) limiting the amount of remedial coursework a student make take (Section 68, AB 1725). At its meeting of January 18-19, 1990 (Item 6), the Board of Governors took action to add new Section 55756.5 to Title 5. The regulation establishes the limit at 30 semester units (45 quarter units), exempts ESL and learning disabled students, and may be waived on a student-by-student basis. The regulation took effect on July 5, 1990. Any remedial coursework taken by a student prior to the effective date of the regulation need not be counted against the student's limit.

During the next six months, the Chancellor, through the Basic Skills Advisory Task Force, will propose regulations which specify the categories of courses to be counted in the limit. The regulations will be entered into Consultation in the Spring of 1991, with Board action scheduled for July 1991.

AB 1725 requires the Board of Governors to review the effects of the remedial limit, and to report to the Legislature by December 31, 1991. A prospectus for this review will be entered into Consultation by Spring of 1991.

For a copy of the remedial limit regulation, or for further information, contact Rita Cepeda.

D. **Articulation of Vocational and Academic Programs:** In close coordination with the Chancellor's Office and the California Department of Education, 21 community college districts have participated in federally-funded articulation projects to initiate or expand 2+2 programs. As of 1989, 689 articulation agreements had been established through the joint involvement of almost 400 educational agencies. Almost 2,100 students participated in the program during 1989. Numerous other districts have initiated their own locally-funded 2+2 programs. For further information, contact Bobbie Juzek.

Eighteen 2+2+2 vocational education projects received initial funding ($410,000) in 1988-89, and 27 projects (ten new projects with a focus on teacher education and seventeen projects in a second phase) received funding ($1,200,000) for 1989-90. For 1990-91, the State Budget again has provided $1,200,000. The Chancellor's Office issued Requests for Proposals (RFPs) to districts in May 1990, with awards being made in August. For further information, contact Rosa deAnda.

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E. **English as a Second Language (ESL) Study:** AB 1725 requires (Section 59) the California Postsecondary Education Commission (CPEC) and the State Department of Education to conduct a joint study of ESL. This requirement is contingent on funding for the study. No funding has been yet been provided.

The current and future need for ESL programs is being examined by the Intersegmental Coordinating Council. For further information, contact Rita Cepeda.

F. **Interdisciplinary Colleges Pilot Study:** AB 1725 requires (Section 60) the Chancellor to conduct a study on the feasibility of establishing, on a pilot basis, "interdisciplinary colleges" that integrate vocational and academic study. This requirement is contingent on funding for the study. No funding has yet been provided.

II. Governance

A. **Delineation of Function:** AB 1725 created the California Community Colleges as a system, and in so doing, delineated the major functions of the Board of Governors (*Education Code* Section 70901) and district governing boards (*Education Code* Section 70902). In carrying out its roles, the legislation requires the Board of Governors to establish a Consultation Process. The legislation also requires districts to participate in that process. AB 1725 also broadly authorizes both the Board of Governors and district governing boards to delegate authority.

The Consultation Process is currently under review by the Chancellor's Office and Board of Governors. Efforts have been made to improve the timeliness of agendas and minutes, as well as the coordination of the items being discussed in the seven standing councils. The Consultation Process is also being evaluated in terms of the shared governance aspects of AB 1725: How well does the process provide for formative participation and input from the various parties of interest, and how well does the process incorporate collegial forms of governance? Finally, with the merger of the California Association of Community Colleges, the California Community College Trustees, and the Chief Executive Officers, at least some modifications will be required with respect to the Council of Organizations.

Review of the Consultation Process will continue through the fall, with modifications being put in place by December 1990 or January 1991. For further information, contact Tom Nussbaum or Elaine Cary.

During 1988, initial work was conducted regarding delegation of authority by the Board of Governors. As a result of AB 1725 and the *Education Code Review* (see infra), the first set of delegations of authority is being developed. The policies will be adopted by the Board in the form of "Standing Orders." Workload constraints have delayed this work. For further information, contact Tom Nussbaum.

B. Education Code Review: Board-sponsored legislation to implement the *Education Code Review* (SB 1854, Morgan) has just been signed (Chapter 1372, Statutes of 1990). A second Board-sponsored bill (SB 2298, Davis) making technical revisions necessary to implement AB 1725 employment reforms, has also just been signed (Chapter 1302, Statutes of 1990). These bills implement AB 1725 by making statutes in the *Education Code* consistent with the governance framework provided in that legislation. Separate analyses are being prepared to highlight the key aspects of these two very large pieces of legislation. The analyses should be available by late October. For further information, contact Tom Nussbaum or Carole Richard.

As a follow-up activity to the *Education Code Review* and AB 1725, all regulations of the Board of Governors contained in Title 5 are being reviewed. The first set of changes are technical and nonsubstantive in nature and were summarized to the Board at its September 13-14 meeting (Item 12). The text of these changes will be entered into Consultation early in October. Board adoption is scheduled for its meeting of November 8-9. For further information, contact Tom Nussbaum.

C. Regulations of the Board of Governors: AB 1725 requires the Board of Governors (*Education Code* Section 70901.5) to adopt various procedures for the adoption of regulations, to be used in lieu of procedures applied by the State's Office of Administrative Law. To be included is a procedure that will enable local governing boards, on a two-thirds vote of the 71 boards, to stop Board regulations from going into effect.

At its meeting of March 8-9, 1990, the Board adopted the new procedures for the adoption of regulations (Item 13). The procedures add new Sections 200-212 to the Procedures and Standing Orders of the Board of Governors. For a copy of the new procedures, or for further information, contact Tom Nussbaum.

D. Exempt Positions: AB 1725 provides the Board of Governors with up to six deputy or vice chancellor positions which are exempt from State Civil Service. After exhaustive discussions with the Administration regarding the authority of the Board of Governors to set the salaries for these positions, a decision has been made to fill the positions at the salary levels designated by the Administration. During the course of 1990-91 and 1991-92, all six positions will be opened, advertised, and filled.

E. Composition of the Board of Governors: AB 1725 modified the composition of the Board of Governors by requiring the Governor to appoint two current or former local district trustees and a second faculty member. Thirteen members, including the two trustees, have six-year terms; the two faculty members have two-year terms; and the student member has a one-year term. In 1989, the Board of Governors initiated follow-up legislation (AB 2155, Vasconcellos) to provide for staggering of terms in moving from four-year terms to six-year terms. The bill was successful, and the provisions on staggering of terms are now set forth in Section 71001 of the *Education Code*. For further information, contact Tom Nussbaum.

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F. **Faculty, Staff, and Student Roles:** AB 1725 (Section 61) requires the Board of Governors to develop policies and guidelines for strengthening the role of local academic senates regarding the determination and administration of academic and professional standards, course approval and curricula, and other academic matters. The Board is also required to develop a plan for encouraging greater student participation in campus, district, and systemwide governance. These two projects are in furtherance of a basic governance responsibility of the Board of Governors to develop minimum standards to ensure the participation of faculty, staff and students in district and college governance (*Education Code* Section 70901(b)(1)(E)).

At its July 12-13, 1990 meeting, the Board adopted regulations for "Strengthening Academic Senates" (Item 6), as well as a policy statement entitled, "Shared Governance in the California Community Colleges" (Item 7). At its September 13-14, 1990 meeting, the Board adopted a plan entitled "Encouraging Greater Student Participation in Governance" (Item 9). The Board also reviewed an item entitled "Minimum Standards for Staff Participation in Governance" (Item 15).

By late October, the Chancellor's Office will release a document entitled *Materials to Assist the Implementation of Shared Governance.* The document will contain the text of the Board's shared governance policy, the regulations for strengthening academic senates, the regulation and district-commended activities for strengthening the role of students, the latest draft of the regulation for "staff" participation in governance, and answers to the commonly-raised questions on the implementation of these policies.

The deadline for full implementation of all of these Board policies and regulations by districts has been set for no later than September 30, 1991. For further information, contact Tom Nussbaum or Jan Hake.

III. Finance

A. **Expiration of Current Finance Mechanism (SB 851):** Under AB 1725 (as technically clarified by AB 2155, Chapter 1071, Statutes of 1989), the current statutory finance mechanism (SB 851) will become inoperative on July 1, 1991, or on the date program-based funding is implemented by the Board of Governors in accordance with the trigger mechanism (Section 70) of AB 1725, whichever is later. Since the second $70 million has been appropriated for "Phase II" of reform (see infra), SB 851 will become inoperative on July 1, 1991. It should be noted, however, that the SB 851 mechanism will continue to be applied for purposes of making prior year corrections; also, one of the requirements of program-based funding is that for Fiscal Year 1991-92, all districts will receive at least the amount of revenue they would have been entitled to receive under SB 851. For further information, contact Joe Newmyer or Gary Cook.

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B. **Program-Based Funding:** Under the trigger mechanism in AB 1725 (Section 70), program-based funding is to be implemented on July 1, 1991, or on the date that the Board of Governors certifies that adequate funding has been provided for Phase II of reform, whichever is later. Since the Legislature and the Governor have recently appropriated the second $70 million, and since this money will be allocated to districts during the course of 1990-91, the Board of Governors will be asked to certify (at its November 8-9, 1990 Board meeting) that, effective July 1, 1991, adequate funding will have been provided for Phase II of reform.

At its meeting of March 8-9, 1990, the Board of Governors adopted "criteria and standards" for implementing program-based funding (Item 12). These criteria and standards will serve as the basis for developing more detailed Title 5 regulations to implement program-based funding. These regulations are scheduled to be reviewed by the Board of Governors at its meeting of January 10-11, 1991, with adoption scheduled at the meeting of March 14-15, 1991.

By late November, the Chancellor's Office plans to enter a draft of the program-based funding regulations into Consultation. These regulations will include a rewrite of attendance accounting provisions that are currently found in Division 9 (Sections 58000-58172) of Title 5. The regulations will also include the text of certain statutes on attendance accounting which, as a result of the *Education Code Review* bill (SB 1854) are being converted to Board regulation.

C. **Transitional Funding Mechanism for Program Improvement:** With the implementation of program-based funding in 1991-92, 1990-91 will mark the final year of transitional funding for program improvement as set forth in Section 84755 of the *Education Code*. As a result of 1990 legislation, the Legislature and the Governor have provided $70,000,000 for program improvement for 1990-91 (the Budget Act of 1990 provided $61,582,000 for program improvement, and SB 1446 provided an additional $8,418,000). Districts are to use program improvement revenues for any of 19 required or authorized uses specified in Section 84755 of the *Education Code*.

The Budget Act of 1990 places an additional condition on the use of program improvement funds by requiring that a portion of these funds are to be used for "transfer functions to include transfer centers and transfer guarantee agreements." Since the major legislation on transfer (SB 507, Hart) has been vetoed by the Governor, the Chancellor is to allocate the earmarked funds pursuant to an expenditure plan approved by the Department of Finance. District responsibilities regarding transfer functions will included in the Master Grant Agreement for 1990-91. For further information, contact Rita Cepeda or Kathleen Nelson.

A comprehensive memorandum on program improvement, which includes projected allocations for each district, guidelines for preparing program improvement plans, worksheets for adjustments to hours taught by full-time and part-time faculty, a preliminary calculation of each district's obligation for full-time faculty hires, and clarification regarding the use of funds for transfer centers and transfer guarantee

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agreements, will be distributed to districts. The deadline for submission of 1990-91 program improvement plans has been set for November 30, 1990. For further information, contact Kathy Pulse.

On March 6, 1990, the Chancellor's Office issued an analysis of the 1989-90 program improvement plans of districts. This analysis indicated that the great majority (85%) of the funds were being used in five different areas: full-time/part-time ratios, increasing budgets for plant maintenance and operation, adding new courses and programs, improving student services, and improving libraries and learning resources.

