Budgeting in the Era of the Student Centered Funding Formula

June 2019

The Way It Was

Under the previous enrollment based allocation of unrestricted general funds, three means of augmentation were standard practice.

First, the statutory Cost of Living Adjustment was typically approved each year. The COLA percentage was applied to the college's previous year's unrestricted general fund allocation.

Second, a growth percentage and dollar amount was approved although in poor economic times growth was not always funded. The growth percentage was applied to the unrestricted general fund allocation but had to be earned by producing FTES-driven funding. Mt. SAC did not budget growth until earned. If earned, growth revenue was booked as one time in the year earned and ongoing thereafter. This growth funding was the primary source of New Resource Allocations. If the system did not grow enough to earn all available growth funding, Mt. SAC's FTES above the growth cap would be determined upon recalculation the following year.

Third, the state occasionally allocated undesignated additional ongoing unrestricted general funds. This occurred in several recent years as a means of providing funding for the STRS and PERS escalating rates of employer contributions to their pension funds.

Only occasionally were there midyear budget cuts, typically during periods of recession. Otherwise, funding approved each June was reliably received the next fiscal year.

The Way It is Now under the Student Centered Funding Formula

In simple terms, SCFF moved unrestricted general funding from enrollment alone to a mix of 70% enrollment-based, 20% financial aid-based, and 10% completion-based. This has made ongoing unrestricted general funding less predictable in several ways.

First, each year's funding must be earned by performance on the metrics specified in each of the three SCFF categories. If performance falls below that of the base year of 2017-18, colleges are funded at a hold harmless rate based on 2017-18 performance—with a few complications that are beyond the scope of this review. Mt. SAC has been above the hold harmless level each of the first two years and reasonably expects to maintain that status going forward.

Second, COLA is not applied to the previous year's unrestricted general funding but applied to the funding of each of the metrics in the Student Centered Funding Formula. For example, the 2018-19 funding for an Associate Degree for Transfer Award was \$1,760. The 2019-20 COLA is 3.26% so an ATD award will be worth \$1,760 x 1.0326 = \$1,817. Mt. SAC will not know if we have earned the 3.26% COLA until the close of the 2019-20 budget year next June 30th. If we were to decline in SCFF performance to the point of falling into hold harmless, we would lose the COLA on the previously earned growth and revert to 2017-18 funding plus COLA based on that year's funding. While such a decline is unlikely for Mt. SAC, the possibility is still a real one.

Third, in previous years under enrollment-based funding, if FTES declined, the hold harmless provision paid Mt. SAC the same amount the following year during which Mt. SAC could recover the lost FTES with no loss in funding. In the era of SCFF, a decline in metric performance causes an immediate loss of funds and reversion to 2017-18 base funding. There is no stabilization year with continued funding.

Fourth, the SCFF formula and metrics are not yet fully established and reliable. During 2018-19, an error in Chancellor's Office counting of transfer students caused an ongoing loss of $49 million to the system (and $1.3 million to Mt. SAC). Despite pleas to the legislature and governor, no backfill was provided. Also, political forces continue to change the SCFF formula itself. For 2019-20, the following changes were made.

- Cap the student success allocation at 10% of the total formula allocation
- Clarify that for 2018-19, transfer data is based on publicly available information
- Starting in 2019-20, transfer data is based on recently enrolled students
- Implement a three-year rolling average for the student success metrics
- Implement an unduplicated count for the highest award obtained

The precise impact on the system and on Mt. SAC cannot yet be determined. Most predict that these changes will lower metric performance across the board for most colleges.

Finally, while $270 million in new ongoing base funding was provided to enhance unrestricted general funding as allocated in 2018-19, the first year of the Student Centered Funding Formula, no additional ongoing base funding was allocated for 2019-20. Note that the Community Collee System responded by improving SCFF performance metrics which would have earned $228 million.

The Comparison in Brief

1. Increased base funding was driven by enrollment growth and, for one year of decline, colleges were held harmless with funding at the previous year's level during which FTES and funding could be restored.
   Now, base funding is driven by SCFF performance metrics, and a decline in performance means loss of funding for the coming year. Hold harmless is a reversion of funding back to 2017-18 as the base year plus COLA.

2. COLA was reliable once appropriated.
   Now earning COLA on each year's funding depends on the next year's SCFF performance sufficient to avoid falling into hold harmless with the base of COLA reverting to 2017-18.

3. Funding was based on FTES enrollment which was controlled by the college. State growth targets were known and reliably implemented for funding.
   SCFF funding is based on a variety of metrics, many of which are not under the control of the college and many are not reliably determined. Producing higher SCFF performance metrics does not guarantee budget augmentation. This means money for New Resource Allocations depends on SCFF yield at the end of each year.

4. The means of counting FTES and the funding of each type was well defined and stable.
   The SCFF formula and metrics are still in flux with more changes expected.

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