

Ventura County Community College District

Structural Deficit Funding Model

Background

The District currently distributes nearly all its unrestricted resources through a single funding allocation model. Those resources include state apportionment (enrollment fees, property taxes and state appropriation), non-resident tuition and fees, lottery revenue, interest income, and miscellaneous other fees and revenues. The General Allocation Model recognizes that there are services that are best provided centrally and distributes the balance of the resources to the colleges. The model considers the instructional program and what is necessary to deliver the class schedule, based on several factors; the number of full-time equivalent students (FTES); efficiencies in the instructional program; educational preparedness of the students; the program mix of CTE, college-prep, and general education, etc.—approximately 54% of the funding for the college is for the instructional program. The model also recognizes that a college has particular fixed costs regardless of its size – 15% of the amount distributed to the college. And the remainder is distributed purely based on FTES, as that is the basis of funding from the state— approximately 31%. That model does not consider such things as college infrastructure, i.e. size of the campus (number of buildings), age of the buildings, number and age of equipment, etc.

Several years ago, faced with its own funding constraints, the District eliminated the majority of General Fund support for library books and materials, instructional materials and equipment, scheduled maintenance, and technology equipment refresh and replacement and relied primarily on restricted funding provided by the State categorical programs for those operating components. Up until 2009, funding has come from state categorical programs such as Instructional Equipment/Library Materials (IELM), Telecommunications and Technology Infrastructure Program (TTIP), Restricted Lottery Funding, and block grant funding for scheduled maintenance.

During the most recent budget cycles, the State has eliminated categorical funding for such things as IELM, TTIP and scheduled maintenance. Further, the receipt of Restricted Lottery Funds has also significantly decreased. Faced with the elimination and reduced funding from the State for these operating components and the ongoing and growing need to support their maintenance, the District is faced with a structural budget deficit that needs to be addressed.

Status

The District Council of Administrative Services (DCAS) has assumed the responsibility to address this matter and has been reviewing the situation over the past year. Their emphasis has been focused on the identification of:

- Which structural deficits to remedy
- What revenue sources could best be used to resolve the deficits
- The basis for allocation of available resources to each structural deficit category and
- How and when the identified revenue sources would be redirected from the General Allocation Model to this mechanism to least impact ongoing college operations.

It was emphasized throughout the review process that the reallocation of resources from the General Allocation Model to a Structural Deficit Funding Model would not generate additional resources. It would, however, provide a dedicated, ongoing foundational allocation that the colleges could use annually to address these needs. DCAS both understood and accepted this concept and saw the benefit in the reallocation and the resultant easing of contention from competing factions for the use of these resources during budget development.

After months of data review, discussions, and model simulations, DCAS has agreed, by consensus, on the following recommendations:

Recommendations

DCAS first undertook the process of identifying the structural deficit categories that demanded the most attention, a rational basis for the allocation of funding to each category, and a reasonable funding rate, based on past experience and historical funding rates, for each allocation base. The results of this review are as follows:

Categories to be addressed for Structural Deficit Funding:

- Scheduled Maintenance and Capital Furniture (including classroom, faculty and administration)
- Library Materials and Databases
- Instructional and Non-instructional Equipment
- Technology Refresh and Replacement (hardware and software)
- Other – such as research and development, staff innovation, lab software, program transition costs (primarily associated with the institutionalization of grants like Title V, STEM, NSF, etc.) and program specific accreditation (e.g., nursing, dental hygiene, etc.)

Basis for Allocation of Resources to Identified Categories:

<u>Category</u>	<u>Allocation Basis</u>
Scheduled Maintenance and Capital Furniture	Assignable Square Footage
Library Materials and Databases	FTES
Instructional and Non-instructional Equipment	FTES
Technology Refresh and Replacement	Number of Computers
Other	Equal shares (1/3, 1/3, 1/3)

Funding Rate Proposed for Each Category:

<u>Category</u>	<u>Funding Rate</u>
Scheduled Maintenance and Capital Furniture	\$1.60/square foot
Library Materials and Databases	\$10.00/FTES
Instructional and Non-instructional Equipment	\$30.00/FTES
Technology Refresh and Replacement	\$150.00/computer
Other	\$150,000/college

The rates were determined based on the most recent experience/estimate of need, previous funding levels used by state, etc. It will be necessary that as a part of the annual review by DCAS the categories and goal funding rates be assessed for appropriateness.