D. **Full-Time/Part-Time Ratios:** AB 1725 requires districts with less than 75 percent of their hours of credit instruction taught by full-time instructors to use a specified portion of their program improvement money (33% or 40%) to hire full-time instructors. Districts have until September of 1991 to put these hires in place; otherwise district base budgets will be reduced. Most of the provisions for administering this requirement were initially set forth in statute (Section 87482.6 of the *Education Code*), but have since been converted to regulations of the Board of Governors. In January of 1990, the Board adopted technical revisions to these regulations (see Item 6), and Sections 53300-53320 of Title 5. For further information, contact Tom Nussbaum.

The provisions of Section 87482.6, and the Board's implementing regulations will not apply after the implementation of program-based funding. As a part of this new funding mechanism, the Board will establish a standard which fixes the appropriate percentage of hours of credit instruction that should be taught by full-time instructors. The schedule for the development of the regulations to implement program-based funding is for the initial draft to be entered into Consultation by November, with review and action by the Board of Governors in January and March of 1991.

With revenues from Phase I and Phase II, the Chancellor's Office has estimated that districts will be able to hire approximately 1,250 additional full-time instructors. Given the great ADA growth (and particularly the great amount of unfunded ADA over the growth cap) in the system, these additional hires will probably not result in an improvement in the overall ratio for the system. Further discussion of this issue is anticipated as the regulations for implementing program-based funding are being developed. For further information, contact Joe Newmyer or Gary Cook.

IV. New Programs and Services

A. **Staff Development:** For 1990-91, districts will again receive $4,900,000 for staff development. The Chancellor's Office will again allocate the money on a per ADA basis (approximately $7/ADA), but with a $10,000 floor for each district. The funds will be allocated to districts using the payment schedule for the State General Apportionment.

An evaluation of the effects of the faculty and staff development fund was completed by an outside contractor in July of 1990. The evaluation has been reviewed and modified in Consultation. The Board of Governors considered an agenda item on this subject at its meeting of September 13-14 (Item 13), and is scheduled to take action at its meeting of November 8-9. The action consists of recommended guidelines for districts and new directives for the Chancellor's Office. For further information, contact Judy Walters.

B. Expanded Fund for Instructional Improvement: For 1990-91, $736,000 is available for grants from the Fund for Instructional Improvement. The Board of Governors adopted grant awards for 1990-91 at its May 10-11, 1990, meeting (see Item 1).

Currently, the Chancellor's Office staff and the FII Advisory Committee are developing regulations to further implement the expansion of the Fund as provided in AB 1725. A draft of these regulations will be entered into Consultation by November, and will be considered by the Board of Governors at its January and March 1991 meetings. For further information contact LeBaron Woodyard.

C. Career Resource and Placement Centers: AB 1725 authorizes districts to maintain career resource and placement centers, programs to instruct staff on matriculation services, orientation programs for new students, and various publicity programs (*Education Code* Section 78212.5). An analysis of 1989-90 program improvement plans indicates that districts are spending $2,798,455 in program improvement monies for these activities.

D. Vocational Education Information to Districts: If and when funding is provided, the Board of Governors is to furnish districts with ongoing economic trend and employment projections (Section 63, AB 1725). Funding for this purpose was requested in the Board's 1989-90 budget, but was denied. Funding has not been requested since. Certain federally funded, vocational education special projects are designed to provide economic trend and labor market information to districts. For further information, contact Ernie Leach.

V. Affirmative Action

A. Compliance and Accountability: AB 1725 requires local boards to submit affirmations of compliance, report success rates, and prepare affirmative action plans with goals and timetables. The Chancellor's Office established a December 31, 1989, deadline for the submission of revised affirmative action plans. By Summer of 1990, all plans had been reviewed and approved. For further information, contact María Sheehan or Roy Kanamaru.

AB 1725 established two systemwide goals for the California Community Colleges, one of which specifies that by 1992-93, 30 percent of all new hires should be ethnic

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minorities. For the period of Fall 1988 to Fall 1989, the system is very close to meeting this goal, with 28.3 percent of all professional position hires being minorities. Specific minority hiring rates were as follows:

Executive/Managerial	29.6%	Faculty	26.7%
Professional (non-faculty)	39.1%	Secretarial/Clerical	35.6%
Technical/Paraprofessional	31.4%	Skilled Crafts	30.1%
Service/Maintenance	52.0%		

For further information, contact María Sheehan or John Madden.

B. **Assistance to Districts:** AB 1725 requires the Board of Governors to provide leadership and assistance by helping colleges to adopt and maintain affirmative action plans, by reporting to the Legislature, by developing guidelines, and by providing "technical assistance" to districts which fail to make measurable progress. In June of 1989, the Chancellor's Office distributed Guidelines for a Staff Diversity/ Affirmative Action Plan to assist districts in preparing and updating their plans. By January of 1991, the Chancellor's Office will introduce into Consultation its program and timeline for providing technical assistance to districts.

During the next nine months, all Board regulations on affirmative action (Title 5, Sections 53000-53052) and nondiscrimination (Title 5, Sections 59300-59362) will be reviewed and updated to reflect the passage of AB 1725 and make other technical clarifications. Neither of these sets of regulations has been revised since 1982, and confusion exists regarding certain of the provisions. A summary of the issues needing attention will be introduced into Consultation by November, with initial review by the Board of Governors in January or March of 1991. For further information, contact Ralph Black or Roy Kanamaru.

C. **Major Service Function to Assist Districts in Recruiting:** The Chancellor's Office initiated the Faculty and Staff Diversity *Registry* in December of 1989. Over 10,600 persons are now in the *Registry*, with about 200 being added daily. Recruiting trips to Louisiana, Texas, and other sites were conducted during the Spring of 1990. For further information, contact María Sheehan or John Madden.

D. **Systemwide Plan for Strengthening Affirmative Action:** In March of 1989, the Board of Governors adopted a systemwide plan for strengthening faculty and staff affirmative action. The document, *Toward A New Diversity*, contains specific tasks and timetables for implementing the requirements of AB 1725.

E. **Faculty and Staff Diversity Fund:** For 1990-91, $1,859,000 has been appropriated to the Faculty and Staff Diversity Fund, an increase of nearly $1 million. Instead of being allocated on a dollars-per-ADA basis, these funds will be allocated in accordance with regulations (Title 5, Sections 53060-53064) adopted by the Board of Governors at its May 1990, meeting (Item 10). The regulations allow for additional funding for districts achieving success. District-by-district allocations were adopted by the Board of Governors at its July 12-13, 1990, meeting (Item 2). For further information, contact María Sheehan or John Madden.

VI. Employment Policies

A. Repeal of Credentials: About 65 statutes on credentials (Chapter 2 – commencing with Section 87200 – of Part 51 of the *Education Code*) became inoperative on July 1, 1990. Under legislation enacted in 1989, every person who has a credential as of this date will retain the right to serve under the terms of that credential, regardless of whether he or she is employed by a community college district on or before July 1, 1990 (see *Education Code* Section 87355, as added by SB 1590, Chapter 1340, Statutes of 1989). The Chancellor's Office accepted credential applications until close of business on June 30, 1990. All credential applications timely received (about 15,000) will be processed during the next six months. Credentials approved will be dated as of the date of application. To enable the Chancellor's Office to review and process this huge influx of applications, the Legislature and the Governor approved $465,000 in additional funding for the credentials function for 1990-91 (SB 433, Davis, Chapter 1242, Statutes of 1990). For further information, contact Allan Petersen.

B. Minimum Qualifications Established by the Board of Governors: In lieu of credentials, AB 1725 directs the Board of Governors to adopt regulations establishing minimum qualifications for employment. After July 1, 1990, a district governing board may not hire anyone who does not possess an appropriate credential, meet appropriate minimum qualifications, or possess qualifications "at least equivalent" to the appropriate minimum qualifications. The determination of equivalency is a local matter, to be worked out with the local academic senate.

AB 1725 dictated the text of initial regulations establishing definitions ("faculty," "administrator," and "instructional or student services administrator") as well as the minimum qualifications for a faculty member teaching credit courses, and minimum qualifications for instructional and student services administrators. The Board of Governors has taken the following steps to implement the new structure of minimum qualifications:

1. Adopted initial regulations (July 13-14, 1989) – The Board adopted regulations defining "faculty," "administrator," and "instructional or student services administrator." The Board also adopted minimum qualifications for instructors of credit courses, minimum qualifications for instructional or student services administrators, and a regulation regarding equivalences (see Item 8; see also Title 5, Sections 53400-53420.

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At its July 13-14, 1989, meeting, the Board also adopted the initial lists of disciplines requiring the master's degree, and disciplines in which a master's degree is not generally expected or available (see Item 7). These lists were developed and recommended by the statewide Academic Senate.

2. Adopted additional regulations (July 12-13, 1990) – The Board adopted regulations (see Item 8; see also Title 5, Sections 53412-53414, 56262, and 56264) establishing minimum qualifications for noncredit faculty, apprenticeship faculty, employees of Disabled Students Programs and Services (DSP&S), and for employees of Extended Opportunity Programs and Services (EOPS).

   The minimum qualifications for noncredit will only be in place until July 1, 1991. During the next several months, a joint task force on adult education (K-12 and community colleges) will endeavor to develop a common set of minimum qualifications for teaching noncredit instruction. The recommendations of the statewide Academic Senate regarding minimum qualifications for noncredit instructors will also be further considered in Consultation. The Board of Governors will consider the issue of noncredit minimum qualifications at its March 14-15 and May 9-10, 1991 meetings.

3. Initiated technical implementing legislation – Aside from SB 1590 and SB 433, which are discussed above, the Board sponsored SB 2298 (Urgency, Chapter 1302, Statutes of 1990), a large technical "clean up" bill for AB 1725 employment law reforms. Among other things, SB 2298 deletes reference to "instructional or student services administrator" and replaces it with a definition of "educational administrator" (*Education Code* Section 87002). The bill also authorizes, but does not require, districts to conduct fingerprint investigative checks on employees to ensure that they have not been convicted of crimes which prohibit their employment (*Education Code* Section 87013). Finally, the bill puts into place initial minimum qualifications (which the Board is to convert to regulations) for physicians, psychologists, social workers, dentists, dental hygienists, nurses, optometrists, and audiometrists (*Education Code* Section 87356).

4. Will adopt revisions to lists of disciplines – At its November 8-9, 1990 meeting, the Board is scheduled to adopt the statewide Academic Senate's recommendations regarding changes in the lists of disciplines. The Board considered the Senate's recommendations for first reading at its September 13-14 meeting (Item 11).

AB 1725 requires the Board of Governors to establish a process to review at least every three years the continued appropriateness of the minimum qualifications and the adequacy of the means by which they are administered (*Education Code* Section 87357). The Board is also required to designate a team of community college faculty, administrators, and trustees to review each district's application of the minimum qualifications (*Education Code* Section 87358). Proposed processes for carrying out

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each of these functions will be entered into Consultation during the next six months. For further information on any of the above matters, contact Tom Nussbaum or Allan Petersen.

C. **Local Hiring Criteria Regarding Faculty:** AB 1725 added specific new requirements (*Education Code* Section 87360) to the general responsibility of districts to establish hiring criteria. The bill requires districts to establish hiring criteria for faculty that include a sensitivity to the diverse backgrounds of community college students. Also, as to new faculty members, the local academic senate is again provided with a joint-governance role. These new requirements are to be implemented by July 1, 1990. For further information, contact Tom Nussbaum.

D. **Employment of Administrators:** 1989 legislation sponsored by the Board of Governors (AB 2155, Vasconcellos, Chapter 1071) moved the effective date of the new law requiring contracts for administrators (*Education Code* Section 72411.5) to July 1, 1990. The subject of administrator retreat rights (see *Education Code* Section 87458) is still under discussion in Consultation, and attempts are being made to develop a proposal for introduction into legislation in 1991. SB 2298 did clarify, however, that the provisions on administrator retreat only apply to administrators whose first date of paid service is on or after July 1, 1990. For further information, contact Tom Nussbaum.

