



**Contra Costa Community College District
SB 361 Allocation Model**

June 9, 2010

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PART I: Introduction and Background

Why develop a new allocation model?

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

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

Which allocation model best meets District needs?

A number of fundamentally different approaches to revenue allocation in multi-college districts were identified. The SB 361 model is currently used for funding apportionment for all California Community Colleges. Signed by the Governor on September 29, 2006 and effective October 1, 2006, this model implemented a new formula to replace the State Program Based Funding formula. This new formula includes an annual basic allocation and uses marginal funding rates for FTES to allocate apportionment funding to the 72 California community college districts. The basic revenue takes into consideration the economies of scale and size of colleges.

Apportionment funding received by the District from this formula represents more than 85% of the District's unrestricted revenue. Therefore, for the sake of transparency and fairness, it appears logical and consistent that the District apply this same model in allocating apportionment resources to the colleges. The model ensures that colleges will receive what they earn.

The shift to this model will define finite limits on the majority of District resources and expenditures and will encourage fiscal accountability at all levels. The linkage of allocations to expenditures at the college level will move the District toward greater fiscal stability.

How has the District arrived at this implementation plan?

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

The District Governance Council (DGC), which also serves as the Districtwide Budget Committee, considered the matter of Allocation Model change at regular meetings of October 13, 2009, November 10, 2009, December 1, 2009 and January 26, 2010. The January 26 meeting resulted in the following motion: "Faculty moved that the DGC endorse

the general principles of the SB 361 model with a request that the concerns expressed at DGC be resolved for the colleges by May 1, 2010 and reported to DGC at the May meeting.” There was unanimous consensus of the endorsement.

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

When will the new allocation model be implemented?

Projected implementation for this plan is July 2010.

PART II: Implementation Plan of SB 361 Model

Partnership Between District Office and Colleges

The move from historical expenditure based funding methods to a revenue based allocation model will be a culture shift. The transition to a SB 361 allocation basis will require culture changes in many areas including:

- Accountability
- Autonomy
- Transparency and accountability for District Office, Districtwide Services and regulatory allocations
- Transparency of college allocations and expenditures
- Impact and involvement of colleges in collective bargaining

In a decentralized structure that supports and maintains the philosophy of college autonomy, colleges have primary authority over educational programs and student services functions. Each college develops autonomous and individualized processes to meet state and accreditations standards.

The Chancellor, under the direction of the Governing Board, is responsible for the successful operation, reputation, and fiscal integrity of the entire District. The new funding model does not diminish the Chancellor's role nor does it reduce the responsibility of the District Office staff to fulfill their fiduciary role of providing appropriate oversight of District operations. It is important that guidelines, procedures and responsibility be clear with regard to District compliance with law and regulation as relates to the 50% Law, Full-Time/Part-Time faculty requirements, attendance accounting, audit requirements, fiscal and accounting standards, procurement and contract law, employment relations and collective bargaining, payroll processing and related reporting requirements, etc. Current responsibilities for these requirements will be retained by the central office. The District Office has a responsibility to provide direction and data to the colleges to assure they have appropriate information for management decision making with regard to resource allocation at the local level and to do their part in assuring District compliance with legal and regulatory requirements. This new model acknowledges that the District is the legal entity and ultimately responsible for actions, decisions and legal obligations of the entire organization.

The purpose and function of the District Office in this structure is to maintain the integrity of the District and its individual colleges and to facilitate college operations so that their needs are met and District and college fiscal stability is assured. The District Office has responsibility for providing certain centralized functions, both to provide efficient operations as well as to assist in coordination between the District Office and the individual colleges. These services include human resources, fiscal and budgetary oversight, procurement, construction and capital outlay, information technology, and Districtwide education and planning services.

On the broadest level, the goal of this partnership is to encourage and support collaboration between the colleges and the District Office. The colleges have broad

oversight of institutional responsibilities while the District Office primarily ensures compliance with applicable statute and regulatory requirements.

The SB 361 revenue based funding model allocates resources to the colleges in the same manner as received by the District. The methodology allocates all of the resources to the colleges as earned with assessment to each college's resource allocation for District Office, Districtwide Services and Regulatory costs. The model does provide an opportunity for more resource allocation decisions be made at the local college level with the intent of improving decision quality and timeliness. The college president shall be responsible for the successful operation and performance of the college.

The application of the SB 361 model will refocus District Office leadership responsibilities from decision making to monitoring and oversight. As the District's advocate in issues involving local, regional, and state government as well as other stakeholders, this model will require the District office to engage in on-going and timely dialogue with the colleges on a variety of policy level governance and funding issues critical to the colleges' decision making.