Next, DCAS examined the various revenue sources in the General Allocation Model to determine which were the best candidates for reallocation. Once the specific sources were identified, they focused on a phase-in process to minimize the impact on the colleges' ongoing operating budgets. The result of these discussions is as follows:

- **Resources to reallocate to the Deficit Funding Model**
 - Lottery Proceeds
 - Interest Income
 - Enrollment Fee Waivers and Local Share

These revenue sources were identified as a result of their relative volatility to other funding sources and in recognition that a number of college districts, statewide, did not include these resources as a part of their General Allocation Model, but instead allocated them for specific purposes. Further, based on their unrestricted nature, the redirection of these sources does not violate any state regulations or statutes. Finally, DCAS fully understands that the colleges were

currently using a portion of their General Fund allocations to address their structural deficit needs and, thus, the redirection of these sources could, over time, be mitigated.

- **Proposed Phase-in (Triggers) for Reallocation of Identified Resources**

To minimize the reallocation impact of the above identified resources from the General Allocation Model on the colleges' budgets, DCAS recommends the following implementation phasing:

- Year 1 (FY 2011-12)
 - Any net increase in General Fund lottery, interest, or enrollment fee local share revenue above budget for FY2010-11.
 - Any unbudgeted General Fund revenue (with the exception of growth and COLA) received in FY2010-11, such as state mandated cost reimbursement.
 - Any net savings between budget and actual expenses from District Wide Services and Utilities for FY2010-11

It was the consensus of DCAS that these items should be re-directed as resources for Structural Deficits as opposed to flowing to Unallocated Reserves as is stated in the current General Allocation Model, and that the use of these resources for one-time/capital expenditures is consistent with the current philosophy regarding the use of reserves.

- Year 2 (FY 2012-13)
 - Those items included in Year 1 (2011-12) reallocation, and
 - Enrollment fee local revenue (approx \$326K), and
 - Interest income (50%) over two years
- Year 3 (FY 2013-14)
 - Those items included in Year 2 (2012-13) reallocation, and
 - Reallocate remaining 50% of interest income
 - Lottery Income (20%) over five years
 - If growth funding is received, reallocate an additional 25% of lottery income balance
- Years 4-8
 - Those items included in the prior year
 - Reallocate an additional 20% of lottery income each year until fully reallocated
 - If growth funding is received, reallocate an additional 25% of the lottery income balance. (The goal of reallocation will be met sooner than year 8 if growth revenue is received.)

This implementation strategy should provide the colleges adequate time to restructure their General Fund operating budgets and properly transfer their structural deficit expenditures to the new allocation base and adjust their ongoing operating expenses within the General Fund.

- **Other**

DCAS finally recommends the following for implementation of the Structural Deficit Funding Model:

- All resources reallocated will be budgeted and accounted for in a new fund separate from the General Fund.
- The colleges will be allowed to carry over all unspent balances in these accounts from year to year in order to meet fluctuating needs.
- In the first two years of implementation, the colleges will not be required to spend their allocation in accordance with the categories which generated the allocations, but will be restricted to use these funds for only expenses associated with the allocation categories. For example, a college may elect to fully expend its entire annual allocation for scheduled maintenance even though the allocation was derived from all structural deficit categories.
- As with the General Fund, the colleges will have control over the internal budgeting of these funds as long as they are within the allocation categories.
- During years when the total dollar allocation to the Structural Deficit Fund is insufficient to fully fund the Model, based on the then approved funding rates, the funding rates for all categories will be adjusted downward by a coefficient equal to the total of the funds available divided by the calculated full funding amount. For example, if the calculated full funding amount, based upon funding rates and allocation bases is \$4 million and the available funds based upon the allocation parameter is only \$3 million, then the funding rate for all categories will be computed at 75% (3 million/4 million) of their then approved rate.
- DCAS has agreed, as with the General Fund Allocation Model, to oversee the Structural Deficit Funding Model and review it annually. Any proposed revisions to the Model will be presented to the Board for review and approval.

Conclusion

For the past several years, the District has faced structural deficits with financing several critical elements which are central to the core mission of the colleges and the District. These internal circumstances have been called to the Board's attention over

the past several years and specifically when approving the Adoption Budget for 2010-11 and the Tentative Budget for 2011-12.

Over the past year, DCAS has diligently studied and discussed this matter and now, after several months of review and deliberation, has presented a Model to address this situation. Although the proposed Model will not fully address all funding needs identified, it is intended to establish a foundational allocation process which will provide the colleges a dedicated, ongoing source of funds to use in mitigating these operating concerns and maintain quality facilities and equipment in order to provide quality instructional programs.

Even though this will eliminate one of the sources of increase to District reserves (unbudgeted and under-budgeted revenue), the call on reserves would be somewhat mitigated by providing resources for the current structural deficits, and growth revenue in the first year would still be directed to reserves.

Great care has been exercised in developing the Model to ensure the colleges' General Fund operating budgets will be buffered from any long-term impact and that the instructional and student service needs of the District will be preserved and adequately funded to meet the needs of our students.