E. **Evaluation of Employees:** By July 1, 1990, districts are required to establish procedures for evaluating part-time instructors. Also districts must establish procedures to include a peer review process as a part of evaluation. The peer review process is to be on a departmental or divisional basis (*Education Code* Section 87663). For further information, contact Tom Nussbaum.

F. **Tenure Reforms:** Commencing July 1, 1991, the probationary period for gaining tenure will extend from two to four years. More specifically, all of the changes in tenure laws enacted by AB 1725 will govern the employment, re-employment and acquisition of tenure of faculty whose first day of paid service is on or after July 1, 1991. The tenure laws as they read immediately before the enactment of AB 1725 will govern the employment, re-employment and acquisition of tenure of all other faculty (see *Education Code* Section 87612.5, as added by SB 2298, Chapter 1302, Statutes of 1990). For further information, contact Tom Nussbaum.

There continues to be differences of opinion over the interpretation of certain new tenure provisions, such as *Education Code* Section 87610.1 regarding grievances and arbitration. These differences are being discussed in Consultation, particularly within the Council of Organizations; and attempts are being made to develop clarifying legislation for introduction in 1991.

G. **Layoff/Reduction in Force:** AB 1725 revised the laws regarding layoffs (*Education Code* Section 87743, et seq) by requiring districts to establish "faculty service areas" and to determine competency criteria to serve in each faculty service

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area. These tasks, part of Phase I of reform, were to have been completed by July 1, 1990.

There continues to be questions about the interpretation and implementation of the new provisions on faculty service areas. Within the Council of Organizations and Californians for Community Colleges, there are efforts to determine additional legislative clarification that may be appropriate for 1991. For further information, contact Tom Nussbaum.

H. **Collective Bargaining Study:** The 1989-90 Budget provided the Board of Governors with $100,000 to conduct the review of collective bargaining laws called for in Section 58 of AB 1725. Because of fiscal problems facing the State, however, the Legislature and the Governor "reappropriated" these funds. The Board of Governors has included a request for $100,000 in its 1991-92 proposed budget. The study is not required to be conducted unless funding is provided. It is due no later than January 1, 1993. For further information, contact Tom Nussbaum.

I. **Option Rollover Contract Pilot Project:** The Board's 1989-90 budget request for funding of this pilot project (Section 65 of AB 1725) was denied. Funding has not been requested since this time. Unless the Legislature itself funds this project for 1991-92, this aspect of reform will not be addressed in the foreseeable future. For further information, contact Tom Nussbaum.

J. **Graduate Students Teaching in Community Colleges:** AB 1725 (Section 66) authorizes districts to enter into agreements with graduate departments of nearby UC and CSU campuses to provide part-time teaching positions in the district for advanced graduate students. Workload constraints within the Chancellor's Office have hampered efforts to assist in implementing this provision. Ambiguities still exist as to whether the contact hours taught by graduate students can be counted as average daily attendance; it is also uncertain how the new minimum qualifications should or should not apply to graduate students. For further information, contact Tom Nussbaum.

K. **Study of Student Aid Programs for Community Colleges:** AB 1725 requires (Section 62) the California Student Aid Commission to study financial aid programs that have as their purpose increasing the number of students entering the teaching profession at the community college level. The mandate doesn't become operative unless funding is provided for the study. Funding was not provided for 1989-90 or 1990-91, nor has it been requested for 1991-92. It is unlikely that this provision of AB 1725 will be addressed in the foreseeable future.

VII. Accountability

A. Accountability System: AB 1725 requires the Board of Governors to develop and implement a comprehensive educational and fiscal accountability system for the California Community Colleges (*Education Code* Section 71020.5). The Legislature expressed intent that the system be implemented over a three-year period, commencing not later than 1991-92.

At its July 12-13, 1990 meeting, the Board of Governors adopted an "AB 1725 Model Accountability System" (Item 9). The system will be pilot-tested in a small number of districts during 1990-91, and the Budget Act of 1990 provides the Board of Governors with $375,000 for this purpose. An advisory committee is being formed to assist with this work. For 1991-92, the Board is requesting $7,750,000 for local assistance, and $150,000 for State operations to implement the accountability system. For further information, contact Mark Fetler.

VIII. Conditions and Appropriations

A. Conditions of Operability and Trigger Mechanisms: Pursuant to Section 70 of AB 1725, the Legislature has provided for reform to come in two phases. The Board of Governors has been delegated with authority to determine when adequate funding has been provided for each phase, thus making mandatory the mandates contained in that phase. The Legislature expressed its estimate (and strong expectation) that $70 million would be needed for each phase of reform.

At its November 29-30, 1989 meeting, the Board of Governors adopted a certification that, effective June 30, 1990, adequate funding would be provided for Phase I of reform (Item 3). This step triggered (effective July 1, 1990) the repeal of credentials, the establishment of new minimum qualifications and equivalences, the requirements regarding hiring criteria for faculty, the provisions regarding movement between faculty and administrative positions, the new requirements for evaluation of part-time instructors and peer review, and the implementation of the new layoff and faculty service area provisions.

With the Legislature and the Governor having appropriated the second $70 million for 1990-91, the Board of Governors will be asked to certify, at its November 8-9, 1990 meeting, that effective June 30, 1991, adequate funding will have been provided for Phase II of reform. This action will trigger, effective July 1, 1991, the implementation of program-based funding and the new tenure provisions. For further information, contact Tom Nussbaum or Joe Newmyer.

B. Funding of Reforms Through the Budget Process: The proposed 1991-92 Budget for the California Community Colleges was adopted by the Board of Governors at its September 13-14, 1990 meeting (Item 8). Among the major budget requests related to AB 1725 are a $98 million augmentation to fund ADA growth (at

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the full rate rather than the marginal rate), a $4.9 million augmentation for staff development, a $2 million augmentation for faculty and staff diversity, a $7.75 million augmentation for the accountability system, a $1.1 million augmentation for 2+2+2 programs, and a $1 million augmentation for the Fund for Instructional Improvement. The $140 million in program improvement funds is in the base and therefore, did not need to be requested as a budget augmentation. For further information, contact Joe Newmyer.

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Board of Governors
California Community Colleges
March 14-15, 1991

TITLE 5 REGULATIONS FOR THE IMPLEMENTATION OF PROGRAM-BASED FUNDING

11

Second Reading, Action Scheduled

Background

Assembly Bill 1725 (Chapter 973, Statutes of 1988) requires the Board of Governors to develop "criteria and standards" for a program-based funding mechanism, which is to be implemented systemwide on July 1, 1991, or after adequate funding for Phase II of AB 1725 had been provided. In March 1990, the Board submitted a report on the basic structure of program-based funding to the Legislature and the Governor.

Seventy million dollars has been provided for Phase II of reform in the 1990-91 State Budget, and through passage of Senate Bill 1446 (Chapter 1321, Statutes of 1990). At its November 1990 meeting, the Board formally certified that adequate funding has been provided for Phase II, thereby triggering implementation of the final reforms, including program-based funding.

Analysis

This agenda item proposes Title 5 regulations governing the administration of the program-based funding mechanism.

The regulations have been developed on the basis of criteria and standards prescribed by AB 1725, Section 84750 of the *Education Code* (Appendix B), and the Board's *Report to the Governor and the Legislature on Program-Based Funding in the California Community Colleges* in March 1990.

Program-based funding establishes standards for the level of services in each program category and computes a corresponding level of funding to achieve and maintain those standards. Each district's actual funding level is then compared to the standards funding level, and the percentage difference is computed. This becomes the *district percent of standard.* In addition, a *statewide percent of standard* is computed, based on the aggregate of 71 districts.

Under the proposed regulations, a district's general apportionment revenue would be determined on the basis of its prior-year revenue, as adjusted for decline. That amount would then increase for inflation and for any workload growth, which is computed at the applicable standard rates multiplied by applicable economy of scale factor and the statewide percent of standard. In addition, based upon availability of State-appropriated funds, program improvement funds (equalization) would be used to equalize districts with the lowest percent of standard to the highest percent of standard possible.

This agenda item was presented to the Board for initial review and comment at its January 1991 meeting. Since then, the following changes have been made to the proposed regulation.

1. *Section 58704(i)*: A prospective funding priority for State Budget negotiations has been included.

2. *Section 58772(c)(3)*: The proposed method for allocating cost-of-living increases has been changed. These increases would be allocated to low-revenue districts on the basis of the statewide average and to each high-revenue district on the basis of its revenue.

3. *Section 58778*: This section will not be adopted as a program-based funding regulation, but rather as a minimum standards regulation (Section 51025). Also, the conditions under which this section's provisions apply have been modified. The requirement to hire additional full-time faculty will be based upon the Board's determination as to the adequacy of the cost of living increase and growth funding to allow full or partial implementation.

4. Position salaries used in calculating standards in all operational categories has been revised, and other minor changes have been made for "clean-up" purposes.

Recommended Action

That the Board of Governors approve the proposed Title 5 regulations set forth in Appendix A of this item, and adopt the following resolution:

> Be it resolved that the Board of Governors of the California Community Colleges, acting under the authority of Section 70901(d) of the *Education Code*, delegate authority to the Chancellor of the California Community Colleges to adopt, on behalf of the Board, regulations which are set forth in Appendix A of this agenda item.
>
> In accordance with the delegation of this authority, the Chancellor shall have the authority to consider written comments regarding these regulations. The

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Chancellor shall adopt the regulations as endorsed by the Board in this resolution only if, in the Chancellor's opinion, no substantive changes are necessary, as determined on the basis of any written comments offered.

Pursuant to Section 208 of the *Rules and Standing Orders of the Board of Governors*, these regulations shall become effective 30 days after adoption by the Chancellor unless, within that 30 day period, at least two-thirds of the community college district governing boards vote in open session to disapprove the regulation. Written verification of governing board disapproval must state the basis for the disapproval and include the text of any governing board resolution related to the disapproval. Verification of disapproval must be sent to the Board of Governors, postmarked no later then 30 days after the regulations are adopted by the Chancellor.

Staff Presentation: *Joseph Newmyer, Vice Chancellor*
Fiscal Policy

Gary L. Cook, Administrator
Fiscal and Business Services

Roger Merle, Specialist
Fiscal and Business Services

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Proposed Title 5 Regulations for the Implementation of Program-Based Funding

Background

The proposed Title 5 regulations at the end of this report are based on the Board of Governors March 1990, *Report to the Governor and the Legislature on Program-Based Funding*, which was submitted pursuant to Section 84750 of the *Education Code* (Appendix B), as incorporated from Assembly Bill 1725 (Chapter 973, Statutes of 1988). Section 84750 states, in part:

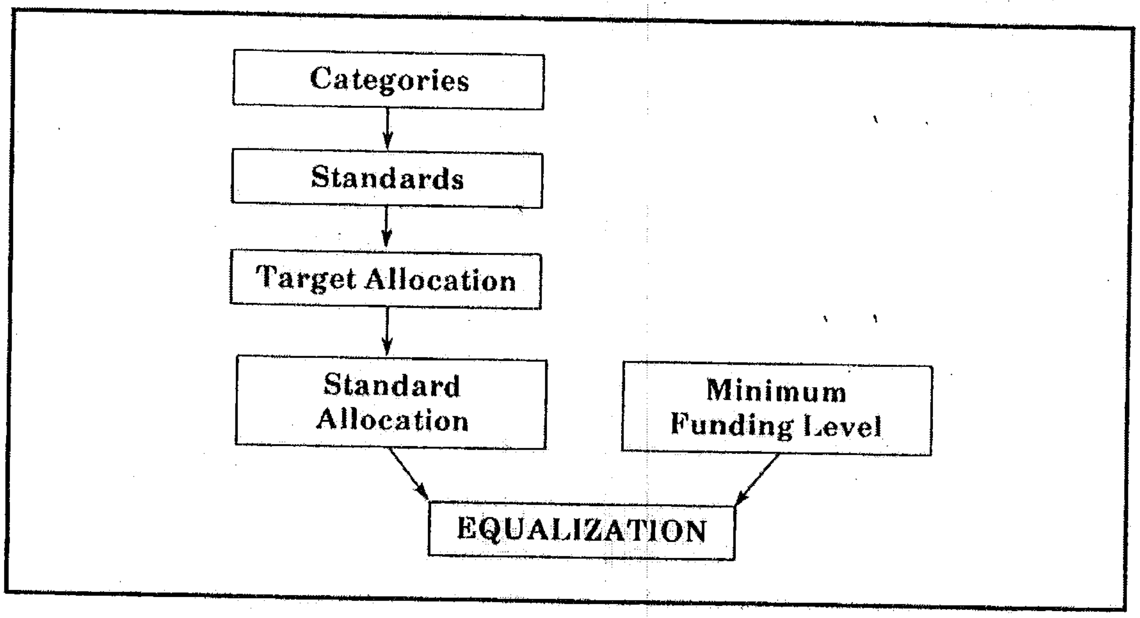
> The board of governors, in accordance with the statewide requirements contained in subdivisions (a) to (j), inclusive, and in consultation with institutional representatives of the California Community Colleges and statewide faculty and staff organizations, so as to ensure their participation in the development and review of policy proposals, shall develop criteria and standards for the purposes of making the annual budget request for the California Community Colleges to the Governor and the Legislature, and for the purpose of allocating the state general apportionment revenues, beginning with the budget request for the 1991-92 fiscal year.
>
> In developing the criteria and standards, the board of governors shall utilize and strongly consider the guidelines and work products of the Task Force on Community College Financing as established pursuant to Chapter 1465 of the Statutes of 1986, and shall complete the development of these criteria and standards, accompanied by the necessary procedures, processes, and formulas for utilizing its criteria and standards, by March 1, 1990, and shall submit on or before that date a report on these items to the Legislature and the Governor.

The report relied heavily on the "work product" of the Task Force on Community College Financing, established pursuant to Chapter 1465 of the Statutes of 1986 (AB 3409), and the Ad Hoc Committee for Community College Financing Reform. The committee was convened by the Chancellor's Office to review and build upon the work of the task force, and consisted of several task force members, Chancellor's Office staff, and MPR Associates (staff consultants to the task force).

Overview

The major components of program-based funding are shown in Figure 1. It is important to remember that program-based funding is designed as a revenue-allocation method. It is not intended to be an expenditure model. While the allocation of revenues will be related to individual program categories, community college districts will not be required to expend those funds in those categories.

Figure 1



Categories of Operation

The AB 3409 Task Force was directed to develop a financing mechanism "which would differentiate among the major categories for operating community colleges. . . ." It proposed five major program categories that ultimately were prescribed by AB 1725:

1. Instruction *(Credit)*
2. Instructional Services *(Credit)*
3. Student Services *(Credit)*
4. Maintenance and Operations
5. Institutional Support

Workload Measures

It is necessary to define a "workload measure" for each of the five categories. A "workload measure" is an index used to determine the amount of funding a district will receive. Currently, for all practical purposes, the only workload measure used to determine district funding is the unit of average daily attendance (ADA). For program-based funding, Section 84750 specifies the following workload measure for each category:

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Category	Workload Measure
Instruction *(Credit)*	*(Credit)* Full-Time Equivalent Students (FTES) *(Student contact hour measure similar to average daily attendance without application of the second census count or the .911 absence factor)*
Instructional Services *(Credit)*	*(Credit)* FTES
Student Services *(Credit)*	Based on Credit Headcount
Maintenance and Operations	Based on Square Feet *(Owned and Leased)*
Institutional Support	Percentage of Total Computed Standard Allocation

Program-based funding is designed to allocate the general State apportionment, exclusive of capital outlay and categorical expenditures. It is intended that the allocations for these special areas be kept separate and remain categorical.

Standards

Probably the most innovative and influential recommendation of the AB 3409 Task Force was that standards be developed, refined, and periodically updated for each of the five categories of operation. The standards determine the level of service and the corresponding level of funding deemed appropriate for each category. Along with the categories established for program-based funding, the standards provide the justification and rationale for the appropriate level of funding for community colleges. In addition, the standards furnish a framework within which the needs of students receive primary consideration. A detailed description of the standards for each of the five categories is contained in the draft of the proposed Title 5 regulations, which precedes the appendices to this report.

Target Allocation

The target allocation is obtained by calculating the exact cost of funding the specific standards in each category on a district-by-district basis. The target allocation reflects the level of funding required to achieve the level of service defined by the standards in each category. However, computing target allocations is not a satisfactory procedure for determining the actual allocations to each district. The computation is far too complex and contradicts the Board of Governors guideline, which calls for simplicity. For that reason, a simplified standard rate(s) was derived from the target allocation. When applied to the applicable workload measures and scale factor, the rate(s) produces approximately the same results. This is called the standard allocation.

Standard Allocation

The standard allocation is an attempt to find a simple formula that produces a close approximation of the amount computed in the target allocation. The goal is to have the standard allocation for each category, on a district-by-district basis, relatively close to the target allocation. In most cases, the standard allocation is within 3 percent of the target allocation.

Consideration of Size

In certain program areas, small colleges and districts find that their costs are disproportionately higher than those of their larger counterparts. The AB 3409 Task Force agreed that special consideration should be given to offsetting these extra costs for small colleges and districts. Consequently, an extra-cost factor has been built into the target allocation based on the staff and materials required to open an institution.

Two methods are used, either separately or in combination, to build in this extra cost: (1) Economy-of-Scale Factor; and (2) Block Grant.

Discretionary Factor(s)

The proposed regulations for program-based funding include a specific proposal for a factor that reflects the concept that it is more expensive to provide a comprehensive program in a small institution. In addition, one of the principles enumerated in Section 58704(f) of the proposed regulations recognizes the possible need to add new or refine existing factors for special financial consideration to provide incentives for particular programs, services, or circumstances, based on the Board's discretion.

Noncredit Funding

The discussion on noncredit funding is complicated by the fact that most noncredit programs are concentrated in a very few districts. In addition, the constant comparison with K-12 adult education makes this a complex area to accommodate in an isolated manner. A major change in funding noncredit programs was accomplished in Senate Bill 851 (Chapter 565, Statutes of 1983, which directed that all noncredit ADA be funded at the same rate, $1,100). Allowing for inflation, this rate has remained constant, and during 1990-91, has reached a level of approximately $1,648. For most districts, this amount has been more than adequate to provide for all direct and indirect needs of the noncredit program.

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Section 84750(b)(3) of AB 1725 outlines the method to be used for noncredit Full-Time-Equivalent Students (FTES) in the program-based funding model. It stipulates that the general district allocations for Maintenance and Operations and for Instructional Support are to be computed in a way that includes provisions for the noncredit program. It further states that an amount corresponding to the allocation for these two categories is to be deducted from the rate for noncredit funding. The remainder is deemed to be the noncredit allocation for the combined categories of Instruction, Instructional Services, and Student Services. For 1991-92, the remainder for the three categories is estimated at $1,294.

Any changes in this allocation method or any definition of standards for noncredit are to be defined by an interim steering committee for adult education that has been formed by the Chancellor of the California Community Colleges and by the Superintendent of Public Instruction.

Minimum Funding Level

The Minimum Funding Level for each district will be determined by a method very similar to that currently used. A district's prior-year revenue, as adjusted for decline, will become the base revenue for each year. This amount is then divided by the corresponding funding level to achieve the full standards based on the same workload. The resulting percentage is called the *district percent of standard*. A *statewide percent of standard* is calculated on the accumulated statewide totals.

This base revenue will be increased for inflation and any applicable growth. The inflation index to be used is identical to that in current statute. However, each district will receive an adjustment to provide inflation on the statewide average revenue rather than on the district's own revenue. This differs from the current procedure whereby high-revenue districts receive inflation on their own average revenue, and low-revenue districts receive inflation on the statewide average revenue. This new procedure provides an additional, modest form of equalization.

As prescribed in AB 1725, adjustments for decline will be phased in over three years following the year of decline. Districts with funding above the statewide average (*statewide percent of standard*) will have their revenues adjusted for decline over a three-year period at the statewide average rate. Districts with funding below the statewide average (*statewide percent of standard*) will have their revenues adjusted for decline over a three-year period at one-half of the district average rate.

For all districts, the adjustment for growth will be at the statewide average rate (*statewide percent of standard*). In all applicable cases, this will also be modified by the scale factor.

Program Improvement or Equalization

The AB 3409 Task Force defined program improvement funds as equivalent to the current definition of equalization. However, as AB 1725 evolved, mandates and program provisions were added that required that all districts receive a substantial amount of new funding. Therefore, the $70 million allocated for Phase I of program improvement funding were distributed on the basis of 30 percent for equalization and 70 percent across the board per ADA. The second $70 million for Phase II also will be distributed on this basis. Thereafter, depending on the amount of program improvement funds allocated, it may be that the full amount will be applied to equalization.

Staff proposes that, beginning with the 1991-92 fiscal year, an amount equal to at least 10 percent of the full credit COLA be set aside each year for equalization. This is consistent with current law. During the first year of implementation of program-based funding, no district is to receive less than it would have received under the current financing mechanism. This provision requires that an amount equal to 10 percent of the full credit COLA be available for equalization during that first year. These funds would be allocated in such a manner that the district at the lowest level of funding (compared with the standard allocation) would receive equalization dollars until it reaches the district at the second-lowest level. These two districts would then receive funds until they reach the district at the third-lowest level. This process continues until all equalization funds have been exhausted. Should there be more appropriated than 10 percent of the credit COLA, staff proposes that the excess be distributed on the basis of 30 percent for equalization and 70 percent across the board per FTES.

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Title 5 Regulations for the Implementation of Program-Based Funding (Item 11) (Second Reading Action Scheduled)

VERBATIM TRANSCRIPTION OF PRESENTATIONS FROM AUDIENCE

President Haidinger opened the Public Hearing portion of the item presentation.

CLAIR PARSH, COMMUNITY COLLEGE ASSOCIATION, CTA: I'm Clair Parsh, Community College Association, CTA. I am here to support the Chancellor's recommendation.

I do want to spend a few minutes and tell you a little of what we went through in our organization. This is a very difficult consultation or negotiation or what have you. It put us, and I think everyone else, in a position, and if you're a pessimist no matter which way you went it was wrong; if you're an optimist, you're going to win no matter which way it goes.

I'm talking primarily about the 75/25 part of the law you just discussed. There are two things here, one of which is mandating to the districts how they're going to spend their money and as a collective bargaining agent, we're very much interested in that because we would like money to come into the district as unencumbered as possible, so at least we have a fair shot at some of that money.

On the other hand, we have a very long, strong commitment to 75/25 to moving toward full-time employment. In very difficult negotiations, we had to weigh those two items. We (the Community College Association) decided to weigh on the side of principle rather than practicality. We feel that it is more important to continue the move toward full-time faculty than to worry about encumbering of money for this purpose.

We did have a discussion during the ad hoc committee. I think that you want to keep in mind as we move along, that as funds become available in other areas that we keep those unencumbered as possible. But in this area, I think it's a very modest move toward 75/25. Frankly when we started, we took a very hard-line position along with some of the other organizations to say that the regulations should continue the 75/25. They have been modified so that as the growth increases so does the percentage of full-time faculty which is just a break-even type constant. I'm very confident when talking to people on other campuses that they will continue to work for that 75/25 even though it is not mandated. We to speak generally in favor of the whole proposal, but specifically this proposal.

LARRY S. BLAKE, PRESIDENT, LASSEN COMMUNITY COLLEGE: I come as president of Lassen College which is the largest college in California east of the Sierra Nevada mountains, and the only one.