Application of the Model

1. Revenue Allocation

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

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

The base revenues for each college shall be the sum of the annual basic allocation, credit base revenue, non-credit base revenue, and CDCP non-credit base revenue.

The model will allocate the following revenues to the colleges:

- State Apportionment.
- Unrestricted portion of Lottery – Projected revenue shall be distributed to colleges on a per-FTES basis as received by the District.
- Apprenticeship -- Revenue shall be distributed to colleges as earned and certified through hours of instruction.
- Office Hours/Health Insurance for Part Time faculty -- Pass through of revenue on a per FTES basis as allocated through the state funding process.
- Non-resident Tuition – Revenue shall be distributed to colleges based on projected tuition earnings and adjusted for actual.
- Enrollment Fee Administrative Allowance -- Revenue shall be distributed to colleges based on projected enrollment fees and adjusted for actual.
- Part time Faculty Compensation Funding (parity) – Revenue shall be distributed as received and actually expended.
- Other Locally Generated College Revenues – Revenue that is directly generated by the colleges shall be distributed to the colleges based on college projections and adjusted for actual.

2. Assessments for Centralized Services

The SB 361 funding model allocates resources to the colleges in the same manner as received by the District. This methodology allocates all of the resources to the colleges as earned. Assessments are then made for centralized services provided on a Districtwide basis. Being part of a multi-college district, colleges benefit from sharing costs that are less expensive when paid for collectively rather than on an independent basis.

The model will utilize a system of assessments to fund centralized services provided by the District Office, Districtwide Services and shall include assessments for the colleges' share of regulatory costs. These costs are budgeted as close to actual as possible and are directly driven by the resources required to deliver assigned services and pay for regulatory requirements. The following costs are those that will be charged back to the colleges through a per-FTES assessment:

DISTRICT OFFICE - Costs incurred for operation of centralized services provided by District office staff such as purchasing, payroll, accounting and accounts payable, etc.

DISTRICT WIDE SERVICES - Costs to support those District functions which are most effectively managed on a centralized basis, such as utilities, police services, information technology, human resources, and facility services.

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

In addition, certain programs will continue to be administered on a centralized basis and will be funded through a per-FTES assessment. These include locally funded staff development, faculty sabbaticals, classified and faculty senate expenses, United Faculty and Local One release time, non-college specific international education, CEEP, and SUI experience charges.

A review of District office, Districtwide and regulatory costs will be conducted prior to the implementation of the model. Centralized services offered by the District office will be reviewed and evaluated regularly.

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

3. Budget and Expenditure Responsibilities

Colleges: Colleges will be responsible for funding the certain programs as part of their budget plans. These programs include locally funded transfer centers, management sabbaticals, long term sick leave substitutes, part time faculty office hours and health insurance benefits, faculty substitutes, intercollegiate athletics staff, vacation pay offs, and academic senate presidents' release time.

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

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

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

District Office: Annual expenditure budgets for the District Office, Districtwide Services and regulatory costs will be developed based on the projected levels of expenditure for the current fiscal year, taking into account unusual or one-time anomalies. The state COLA will be incorporated into the new year budgets. Any change in the budgets for District Office, Districtwide Services, and regulatory costs beyond this level of funding will be evaluated by the Cabinet in the spring of each year as part of the budget development process.

4. Reserves and Deficits

Colleges and the District Office will be required to maintain a minimum college level contingency reserve of 1% of its ongoing operating expenditure budget.

In order to maintain this level of budget reserve, each college and the District Office will be allowed to retain its current year beginning balance, which is calculated as their prior year beginning balance plus prior year actual revenue less prior year operating expenditures. The combination of the beginning balance and the current year budgeted revenue represents the total resources available to the college to meet its needs. As part of the operating expenditure budget, a minimum of 1% of the ongoing operating expenditure budget must be set aside as a contingency reserve. If unspent by year end, this reserve falls into the year-end balance and is included in the college's or district office's beginning balance for the following year.

As a transitional step for Fiscal Year 2010-11 only, the beginning balance for each college and the District Office will be calculated as the FY 2009-10 budgeted-to-actual savings achieved in ongoing operating expenditure budgets (object codes 1000 to 6000 and 7900).

Colleges and the District Office may accrue reserves up to 5% of their operating expenditures. Any college or District Office reserves over 5% will require a plan or explanation of the need to exceed 5%. Should reserves exceed 7%, the amount in excess of 7% will be divided with 60% retained by the college and 40% redirected to Districtwide reserves.

Districtwide reserves represent minimum reserve levels established by the Board of trustees per Board Policy 5033, budget guidelines and budget planning parameters as adopted each year. Setting any limits in procedure will preempt the Board prerogatives in this regard.

