March 21, 2018

Chancellor Oakley and Members of the Board of Governors:

Monday's Board of Governors meeting was thought-provoking for me, and I am sorry I could not attend Tuesday's continuation. I have a few comments regarding the funding formula for your consideration.

The Department of Finance funding formula is fatally flawed. I have been a trustee at Monterey Peninsula College for the past 14 years. The funding formula created by the Department of Finance got my attention quickly, as my district would have lost 19.5% of its apportionment if the formula had been in operation last year. With that level of funding, MPC would have been insolvent within the year. And MPC was not the only district in that position: Eleven of the 72 districts would each have lost over 9% of their funding, and their status would have been similarly in jeopardy. At the other end of the distribution, 8 districts would have received windfalls of 10% - 18% of their current funding, and this is all the result of structural flaws in a formula that was intended to *stabilize* the funding of our colleges in an era of declining enrollments.

Among those flaws are the following: the basing of huge portions of our funding on small differences between the colleges; the ignoring of entire categories of students (such as skills builders) who comprise important segments of our student populations; the elimination of tools used by many districts to stabilize their funding without any consideration of replacement; and a "hold harmless" period that is too short for any kind of advance planning. For these and several other reasons, the Department of Finance's funding formula has generated universal opposition among the colleges – including those getting the windfalls.

Replacing the current formula with one that is at least as flawed accomplishes nothing. At the meeting, I heard several members of the Board of Governors state that something has to be done now, as the current funding formula does not work. I agree that the current formula does not serve us well, but that does not mean that the Department of Finance's formula is any better. It would be foolhardy to replace the existing formula with one that is as obviously flawed as the one from the Department of Finance. There is no need to be reckless.

Performance-based funding represents a great risk. Each of the speakers broaching the topic at your meeting on Monday stated flatly that performance-based funding does not work. I have also read as much of the literature on the topic as I could, and I hope you will too. An occasional isolated example of a glimmer of a benefit – which is what has been achieved across the country to date -- does not constitute support in any meaningful sense. The great preponderance of evidence indicates that performance-based funding does not work.

Here is one reason why: Performance-based funding depends on the precept that compliant behavior is within the reach of the entity whose behavior you are trying to change. In this case, the thinking behind a reward for completions is that low completion rates are caused by a lack of attention to the issue at the college level. The reward is designed to focus the attention of the colleges on their completion rates, which will in turn cause the rates to rise. The reward system depends on the perspective that our colleges currently have the ability to enhance completions but are not worried enough about it to make the needed changes.

It is possible, however, that low completion rates achieved by our colleges are due, not to a lack of attention, but to a lack of resources. If a lack of resources is the problem, then taking away money from schools with lower completion rates and redistributing it to colleges with higher rates perpetuates and exacerbates the problem – the opposite of solving it.

I believe the system's completion problem stems more from a dearth of resources than from a lack of attention.

The system is chronically underfunded. I also heard several members of the Board of Governors complain on Monday that the Governor had given much money to the system for the purpose of increasing success rates, but that so far the needle has not moved. These statements were made in support of the goal of doing something different and, in particular, of implementing performance-based funding.

At the risk of sounding indelicate, I must remind you that our system educates the preponderance of the poorest and most at-risk students coming out of our public K-12 system, and only a modicum of the better and best students. We all agree that the poorest students, or most at-risk students, deserve greater funding. And yet we are expected to educate them all for $5,000 per student, per year. In contrast, our public high schools receive a minimum of $9,000 and as much as $13,500 per student per year, depending on the proportion of at-risk students in their schools. With that level of investment, California spends less money on high school education than just about every other state, an amount likely associated with the need for remediation exhibited by many of our students.

It is possible that the dismal rates of success we attain from our unprepared students are about what one can expect from an investment of about $5,000 per student per year. I appreciate the Governor's appropriation of additional monies to move the student success needle. The question is, is the Governor's additional appropriation enough to accomplish the task?

Consider Cuyamaca College's math acceleration program, which was presented to the Board of Governors in January, and briefly discussed on Monday. It is an example of a very successful program that does move the needle. It has increased success rates among remedial math students, from 10% at the college to 70%, while greatly lessening the math equity gap. But the program costs money – money for tutoring students, and money for teacher training. Cuyamaca received a $4 million BSSOT grant for its program. That represents an additional 12% on top of the college's $32.6 million apportionment. If the additional monies appropriated by the Governor to impact student success are not on the order of that 12% systemwide, perhaps the money from the Governor has not been enough to move the needle.

The CEO workgroup has created a better alternative. The funding formula alternative created by the CEO workgroup is a clear improvement over the Department of Finance version. Among its relative strengths is the two-year hold-harmless period, which allows for more research and fine-tuning, and allows for at least some advance planning at the district level. The workgroup formula specifically includes skill builders, a large student group that is just now beginning to be understood. It utilizes a 3-year running average for FTES calculations, which insulates districts from inevitable swings in our student populations. And it implements the formula in small increments over a period of years, which means there will be time to fix any unintended negative consequences that arise.

All of those characteristics – a dedicated period of time to carefully think through the consequences before implementation, the inclusion of all of our student constituencies, a viable and acceptable alternative to stability funding and summer borrowing, and final implementation in measured steps to assure that unintended consequences are dealt with before they loom too large – are vital components of any fair and practicable funding solution. While the CEO alternative checks each of those boxes, the Department of Finance funding formula includes none of them.

The CEO workgroup alternative deserves your support. Despite my own misgivings regarding performance-based funding and my own fear that the system does not have sufficient resources to meaningfully impact our student success rates at scale, I am hopeful about the CEO workgroup's alternative funding formula. It deserves your support. It is time to migrate away from our current simple FTES-based funding formula, and yet any change from current funding carries the great possibility of unintended negative consequences. The CEO formula focuses squarely on the goal of stabilizing the funding of the colleges, and it has safeguards built in that should prevent or at least ameliorate the potential of a disaster. As the funding formula from the Department of Finance amply demonstrates, changes as far-reaching as the formula deserve careful consideration before thoughtful implementation.

Thank you.

Loren Steck
Trustee, Monterey Peninsula College