We have a unique situation at Lassen and certainly with many other small colleges that I'd like to address to you with regard to the 75% standard that a small amendment to the regulations you're looking at right now, might address.

First of all, I'll introduce John Vest, Vice President of the Lassen College Academic Senate, and also in the words of the "only" he is an instructor in the "only" gun-smithing program in California.

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I do want to start off by emphasizing, on all of our parts at Lassen College, that we're firmly committed to the 75/25 percent concept; that we certainly agree that where you can hire full-time faculty in lieu of part-time faculty, we would like to see that ratio achieved. In fact in our calculations which differ from yours, and I'll explain in a moment, we are at 70/30 percent right now.

You really need to understand Lassen College and its uniqueness in order to understand our problem with this standard. We are a college covering 10,000 square miles of northeastern California with a population of only 38,000 and therefore, less than 4 people per square mile. Our largest city in that area is Susanville where Lassen College is located and that's only 8,000 people. However, we maintain 5 outreach centers within that area with very small programs, but serving geographically-disbursed people with educational services that they could not get otherwise.

We are in a rather rugged terrain with nearly all the northeastern part above 4,000 feet. In trying to reach our population through outreach centers over that wide area, we can only offer small centers which are evening only starting at 6:00 p.m. and ending at 10:00 p.m. If you will note that the ADA that is generated, the largest one is about 127 ADA at Alturas.

Normally what we have found with outreach centers within commuting distance, even though they may be very small, you can certainly assign a part of a full-time faculty member's load on the campus to teach two courses at an outreach center and the rest on campus. In our case there is such a distance and over such a high pass, that it is impossible to assign a full-time faculty member campus responsibilities and responsibilities at the outreach center.

Furthermore, if we were to get a full-time load in English or math, or even get a person who is credentialed and certified in math, science, art and English, the nature of the offering is that there is not a full-time load. Most of the courses are taught Tuesday, Thursday and Monday, Wednesday - two courses rather than five courses. And even if there were one three credit course per night, that's only four courses instead of five, if you could find that super human being to cover them.

We have suggested that this problem could be overcome by a change in the regulations that are before you today. We would suggest that in as much as centers of this nature cannot possibly be covered by full-time faculty, that you recognize the size and distance in not calculating the ADA or FTES in the future in calculating the 75/25. If you were to, then as we suggest, any center over 25 miles distant, unless generating less than 200 ADA or FTES, would be eliminated from the base calculation of the 75/25.

Currently, because of our need to hire only part-timers in these areas, we are at just 51/49. If you calculated it on the basis of the adjusted ratio that we suggest to you, we are currently 70/30, and with the two faculty members we are mandated to employ this year, next year we'll probably be right at 75/25, our commitment to staffing with full-time faculty members.

We have some ideas in the future in terms of distance learning that we can start to bring these outreach centers more in accord totally with the 75/25 rule but in the way we teach in higher education in the country today, we find it impossible.

It has been suggested to us that we can overcome this by just not hiring those two faculty members, and you're probably not at a disadvantage because you're teaching with

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part-timers. That's an answer for an urban college not for a small college. It is easy to get a class together of 40-50 students and hire a part-timer to teach. In our outreach centers we are lucky when we get that 10th person to fulfill our minimum size in the outreach centers.

JOHN VEST, LASSEN COLLEGE ACADEMIC SENATE: I'd just like to comment that the Lassen College Academic Senate does support Dr. Blake in this proposal and we appreciate his leadership in that area. We'd like to go on record as giving this support. Also, we would not want in any way to diminish our support for the statewide senate's support for this issue. We are in support of that, but we just see that it's imperative for our college that we have that latitude contained in these calculations.

ROBERT RIVINIUS: Are there any other schools so effected?

DR. BLAKE: Yes, College of the Redwoods, possibly Barstow.

RIVINIUS: If the amendment were not to be adopted, then what do you do?

DR. BLAKE: We haven't crossed that bridge yet. One possibility is to withdraw from the outreach centers.

DAVID VIAR, COMMUNITY COLLEGE LEAGUE OF CALIFORNIA: Chancellor Mertes, President Haidinger, Board Members: The development of program-based funding regulations presented for your action today has been ongoing since at least 1983 when the Legislature called for funding "community colleges in a manner that better reflects the cost of delivery of instruction."

Through two major studies, one in December 1984 and one in June 1987, conducted by broad-based committees representing our community colleges, outside consultants, and the Chancellor's Staff, differential funding became program-based funding; support categories and workload measures were identified and standards were developed.

It's been a long, tedious, complex task involving research, education of our constituent groups, members of the Legislature and the general public, and it's involved controversy and a great deal of compromise.

Throughout the seven year process of the development of program-based funding, however, one question has continued to arise over and over again. That question has been would differential funding, now program-based funding, result in state-directed expenditures within the local community college districts? During the debates and movement toward a new funding mechanism, and in the reports I've referred to, the assurance over and over and over again has been straight forward and unequivocal: program based funding was to be a revenue allocation method, not an expenditure model.

The December 1984 report said that local boards of trustees and chief executive officers, in consultation with local district and college representatives should allocate funds within individual districts. They should have the greatest flexibility in determining expenditures.

The June 1987 report reiterated that the task force believes even though a district's allocation is calculated category by category, the district should be permitted to allocate those funds to meet local needs and priorities. And in fact, in your very agenda today, a clear statement of intent is made, and I quote: "It is important to remember that

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program-based funding is designed as a revenue allocation method; it is not intended to be an expenditure model."

Unfortunately a key component of the proposed Title 5 regulations for the implementation of program-based funding presented for your action today, appears to violate those very assurances - those principles upon which program-based funding is modeled.

Section 51025 detailed in Appendix A, directs how colleges will expend the allocation: community college districts which have less than 75% of their hour of credit instruction taught by full-time instructors shall apply revenues receives. Thus, what is described in the program-based funding plan as a standard, and standard is defined in the June 1987 report as a benchmark against which the adequacy of current levels could be evaluated, now appears to be more than a benchmark. This is most troubling to governing boards who have the statutorily delineated responsibility working with faculty, staff, students and community members to set the budget, recognizing local community education priorities.

It is recognized that this is a politically sensitive area. Your staff has sought to find a way to show legislative leaders that the community colleges will continue to move toward the 75/25 ratio addressed in AB 1725. That's the practical side of this. The principle is that it is revenue driven. Yet it should be recognized that in AB 1725, there was also call for a special program improvement allocation to fund this move toward 75/25.

It's important for you to be aware that there are major concerns among governing board members, administrators and others, about the proposed regulation. Adoption of this regulation today may, in fact, send a signal that next year the Chancellor's staff will be willing to bring to this Board a regulation that local districts shall expend or apply, as the regulation says, certain state appropriations to reach the standards for a student/faculty ratio of 25 to 1. Or faculty salaries that a paid similar to CSU, or 60,000 volumes of books on library shelves or 750 video tapes on the shelves; those are the standards that are a part of this just like 75/25 benchmark.

Of what value are your minimum standards on faculty, staff and student participation in helping shape the direction of the local colleges if other Title 5 regulations direct how money is to be spent in our local districts. There are many views on the value of the 75/25 ratio and its effects on the quality of instruction, access to education programs, priorities of expenditures locally, availability of personnel and office space needs, shared governance responsibility, and many others.

These are the kinds of issues which should be addressed and debated locally. It's unfortunate that within this program-based funding plan, that we have what we hope is the last directive for expenditure. The program-based funding plan to be implemented has many strengths which over the long term will be beneficial to the students we serve. It's unfortunate that it includes this particular expenditure provision.

MIKE ANKER, STATE ACADEMIC SENATE: There are a few I feel are important on this crucial issue. One is that this regulation could, in theory, be separated out and still stand on its own, and in that way, is not a violation of the intent that this not be a distribution process.

David Viar also gave me an excuse to use my own discipline one more time. He committed "slippery slope". It is not a good reason to oppose doing this one because next year the Chancellor's staff might bring you things that there would be good reasons to oppose. If the Chancellor's staff does that next year, oppose it next year.

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The heart of what I would like you to have in mind as you vote on it is that the 75 percent standard is itself a modest standard. There are highly respected administrators in this state who would argue that 80 percent is perfectly attainable and reasonable, at least at most colleges. Seventy-five percent even as a goal is a modest goal. Even 75 percent is not mandated, not by AB 1725, and not here. All that's mandated is, in the language in front of you, is that things not deteriorate, at least not deteriorate very much. It's a "holding our own" provision.

The heart of its value is very concrete. We have, in recent years, placed a considerable amount of responsibility on faculty for curriculum review, for hiring, for evaluation. 75/25 sounds rather good. It sounds like the overwhelming propounderence of that faculty are full-timers. But it's 75 percent, not of the faculty, it's 75 percent of the classes. When you do the division - since full-timers obviously teach more classes than part-timers - even a college that is at 75/25 is almost half part-time employees, probably, maybe more than half. At 60/40 it would be about 2/3 part-time faculty. And yet all the responsibility for evaluations and hiring, for example, and almost all the responsibility for curriculum development, fall on the full-time faculty. So having that core of full-time faculty is crucial, not in some abstract way, but to many of the crucial reform measures - many of the things that are giving us the reputation in the state that is allowing us to ask for the kinds of transfer accommodations we've been asking for, etc.

It is a critical issue, as we move forward, that core of full-time faculty does not get worse, but on the contrary, increase.

I come to the concerns of the folks from Lassen and I wish I could say since the local Senate president was kind enough to support the statewide Academic Senate's concerns on the issue that I could support theirs. But I would encourage you to be cautious about doing so.

There are a number of things that a college can do who has the difficulties that Lassen does. If we are going to clarify something, and I think it would only be a clarification, it has always been the position of the statewide Academic Senate that if somebody is being paid on the full-time salary schedule - being paid not only for their class performance, but their work on hiring and evaluation, etc. - whether they're 100 percent contract or not, is not key. At these remote sites, it is critical to have curriculum being developed, to have evaluation being done. Those tasks have to be done, even at those remote sites. If some of those faculty are hired on the full-time faculty schedule so that they can help with some of those tasks, the concerns of the statewide Academic Senate would have been met and the needs of Lassen too.

Distance learning, an interest of this Board, is another way to accommodate some of those distant sites without having the burden be on part-time faculty but rather using better and more effectively their full-time faculty at their main location.

Obviously their last resort is to simply not accept all of the dollars, to not take funding that is aimed at being able to sustain the full-timers. If in fact they are choosing not to use the full-timers, then they would turn the money back.

We don't need to weaken the standards that are here - we need to strengthen them as soon as we can. We don't need to put in accessions. There are already in place, perfectly adequately solutions that can be used even by the campuses with distance learners.

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I would urge you to make every opportunity to find ways to strengthen the core of full-time faculty on the campuses and to do nothing that would further weaken it.

CLOSE OF PUBLIC HEARING

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Board of Governors
California Community Colleges
March 12-13, 1992

FUNDING GAP STUDY 15

Second Reading, Action Scheduled

Background

Supplemental language in the *1991 Budget Act* requires the three segments of public higher education to study and report on the impact of what is referred to as the "funding gap," i.e., the gap between State appropriations and what is needed to fully support each segment's mission under the State *Master Plan for Higher Education*.

The charge for the Community College Board of Governors in this supplemental language (see text in Appendix A) is to:

- Identify the gap (if any) between state appropriations and funding needed to fully support the Community College mission under the State's *Master Plan*.
- Measure the consequences of this funding gap on program quality and access.
- Report on how the Community Colleges plan to maintain their mission, given the "current state funding scenario."
- Recommend future State policies for financing the Community Colleges.

A final report on the funding gap from the Board is due to the Governor, the Legislature, and the California Postsecondary Education Commission (CPEC) by April 1, 1992. CPEC is then to review the report and comment by May 1, 1992. Work on the report has been coordinated closely with CPEC.