If a college or the District Office incurs a deficit for any given year, the following sequential steps will be implemented:

Step 1 – College/District Office reserves shall be used to cover any deficit generated by that location.

Step 2 - If the college /District Office does not have sufficient reserves to cover the deficit, then the college/District Office shall pay back any shortfall over three years starting the second year immediately following the deficit year. To the degree District-level reserves are insufficient to cover this, an additional per FTES assessment may be necessary.

Step 3 - There may be circumstances for which a college or the District Office will find itself in a significantly weakened financial position, making full repayment of one or more of the three scheduled payments extremely difficult. The District Chancellor, along with the Chief Financial Officer and college Presidents, may consider an application for hardship whereby one or more payments are forgiven. When this occurs, the shortfall would come from Districtwide reserves. The draw down against the Districtwide reserves may require higher assessments in subsequent years against the colleges on a per FTES basis to replenish the Districtwide reserves.

Revenue Modifications

1. Apportionment Revenue Adjustments

It is very probable that the District's revenue from apportionment will be adjusted after the close of the fiscal year in the fall, but most likely at the P1 recalculation, which occurs eight months after the close of the year. Any increase or decrease to prior year revenues is treated as an addition or reduction to the colleges' current budget year.

If apportionment revenue is reduced from the prior year base for any of the following reasons:

- prospective revenue reduction anticipated in budget development;
- mid-year deficit resulting from insufficient tax revenues or enrollment fees; or
- as a result of end of year adjustments

the District Office and Districtwide Services assessments will be adjusted downward, rounded to the nearest whole number, in the same proportion as the reduction is to the District's total revenue from all sources. Regulatory costs are not included in the calculation of this adjustment due to the nature of these financial obligations. If "other state revenue" is reduced, this adjustment does not apply since the magnitude of total revenue from these sources makes any impact immaterial. If "local revenue" is reduced, this adjustment does not apply since colleges have control and benefit from these sources.

If apportionment revenue is increased, the District Office, Districtwide Services, and regulatory assessments, which are based on costs, do not share in the additional revenue.

2. Allocation of New Revenue

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

Growth Funding: When growth is funded in the final state budget signed by the Governor, growth will be funded prospectively by the District. Subject to District growth cap and other funding limitations, growth dollars will be advanced to the colleges based on the Chancellor's Cabinet approved annual FTES targets. In the event that there is state funding for FTES growth and any college does not reach its growth target, the FTES will be prorated between the remaining colleges based on a revised ratio of funded FTES from the still eligible colleges.

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

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

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

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

Strategic Modifications

1. Summer FTES

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

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

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

2. Long-Term Plans

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

District Office: The District Office and Districtwide Services also may require additional funding to implement new initiatives in support of the colleges. The Chancellor will evaluate requests for such funds on a case-by-case basis. The source of this funding will also have to be identified.

3. Shifting of Resources Between Colleges and Mitigating Impacts of the New Model

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

- a. The District will establish for each college an FON based on the ratios of funded FTES. Each college's ratio multiplied by the Districtwide FON will become the college's FON. Each college's FON will be adjusted annually based on changes in funded FTES and subsequent requirements by the state regarding the FON. Each college shall be required to fund at least that number of full time faculty positions. If the District falls below the FON and apportionment is taken away, that reduction shall lower the revenues of colleges causing such apportionment loss.
- b. If the imbalance is internal and the District as a whole is at or above its FON, the college or colleges below the required number shall increase its positions to maintain its individual FON. Presently each college is above the estimated college FON, and as such, no actions are required.

Periodic Review of This Model and Attendant Procedures

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

PART III: Strategies for Transition to the SB 361 Model

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

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

Four strategies were identified to implement this model:

➔ **Strategy #1** – Adjust FTES targets to provide more resident FTES apportionment to CCC to reduce the SB 361 deficit, eliminate the remaining CCC deficit, and eliminate the LMC deficit of \$464,423 through a planned expenditure reduction. This strategy will shift \$830,799 of revenues by moving 182 apportionment funded FTEs from DVC to CCC and will provide a five-year expenditure reduction schedule to bring CCC expenditures down \$1.7 million to align with revenues.

Strategy #2 – Use international student tuition to either provide transitional dollars or provide permanent revenue to reduce apportionment deficits.

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

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

After careful consideration, Strategy #1 (see arrow above) was recommended by District leadership and endorsed by the colleges and the District Governance Council because it maintains the integrity of the State SB 361 allocation model and, when fully implemented, will align expenditures with revenue. The implementation strategy that follows is intended to be sensitive to this circumstance and seeks to provide the most reasonable opportunity for success. The implementation strategy that follows is intended to be sensitive to this circumstance and seeks to provide the most reasonable opportunity for success.

Impact of this Model on the Colleges and the District

Implementation of the model will require an investment on the part of the District to allow for a five year reduction for CCC and a three year reduction for LMC. This investment will require \$5.4 M of financial investment from the District. The use of interest revenues projected at \$400,000 per year (which remain outside the allocation model), undesignated reserves (if available) and the \$1,000,000 retiree health benefit contribution (if necessary) is recommended to fund the gradual reduction for a cost of approximately \$5.4 million. This funding is needed to allow CCC and LMC to transition over a period of time since the recent budget reductions have been so steep. Also, deficits at CCC have taken a long time to occur and time is needed to allow the college to transition.

Transition Strategy

Adjust resident FTES targets to provide more resident FTES apportionment to CCC to reduce the SB 361 deficit, eliminate the remaining CCC deficit and eliminate the projected LMC deficit through planned expenditure reductions over a period of three (LMC) and five (CCC) years.

An investment of funds will be required to assist in transitioning the District over a five year period to the SB361 funding model. Funds will come from interest revenues first, undesignated reserves second, and if needed from the \$1M Retiree Health Benefit contribution as noted below in Table 2.

This strategy is based on the assumption that in FY 2010-11, with no paid growth in the near term, total District-paid apportionment FTES for FY 2010-11 remains at 29,837.

Contra Costa College

CCC resident FTES will be targeted at 6,199 (2008/09 actual) for the 2010/11 budget year instead of reducing by 3.39% to 6,017 FTES. This will be accomplished by moving 182 resident FTES from DVC's FY 2010-11 FTES targets to CCC's FY 2010-11 resident FTES targets. The 182 additional paid resident FTES adds \$830,799 to apportionment revenue for CCC for FY 2010-11. After the apportionment adjustment, the CCC deficit is \$1,789,857;

A four-year deficit reduction plan will be implemented beginning in FY 2011/12 which will be applied to the \$1,789,857 with annual subsidy provided by District funding until deficit removed in FY2014/15. Under this scenario, CCC's ongoing expenditures are reduced by 1.28% per year over the four year reduction period.

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

Los Medanos College

A three-year deficit reduction plan will be implemented beginning in 2011/12 which will be applied to the projected deficit of \$464,423 with an annual subsidy provided by District funding until deficit is eliminated in 2013/14. Under this scenario, LMC's ongoing expenditures are reduced by .5% per year over the three-year reduction period.

Diablo Valley College

DVC FTES targets will be reduced by 182 resident FTES to 15,393 for FY 2010-11. When funded growth is available from the State, DVC will be allowed to grow 182 FTES (within parameters of paid growth from State) before funded growth is allocated to CCC and LMC.

District Office/Districtwide Services

To lessen the impact on the colleges during the FY 2009-10 and FY 2010-11 budget reductions, the DO/DW services took \$588,000 additional reductions to cover the regulatory and fixed cost increases (retiree health benefits of \$395,000 and utility increase of \$192,000). This reduction will be restored to the DO/DW budget in FY 2011-12.

Table 1: Distribution of \$588,000 DO/DW additional reductions

College	FTES	Share of \$ 588,000
CCC	6,366.45	118,390
DVC	16,925.27	314,740
LMC	8,328.17	154,870
Total:	31,619.89	588,000

IMPACT TO THE DISTRICT

The above transition strategy will require subsidies for both CCC and LMC. Financing of these subsidies is outlined below.

Table 2: Revenue Sources and Distribution of Subsidy

Reduction Plan FY	SOURCES			DISTRIBUTION		
	Interest	Undesignated Reserves	\$1 M Contribution to Retiree Health Benefits	CCC Subsidy	LMC Subsidy	Total District Subsidy
2010/11	400,000	1,854,280		1,789,857	464,423	2,254,280
2011/12	400,000	1,252,008		1,342,393	309,615	1,652,008
2012/13	400,000	367,750	281,987	894,929	154,808	1,049,737
2013/14	400,000	-	47,465	447,465	-	447,465
2014/15		-	-			
TOTAL:	1,600,000	3,474,038	329,452	4,474,644	928,846	5,403,490

Table 3: Ending Balances by college over 5 year implementation period

College	2010/11	2011/12	2012/13	2013/14	2014/15
CCC	(1,789,857)	(1,342,393)	(894,929)	(447,465)	-
DVC	1,779,746	1,779,746	1,779,746	1,779,746	1,779,746
LMC	(464,423)	(309,615)	(154,808)	-	1,107,182 **

** Under the SB 361 revenue based allocation model, contingent upon available state funding, basic allocation funding in the amount of \$1,107,182 would accrue to LMC upon formal Brentwood center approval by the California Post Secondary Education Commission. This additional revenue could mitigate expenditure reduction.