Analysis

This item contains an analysis of present and future conditions, conclusions about the funding gap, and possible policy options for Community College financing, which the Board may wish to consider as the report is transmitted to the Governor, the Legislature, and CPEC.

About the "funding gap":

- While State formulas and other revenue sources supporting the educational program at Community Colleges will provide an estimated $2.8 billion this year, standards advocated by the Board of Governors of the California Community Colleges to carry out their mission, as set forth in the *Master Plan for Higher Education* would require $5.1 billion. Thus, there is a "funding gap" of $2.3 billion, 82% more than is available.

- This funding gap is calculated using standards contained in a number of policies, including, among others, those for Program-Based Funding, the Long-Range Capital Outlay Growth Plan, and in AB 1725 (1988).

- The "funding gap" is made up of:

  - $245 million to adequately serve 52,000 FTE students who are enrolled, but not now funded.

  - $1,548 million to bring operating budgets up from $3,100/FTES to $4,800/FTES, the current Program-Based Funding standard. X

  - $39 million to bring funding for staff development and deferred maintenance of facilities up to recommended levels.

  - $98 million to continue the Colleges' capital outlay program at necessary levels.

  - $382 million to meet the demand by adult Californians for Community College education, thereby restoring access to levels suggested by the *Master Plan for Higher Education*.

- This gap has developed over the past decade and is due largely to Proposition 13 (1978), inadequate funding between 1982 and 1985, the funding cap on growth since 1982, and the current budgetary crisis.

On the consequences of the "funding gap":

- Classroom instruction and library/media services appear most impacted by the "funding gap." Using data from national studies, student:faculty ratios for credit instruction in California Community Colleges (27:1) are substantially higher than at comparable community colleges (18:1) in eight other large industrial states, in part because of larger class sizes, but also because California faculty teach more classes per academic term (5 vs. 4).

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- Recent estimates show that the Colleges offer only about one-half of the basic skills instruction needed. Colleges also have had difficulty offering those high-cost vocational classes that are taught in small labs with expensive equipment. Current funding formulas fund all FTES at the average rate, whether they are high or low cost. Colleges, therefore, may offer low-cost classes where they are needed, but may be unable to offer those that are high cost.

- Library holdings and services are substantially below national standards and their delivery is often outmoded in technological sense. Maintenance of facilities and equipment replacement is below appropriate levels. And, California Community Colleges utilize their physical plant at rates averaging 50 percent more than at comparable colleges in other states.

- Because of the funding gap, access to Community Colleges has declined – from serving one in every eleven adults in 1981 to one in every fourteen today. Those traditionally underrepresented have been most affected by this decline in access. To match the level of access recorded ten years ago, the Community Colleges would have had to enroll 280,000 more students than they did in Fall 1991. It is estimated that the Colleges turned away 120,000 potential students in the Fall 1991 because these individuals were unable to obtain the classes they needed.

- This year, Community Colleges have enrolled individuals who in other years would have attended the University of California and the California State University. But, the Colleges have not been able to meet their obligations for retraining the unemployed during this recession and have found it quite difficult to educate all the new California immigrants who need skills, particularly in English, so as to become productive citizens.

- Under the public financing structure in California, Community College students currently support about two-thirds of their annual educational costs, including their direct costs of attendance and earnings they forego while in attendance, a total of about $7,000. Taxpayers support the other one-third, about $3,500, including both operating and capital costs. As taxpayers, businesses support just over one-tenth of the total cost.

- The balance of benefits that result from Community College education; i.e., private *versus* public, cannot be precisely calculated. However, it is apparent that the skills and knowledge obtained at Community Colleges by the many Californians who otherwise would not be educated helps both the economic and social development of the state. Thus, all taxpayers – including both consumers and businesses benefit. And, Community College students are substantially less-wealthy than are the taxpayers who support a third of their education.

Maintaining the Master Plan Under the "Current State Funding Scenario":

- The Governors proposed budget for 1992-93 could provide for over four percent FTES growth and eliminate about $80 million (7%) of the funding gap for program improvements and unfunded FTES.

- State funding, however, is highly uncertain. Adding to this uncertainty are the bond election, possible voucher initiative, and a court case on Proposition 13 (1978), all to be determined in 1992.

- Demand for Community College education is expected to remain strong over the next five years, fueled by a slow economic recovery (many unemployed seeking retraining), by continued immigration, and by rapidly increasing numbers of high school graduates.

- State revenues are expected to grow at a rate of 5 percent annually over the next five years. At the same time, the Proposition 98 guarantee will grow at 8% annually. If COLAs average nearly 4% annually, together with an estimated annual increase of 3% in FTES students, this suggests that this growth and a small amount of program improvement may be accommodated over the next five years. Thus, the "funding gap" would be narrowed slightly.

- By contrast, a higher 5% FTES growth rate that continues trends in access achieved between 1985 and 1990, could not be sustained within Proposition 98. In this scenario, the funding gap would grow.

- Because of the funding gap, Community Colleges are not currently able to maintain their mission under the *Master Plan for Higher Education*. Since state and local tax revenue growth will not be adequate to close the funding gap, the Community Colleges can only maintain their mission (i.e., close the funding gap) if they become even more cost-effective at delivering their programs than they are now and/or if they obtain additional sources of financial support.

- The Board of Governors Commission on Innovation is exploring alternative ways of delivering Community College education. Once endorsed, some techniques like better use of the calendar, can be implemented readily. Others, like interactive television, computer-aided instruction, and the entire "distance learning" realm will require substantial capital outlays and more time for their development and implementation.

- A number of cost-effective measures may be possible within traditional delivery techniques. One of these is to increase College staff productivity. Comparisons with colleges in other states, however, suggest that California Community College staff are among the most productive in the nation.

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Further increases in productivity could seriously detract from program quality, particularly if they involve increasing class sizes.

- Another possible measure is to change the mix of staffing. While continuing to build a core of ethnically-diverse, full-time faculty, one way that Colleges may become more cost-effective is to utilize more part-time faculty, peer tutors, and teaching assistants. Again, such changes may detract from program quality. Indeed, current policy in AB 1725 and PBF advocates increasing the share of credit instruction taught by full-time faculty from 65% to 75%.

Potential Policies

- If public funds are so scarce that priorities for class enrollment must be employed, these priorities should be determined by the local Colleges so as to best reflect the educational needs of their communities. These priorities also may reflect the need to accommodate the most economically vulnerable and least educated, along with those individuals nearing completion of their educational objectives.

- Despite the "peace dividend," a continuing, large federal debt makes it unlikely that federal aid to community college education will increase. Even so, the California Community Colleges should pursue (1) a greater share of funds available for vocational education, such as the Perkins Act and JTPA, and (2) for the education of immigrants, more funds under SLIAG.

- Community Colleges were once supported primarily by local property tax revenues. This, of course, was changed by Proposition 13 (1978). Now, given the inadequate State-level tax revenues, it appears that local taxpayers should be given the ability to support needed improvements in their Colleges – through vehicles such as majority-vote local tax increases – if that is their preference.

- Businesses may contribute both resources and money as a kind of quid pro quo for the skilled workers they receive from Community Colleges. For instance, more classes at the work-site would utilize existing resources and reduce student transportation costs. Use of work-site equipment and/or equipment donations would help ensure the currency of student training. Mixing public and private revenue, with appropriate quality controls, should improve the Colleges' ability – in partnership with business and industry – to deliver vocational training to Californians.

- While flat increases in fees would detract from access, certain students might be asked to support a larger part of the cost of their education where

(1) they already have received a substantial amount of publically-subsidized postsecondary education or (2) their training is quite expensive and their resulting private earnings are quite high.

- State and local funding policies should provide the maximum incentive for Colleges to adopt alternative, cost-effective delivery techniques, to offer needed programs – whether they are high or low cost, and to secure alternative, supplemental revenues.

- Policies should always be assessed as to whether they enhance or detract from the ability of the California Community Colleges to carry out their mission under the *Master Plan*.

At a January 1991 study session held by the Board of Governors, Community College officials were unanimous in supporting the need for the Colleges to maintain their mission as defined by the State's *Master Plan for Higher Education* and reaffirmed by AB 1725 (1988). These same officials, however, noted that current funding does not enable the Colleges to carry out that mission.

The ability of Community Colleges to meet their mission as defined by the *Master Plan* is vital to the economic and social development of California. The Colleges have a particularly significant role to play in helping close the potential gap between the State's new jobs and the lack of skilled labor available to fill them. Community Colleges not only provide individuals with transfer and vocational education for these new jobs, but they also enroll more individuals than do other postsecondary institutions from the groups (women, minority, immigrant, etc.) that will comprise most of the new workers.

Recommended Action

That the Board authorize the Chancellor to transmit the report on the "Funding Gap" to the Governor, the Legislature, and to the California Postsecondary Education Commission.

Staff Presentation: *Joe Newmyer, Vice Chancellor*
Fiscal Policy

Chuck McIntyre, Director
Research and Analysis

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Board of Governors
California Community Colleges
July 9-10, 1992

REVISIONS TO PROGRAM-BASED FUNDING REGULATION 10

Second Reading, Action Scheduled

Background

Assembly Bill 1725 (Chapter 973, Statutes of 1988) required the Board of Governors to develop "criteria and standards" for a program-based funding mechanism to be implemented systemwide on July 1, 1991. The Board adopted those regulations in March 1991.

Analysis

This agenda item proposes a revision to Section 58706(a) and (f) of those regulations (Attachment A). Section 58706(a) and (f) define the terms "continuing credit enrollment" and "new credit enrollment," which are the workload measures used for the category of operation "student services." (A brief overview of the program-based funding categories of operation and associated workload measures, as well as a description of the process, are included in Attachment B.)

As of the July 1, 1991, program-based funding implementation date, the Chancellor's Office Management Information System could only provide a point in time count of enrollment (Fall census week). This point in time counts the active enrollment as of that date but disregards additional courses and students that become active after census week, i.e., short-term courses, police and fire academy programs, and modular courses, as well as Winter or Spring primary terms. It was universally felt that this point in time, Fall count did not adequately reflect the unduplicated student enrollment in the California Community Colleges.

As a result of Chancellor's Office implementation of the Management Information System – Phase One, there is now the ability, beginning with 1991-92, to determine unduplicated student enrollment for the primary terms of the academic year.

The proposed Title 5 revision is to change to an unduplicated student enrollment count for "continuing credit enrollment" and "new credit enrollment" during the primary terms as the workload measures for the allocation of funds under the program-based funding category of operations "student services."

Recommended Action

That the Board of Governors adopt the proposed changes to the Title 5 regulations as set forth in Attachment A and which have been legally noticed and distributed for public comment.

Staff Presentation: *Joseph Newmyer, Vice Chancellor*
Fiscal Policy

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ATTACHMENT A

Proposed Revisions to Program-Based Funding Regulation

Section 58706 of Subchapter 8 of Chapter 9 of Division 6 of Title 5 of the *California Code of Regulations* is amended to read:

58706. Definitions.

For purposes of this subchapter:

(a) "Continuing credit enrollment" means the total number of unduplicated ~~California residents~~ students whose attendance is eligible for state support and who are actively enrolled at the reporting college in a credit course for which census attendance accounting is taken as of the census date or for which positive attendance is taken and the student has generated at least eight student contact hours of positive attendance or was awarded a half unit of credit ~~of the Fall~~ in any primary term, and who were enrolled in a credit course in a previous primary term within the last three academic years.

(b) "FTES in less than 100% leased space" means the state supported credit and noncredit FTES generated in facilities leased for less than 100% of the time (not reported as inventoried space) and paid for by general purpose funds of the district.

(c) "Gross square footage" means the sum of the floor areas of all facilities of the district reported on the annual inventory in accordance with Education Code, Section 81821.

(d) "High revenue district" means a district that receives a level of funding as a percentage of the standard which is higher than the statewide average percent of standard.

(e) "Low revenue district" means a district that receives a level of funding as a percentage of the standard which is lower than the statewide average percent of standard.

(f) "New credit enrollment" means the total number of unduplicated students whose attendance is eligible for state support and who are ~~California residents~~ actively enrolled at the reporting college in a credit course for which census attendance accounting is taken as of the census date or for which positive attendance is taken and the student has generated at least eight student contact hours of positive attendance or was awarded a half unit of credit ~~of the Fall~~ in any primary term and who are not continuing credit enrollment as defined in subdivision (a).

NOTE: Authority cited: Sections 66700, 70901, and 84750, Education Code. Reference: Section 84750, Education Code.

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ATTACHMENT B

CALIFORNIA COMMUNITY COLLEGES

1991-92
Program-Based Funding Mechanism (AB 1725)
Chapter 973, Statutes of 1988

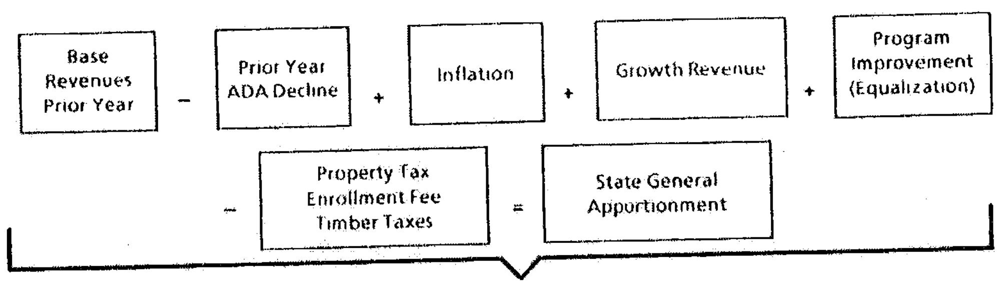
Computation of General Apportionment Funding for the California Community Colleges

Program-based funding establishes standards for the level of services in each program category and computes a corresponding level of funding to achieve and maintain those standards. Each district's actual funding level is then compared to the standard funding level, and the percentage difference is computed. This becomes the *district percent of standard*. In addition, a *statewide percent of standard* is computed, based on the aggregate of 71 districts.

A district's general apportionment revenue would be determined on the basis of its prior-year revenue, as adjusted for decline. That amount would then increase for inflation and for any workload growth, which is computed at the applicable standard rates multiplied by applicable economy of scale factor and the *statewide percent of standard*. In addition, based upon availability of State-appropriated funds, program improvement funds (equalization) would be used to equalize districts with the lowest percent of standard to the highest percent of standard possible.

The level of State contributions to the general apportionments of the community college system is determined by the sum of the separate calculations of State funding for each district.

Each district's funding level is dependent exclusively on the workload that it generates.



Sum of All Districts = Total State Contribution

Base Revenue

Each district's base revenue represents the total of its prior year revenues from State apportionments, local property taxes, student enrollment fees, and timber tax.

Decline in Workload

Revenue reductions are spread out over a three-year period following the year of decline.

Inflation

Additional funds are provided to meet increased costs as measured by the Index of Costs of Government Goods and Services (4th quarter compared to prior year 4th quarter). Increases would be allocated to low-revenue districts on the basis of the statewide average and to each high-revenue district on the basis of its revenue.

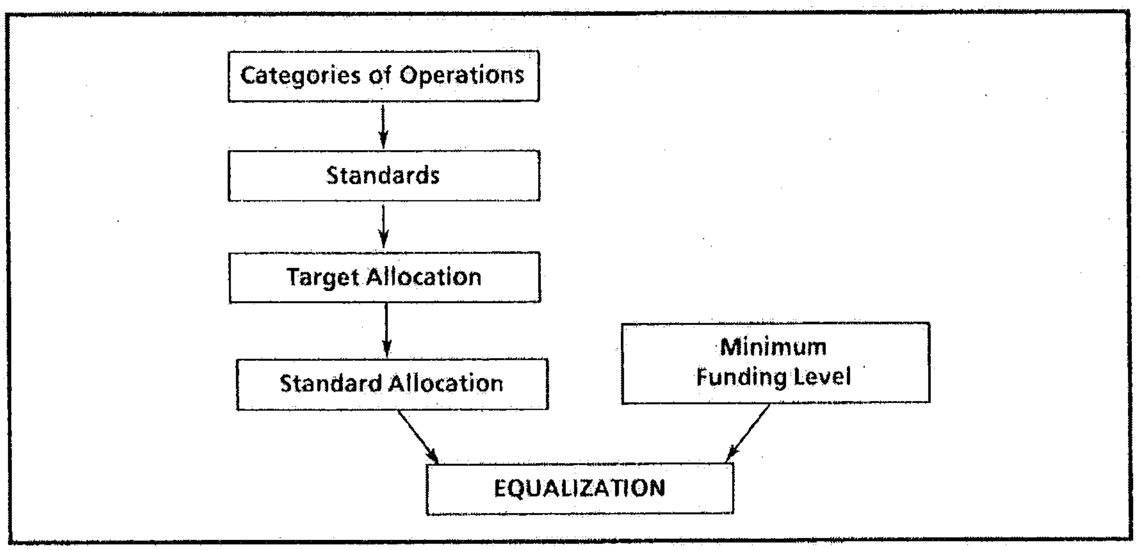
Growth Revenue

Statewide growth in workload is funded based on a minimum of statewide growth in the adult population. Growth is funded in the current year. Allocation to individual districts is based on factors such as the district's adult population change. However, districts are allocated a minimum of 1 percent growth for districts where the population growth is not higher than 100.

Program Improvements (Equalization)

Additional funds are provided to districts that have the lowest revenues as a percent of standard.

Program-Based Funding



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Categories of Operation

Five major program categories were prescribed by AB 1725:

1. Instruction *(Credit)*
2. Instructional Services *(Credit)*
3. Student Services *(Credit)*
4. Maintenance and Operations
5. Institutional Support

Workload Measures

A "workload measure" is defined for each of the five categories. A "workload measure" is an index used to determine the amount of funding a district will receive. In the prior formula, for all practical purposes, the only workload measure used to determine district funding was the unit of average daily attendance (ADA). For program-based funding, Section 84750 specifies the following workload measure for each category:

Category	Workload Measure
Instruction *(Credit)*	*(Credit)* Full-Time Equivalent Students (FTES) *(Student contact hour measure similar to average daily attendance without application of the second census count or the .911 absence factor)*
Instructional Services *(Credit)*	*(Credit)* FTES
Student Services *(Credit)*	Based on Credit Headcount
Maintenance and Operations	Based on Square Feet *(Owned and Leased)*
Institutional Support	Percentage of Total Computed Standard Allocation

Program-based funding is designed to allocate the general State apportionment, exclusive of capital outlay and categorical expenditures. It is intended that the allocations for these special areas be kept separate and remain categorical.

Standards

Probably the most innovative and influential recommendation of the AB 3409 task was that standards be developed for each of the five categories of operation. These standards determine the level of service and the corresponding level of funding deemed appropriate for each category. Along with the categories established for program-based funding, the standards provide the justification and rationale for the appropriate level of funding for community colleges. In addition, the standards furnish a framework within which the needs of students receive primary consideration. A detailed description of the standards for each of the five categories is contained in the Title 5 regulations, commencing with Section 58700.

Target Allocation

The target allocation is obtained by calculating the exact cost of funding for the specific standards in each category on a district-by-district basis. The target allocation reflects the level of funding required to achieve the level of service defined by the standards in each category. However, computing target allocations is not a satisfactory procedure for determining the actual allocations to each district. The computation is far too complex and contradicts the Board of Governors guideline, which calls for simplicity. For that reason, a simplified standard rate(s) was derived from the target allocation. When applied to the applicable workload measures and scale factor, the rate(s) produces approximately the same results. This is called the standard allocation.

Standard Allocation

The standard allocation is an attempt to find a simple formula that produces a close approximation of the amount computed in the target allocation. The goal is to have the standard allocation for each category, on a district-by-district basis, relatively close to the target allocation. In most cases, the standard allocation is within 3 percent of the target allocation.

Consideration of Size

In certain program areas, small colleges and districts find that their costs are disproportionately higher than those of their larger counterparts. Special consideration was given to offsetting these extra costs for small colleges and districts. Consequently, an extra-cost factor has been built into the target allocation based on the staff and materials required to open an institution.

Two methods are used, either separately or in combination, to build in this extra cost: (1) Economy-of-Scale Factor; and (2) Block Grant.

Discretionary Factor(s)

The regulations for program-based funding include a specific factor that reflects the concept that it is more expensive to provide a comprehensive program in a small institution. In addition, one of the principles enumerated in Section 58704(f) of Title 5 regulations recognizes the possible need to add new or refine existing factors for special financial consideration to provide incentives for particular programs, services, or circumstances, based on the Board's discretion.

Noncredit Funding

The discussion on noncredit funding is complicated by the fact that most noncredit programs are concentrated in a very few districts. In addition, the constant comparison with K-12 adult education makes this a complex area to accommodate in an isolated manner. A major change in funding noncredit programs was accomplished in Senate Bill 851 (Chapter 565, Statutes of 1983, which directed that all noncredit ADA be funded at the same rate, $1,100). Allowing for inflation, this rate has remained constant, and during 1990-91, has reached a level of approximately $1,648. For most districts, this amount has been more than adequate to provide for all direct and indirect needs of the noncredit program.

Section 84750(b)(3) of AB 1725 outlines the method to be used for noncredit Full-Time-Equivalent Students (FTES) in the program-based funding model. It stipulates that the general district allocations for Maintenance and Operations and for Instructional Support are to be computed in a way that includes provisions for the noncredit program. It further states that an amount corresponding to the allocation for these two categories is to be deducted from the rate for noncredit funding. The remainder is deemed to be the noncredit allocation for the combined categories of Instruction, Instructional Services, and Student Services.

Any changes in this allocation method or any definition of standards for noncredit are to be defined by an interim steering committee for adult education that has been formed by the Chancellor of the California Community Colleges and by the Superintendent of Public Instruction.

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Minimum Funding Level

The Minimum Funding Level for each district will be determined by a method very similar to that currently used. A district's prior-year revenue, as adjusted for decline, will become the base revenue for each year. This amount is then divided by the corresponding funding level to achieve the full standards based on the same workload. The resulting percentage is called the *district percent of standard*. A *statewide percent of standard* is calculated on the accumulated statewide totals.

This base revenue will be increased for inflation and any applicable growth. The inflation index to be used is identical to that in current statute. However, each district will receive an adjustment to provide inflation on the statewide average revenue rather than on the district's own revenue. This differs from the current procedure whereby high-revenue districts receive inflation on their own average revenue, and low-revenue districts receive inflation on the statewide average revenue. This new procedure provides an additional, modest form of equalization.

As prescribed in AB 1725, adjustments for decline will be phased in over three years following the year of decline. Districts with funding above the statewide average (*statewide percent of standard*) will have their revenues adjusted for decline over a three-year period at the statewide average rate. Districts with funding below the statewide average (*statewide percent of standard*) will have their revenues adjusted for decline over a three-year period at one-half of the district average rate.

For all districts, the adjustment for growth will be at the statewide average rate (*statewide percent of standard*). In all applicable cases, this will also be modified by the scale factor.

Program Improvement or Equalization

Program improvement funds are equivalent to the current definition of equalization. However, as AB 1725 evolved, mandates and program provisions were added that required that all districts receive a substantial amount of new funding. Therefore, the $70 million allocated for Phase I of program improvement funding were distributed on the basis of 30% for equalization and 70% across the board per ADA. The second $70 million for Phase II also will be distributed on this basis. Thereafter, depending on the amount of program improvement funds allocated, it may be that the full amount will be applied to equalization.

Regulations adopted by the Board of Governors would have an amount equal to at least 10 percent of the full credit COLA be set aside each year for equalization; however, for 1991-92, no funds were appropriated for COLA and, consequently, equalization by the State. Had funds been appropriated for equalization, the regulations would require such funds be allocated in such a manner that the district at the lowest level of funding (compared with the standard allocation) would receive equalization dollars until it reaches the district at the second-lowest level. This process would continue until all equalization funds have been exhausted. Should there be more appropriated than 10 percent of the credit, the excess would be distributed on the basis of 30 percent for equalization and 70 percent across the board per FTES.

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KCCD
KERN COMMUNITY COLLEGE DISTRICT

OFFICE OF THE CHANCELLOR
2100 CHESTER AVENUE
BAKERSFIELD, CA 93301-4099
(805) 395-4104

April 22, 1991

Dr. David Mertes, Chancellor
California Community College
1107 Ninth Street
Sacramento, California 95814

Dear David:

Attached is a resolution adopted by the Board of Trustees of the Kern Community College District in opposition to Title V, Section 51025. The Board of Trustees of the Kern Community College District believes the allocation system of program based funding should be just that and should not have expenditure controls incorporated. I know the alternatives in support of continuing to hire full-time staff are practical in nature and may result in even more onerous regulation; however, the integrity of the allocation system should be maintained as an allocation system.

Sincerely,

Jim Young

James C. Young
Chancellor

JCY:kvw
cc: Dr. David Viar, Executive Director
Community College League of California

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RESOLUTION OF THE BOARD OF TRUSTEES

OF THE KERN COMMUNITY COLLEGE DISTRICT

WHEREAS, assurance was given to local districts by the Board of Governors in its March 14, 1991 agenda which clearly stated that: "It is important to remember that program based funding is designed as a revenue allocation method. It is not intended to be an expenditures model."; and

WHEREAS, a key component of the proposed Title V regulations, Section 51025, for the implementation of program based funding presented for Board of Governors' action, appears to violate those assurances; and

WHEREAS, that component as proposed directs how colleges will expend the allocations:

> "Community college districts which have less than 75 percent of their hours of credit instruction taught by full-time instructors in the prior fiscal year, <u>shall apply</u> the growth revenues received..."; and

WHEREAS, this section has become a minimum standard and specific state appropriations must be spent to achieve that standard; and

WHEREAS, Assembly Bill 1725 included special program improvement allocation to help achieve the goal of 75 percent of hours of credit instruction taught by full-time instructors, thus providing an incentive for achieving the goal rather than mandating expenditure of program based funding for the goal; and

WHEREAS, the Board of Governors set minimum standards on faculty, staff and student participation in helping local governing boards shape the direction of local colleges; and

WHEREAS, local governing boards have statutorily delineated responsibility, working with faculty, staff, students and community to develop their budgets based on a prioritization of educational needs for local communities; and

WHEREAS, the local districts should be permitted to allocate program based funds to meet local needs and priorities;

NOW THEREFORE BE IT RESOLVED, that the Kern Community College District Board of Trustees opposes Title 5 regulation 51025.

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BE IT FURTHER RESOLVED, the Board of Governors pursue other means to ensure the maintenance of the 75%-25% ratio as it relates to growth.

PASSED AND ADOPTED by the Board of Trustees of the Kern Community College District on this 18th day of April, 1991, by the following vote:

AYES: Trustees Bailey, Bultman, Cornell, Plain, Raney and Wilson

NOES: None

ABSENT: Trustee Bans

* * * * * * * * *

I, James C. Young, Secretary of the Board of Trustees of the Kern Community College District of the Counties of Kern, Inyo, Tulare, and San Bernardino, State of California, do hereby certify that the above Resolution was duly passed and adopted by said Board of Trustees at an official meeting thereof held at its regular place of meeting at the time and by the vote stated, which Resolution is on file in the office of said Board.

James C. Young

James C. Young, Secretary
Board of Trustees

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LAKE TAHOE COMMUNITY COLLEGE

OFFICE OF THE PRESIDENT

51025

April 26, 1991

David Mertes, Chancellor
and Board of Governors
California Community Colleges
1107 Ninth Street
Sacramento, CA 95814

Dear Chancellor Mertes and Board of Governors:

At its regular meeting on April 23, 1991, the Lake Tahoe Community College District Board of Trustees unanimously passed the enclosed resolution expressing disapproval of proposed section 51025 of Title 5 regulations. The Board's concern, as you can see by reviewing the resolution, revolves around the threat to local control of budgets and expenditures. It is a strong conviction of our Board that local governing boards should be permitted to allocate revenues to meet local needs and priorities to the greatest extent possible. In addition, the Board is disappointed that these regulations do not recognize the special needs of small colleges and small college districts.

Sincerely,

Guy F. Lease, Ed.D.
Superintendent/President

GFL/pbv

enclosure

pc: David Viar, CCLC
California Community College District CEOs
California Community College District Boards of Trustees

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LAKE TAHOE COMMUNITY COLLEGE

Resolution Number 24--1990/91

Opposition to Program Based Funding Regulation
Title 5, Regulation 51025

Whereas, the Board of Governors of the California Community Colleges approved Title 5 Regulation 51025, Full-time/Part-time Faculty, at their meeting of March 13-14, 1991, and delegated authority to the Chancellor of the California Community Colleges to adopt, on behalf of the Board of Governors, this regulation; and

Whereas, Section 208 of the Rules and Standing Orders of the Board of Governors allows this regulation to become effective 30 days after adoption by the Chancellor unless, within that 30 day period, at least two-thirds of the community college district governing boards vote in open session to disapprove the regulation; and

Whereas, this regulation directs that, "Community college districts which have less than 75 per cent of their hours of credit instruction taught by full-time instructors in the prior fiscal year, shall apply the growth revenues received related to increases in credit FTEs" to increasing "the number of full-time instructors, by September 30 of the succeeding fiscal year by the product of their base number of full-time faculty multiplied by the percentage change in funded credit FTEs...;" and

Whereas, throughout the seven year process to adopt program-based funding, local district governing boards have been assured that program-based funding was to be a revenue allocation method and not an expenditure model; and

Whereas, Regulation 51025 clearly directs expenditures by directing local district governing boards to apply growth revenues received to increases in the ratio of full-time instructors; and

Whereas, local governing boards have the statutorily delineated responsibility; working with faculty, staff, students and community members; to set their budgets recognizing the priority education needs of their local communities; and

Whereas, this Board of Trustees believes the local governing board should be permitted to allocate growth revenues to meet local needs and priorities; and

Whereas, this regulation provides no exception for small colleges or small college districts in which the 75 per cent ratio may not be feasible or appropriate; and

Whereas, the implementation of this regulation may result in the lay-off of critical non-teaching personnel such as counselors, librarians, admissions personnel, etc.; or the elimination

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of sections of classes taught by part-time faculty; or the reduction of other important services to students in order to maintain a balanced budget, while increasing the number of full-time instructors;

Now, therefore, be it resolved, that the Board of Trustees of the Lake Tahoe Community College District disapproves Title 5 Regulation 51025 and directs the Superintendent/President to forward to the Chancellor of the California Community Colleges written verification of this disapproval.

Ayes: 5

Noes: 0

Abstentions: 0

Absent: 0

Dated this twenty-third day of April, 1991, by order of the Lake Tahoe Community College District Board of Trustees

Guy F. Lease, Ed.D.
Secretary
Board of Trustees

CHANCELLOR'S OFFICE
GEORGE DEUKMEJIAN, *Governor*
CALIFORNIA COMMUNITY COLLEGES
1107 NINTH STREET
SACRAMENTO, CALIFORNIA 95814
(916) 445-8752

March 14, 1990

Dr. Richard Moore
President
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, CA 90405

Subject: Program Improvement Plan - AB 1725

Dear President Moore:

Your Program Improvement Plan has been reviewed and found to be consistent with the listing of authorized expenditures in *Education Code*, Section 84755. Your first payment, in December 1989, was based on the estimate provided in the Program Improvement Transitional Funding Guidelines of August 8, 1989. Your total allocation will be adjusted, as appropriate, on the basis of the 1989-90 First Principal Apportionment.

A summary of your actual program expenditures is to be submitted to the Chancellor's Office by October 15, 1990, as noted in the funding guidelines. The district must maintain a clear audit trail to substantiate the results and costs for each planned category of the 19 authorized activities. To the extent a district expends its allocation consistent with its plan, that amount will be included as part of the district's base budget in subsequent years. For that reason, any significant revisions to your district plan should be submitted to the Chancellor's Office for approval.

The certification form for the plan states, "Reform items 2-9 are to be implemented by July 1, 1990." Actually, Item 7 (new processes for tenure evaluation) and Item 8 (tenure denial grievance procedures) do not have to be implemented until "adequate funding has been provided for Phase II [of reform]," pursuant to Section 70, AB 1725. However, this does not prohibit a district from incurring the cost of developmental work on these two items.

On October 18, 1989, preliminary calculations and worksheets were mailed to districts for use in determining the final number of additional full-time instructors pursuant to *Education Code*, Sections 87482.6 and 84755(b), Item 12. As we noted in that mailing, completed worksheets were to be returned to the Fiscal Services Unit of the Chancellor's Office by January 15, 1990.

Please contact John Puthuff, Fiscal Services Unit, at (916) 445-1163 if you have any questions.

Sincerely,

David Mertes

David Mertes
Chancellor

DM:GLC:mh

cc: District Chief Business Officer
Superintendent, County Office of Education

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CHANCELLOR'S OFFICE

CALIFORNIA COMMUNITY COLLEGES
1107 NINTH STREET
SACRAMENTO, CALIFORNIA 95814
(916) 445-8752

March 1, 1991

Dr. Richard Moore
President
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, CA 90405

Dear President Moore:

Subject: Program Improvement Plan - AB 1725

Your Program Improvement Plan has been reviewed and found to be consistent with the listing of authorized expenditures in *Education Code*, Section 84755. Your district already has received some of its Program Improvement allocation based on the estimate provided in the Program Improvement Transitional Funding Guidelines of October 23, 1990. Your allocation will be adjusted, as appropriate, on the basis of the 1990-91 First Principal Apportionment.

In reviewing the plans, staff noted that since Item 14 (plant maintenance and operations) was not defined in statute, a variety of interpretations have been applied by districts. To clarify this situation and based on the reasonable intent of AB 1725, Item 14 is being interpreted to mean maintenance, repairs, or improvements to the physical plant. You should review this item in your plan and, if necessary, submit a revised plan to the Chancellor's Office prior to submission of your final Expenditure Summary.

A summary of your actual program expenditures is to be submitted to the Chancellor's Office by October 15, 1991, as noted in the funding guidelines. The district must maintain a clear audit trail to substantiate the results and costs for each planned category of the 19 authorized activities. To the extent a district expends its allocation consistent with its plan, that amount will be included as part of the district's base budget in subsequent years. For that reason, any significant revisions to your district plan should be submitted to the Chancellor's Office for approval.

The certification form for the plan states, "Reform items 2-6 and 9 were to have been implemented by July 1, 1990." Additionally, Item 7 (new processes for tenure evaluation) and Item 8 (tenure denial grievance procedures) have to be implemented by July 1, 1991, since "adequate funding has been provided for Phase II [of reform]," pursuant to Section 70, AB 1725.

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On October 23, 1990, preliminary calculations and worksheets were mailed to districts for use in determining the final number of additional full-time instructors pursuant to *Education Code*, Sections 87482.6 and 84755(b), Item 12. As we noted in that mailing, completed worksheets were to be returned to the AB 1725 Implementation Unit of the Chancellor's Office by January 15, 1991.

Please contact Kathy Pulse, AB 1725 Implementation Unit, at (916) 322-1773 if you have any questions.

Sincerely,

David Mertes

David Mertes
Chancellor

DM:TJN:kp

cc: District Chief Business Officer
Superintendent, County Office of Education