Report to Chancellor Young
Los Angeles Community College District

On Specific Matters Related to
District Operations

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This report was commissioned by Chancellor Young to look into specific issues of concern to him and the Harbor College President. In particular there was concern expressed about the consistent overspending of budget at Harbor College. The Chancellor and President both want to understand better the root cause for this. Additionally the Chancellor wants to know if the current budget allocation model contains inherent disadvantages for the small colleges within the District.

The two issues are linked but are not synonymous. The goal of this report is to ferret out information that will help answer these key questions.

College Budget Allocation Model

The budget allocation model currently in place had its beginning in 1998. The concept is simple and straightforward. It is to allocate to the colleges all revenues possible that are attributable to each college and for services that provide district-wide support, assess each college its proportionate share. The model used to allocate resources is the State Funding Model. This model will be changing with the passage of SB 361. More will be said about this later in the report.

Each college is allowed to carry forward unspent balances from year-to-year and deficit spending on the part of any college not having a balance is treated as a three year loan unless forgiven. The District reserve position is also treated as an assessment to the colleges and any collectively bargained changes to the employee contracts are the colleges' responsibility to fund.

The concept is clear and easy to articulate. Implementation and management of the model is not. It takes a great deal of analysis and tracking to keep a running account for the nine colleges, the ITV and District. District staff does a good job of maintaining and monitoring this data.

This system has been in place for nine years. District management feels it is a reasonably good system, fosters responsibility and accountability on the part of the colleges, and creates the proper incentives at the college level. The one area of concern is the whether or not the model contains a structural disadvantage for the small colleges. It should be noted that the focus of this report is primarily on the small colleges and in particular Harbor College. Information on the large colleges is included on Attachments 5, 6 and 7 as background information.

As was mentioned above there are nine colleges in the LACCD. Five of them are considered large, ranging in FTES size from 12,000+ to almost 19,000. The four smaller colleges range in FTES size from 5,500+ to 6,800. The gap in size from the smallest of the large colleges to the largest of the small colleges is significant. The band width for the small colleges is narrow at about 1,300 FTES but for the large colleges it is much greater, about 7,000 FTES.

In looking at budget history going back to 1998/1999, it is primarily the small colleges that have recorded deficits in specific budget years. These began in 2000/2001 and have occurred each year thereafter although not all of the small colleges have experienced deficits to the same degree. This would suggest that multiple dynamics are at work affecting the outcome. For instance, Mission College has been ranked one of the very smallest yet has not experienced a net deficit until fiscal year 2005-2006. While on the other hand Harbor College has been either the largest of the small colleges or second largest yet has experienced a net deficit for the last five consecutive years.

The four small colleges, Harbor, Mission, Southwest and West, receive state revenue allocations in the same manner as the larger colleges. They are assessed for the central services based on their ratio of the total budget before assessments. In the LACCD model there is some recognition of economy-of-scale for the small colleges per the State model. However, when looking at the net base revenue per FTES, there are other differences in funding which are not attributable to the state formula. This will be addressed further in the analysis that follows.

Generally small single college districts have fewer discretionary dollars in their budgets because of the fixed costs that each must carry. For instance within LACCD, East at almost 19,000 FTES and Mission at around 5,500 FTES both have a President. Supporting that cost with 5,500 FTES is more expensive than with 19,000 FTES. It is with fixed costs that the economy-of-scale comes into play. When it comes to direct instructional costs there should be greater similarity between large and small colleges in cost per FTES, since it is the number of students and the FTES they represent that drive costs. Differences in cost will occur due to varied instructional programs and levels of productivity.

The current methodology for assessing district-wide costs and services is more expensive for the small colleges when portrayed on a per-FTES basis. The table that follows illustrates the point about the impact assessments have on the colleges. It is based on the college allocations and assessments for the 2005/2006 budget year. The District model takes the total cost of the assessment divided by the total allocation for all colleges and gets a ratio. This ratio is multiplied by each college's allocation to determine its assessment. Each college, regardless of size, contributes the same percentage to the district-wide assessments. When those dollars are measured using the total base funded FTES of each college the resulting amounts illustrate that the load carried by the small colleges is disproportionately greater.

At first glance the base funding per FTES for the large colleges appears to be low compared to the small colleges. This is due largely to the impact that M & O and headcount funding has on the per FTES funding rate. There is not a specific advantage afforded the small colleges by the District from the standpoint of the state calculations. Because the large colleges have much more FTES the value of the M & O and headcount funding is spread over a greater number than for the small colleges which when translated into an amount per FTES will be lower.

The methodology for assessing Sheriff's Department costs is different but the results are much the same. According to District staff the costs are assigned based on college staffing plans for Sheriff Department services. If this is the case then the information on per FTES costs for these services is information that may have value to the College Presidents as they evaluate the need and cost. It should be viewed as background information for their consideration with no attendant recommendation in this report.

Los Angeles Community College District
2005/2006 Allocations

College	Base fund FTES	Net Base Rev Per FTES	DW Assess Per FTES	Base After Assess	Sheriff's Per FTES	Net Base
City	15,220	$3,823.94	$878.41	$2,945.53	$82.97	$2,862.56
East	18,752	$3,929.52	$882.77	$3,046.75	$76.35	$2,970.40
Harbor	6,793	$4,244.35	$947.94	$3,296.41	$150.83	$3,145.58
Mission	5,556	$4,334.12	$963.92	$3,370.20	$184.41	$3,185.79
Pierce	12,802	$4,092.19	$927.41	$3,164.78	$102.01	$3,062.77
S West	5,686	$4,262.08	$936.21	$3,325.87	$222.09	$3,103.79
T Tech	12,086	$4,167.13	$921.87	$3,245.26	$98.74	$3,146.52
Valley	12,911	$4,079.23	$904.21	$3,175.02	$101.15	$3,073.87
West	6,483	$4,421.52	$997.43	$3,424.09	$186.11	$3,237.98
Sub Tot	96,289	$4,082.68	-	-	$114.43	

ITV	695	-	$942.38	-	-
Total	96,984		$916.14	-	-

More of the small colleges' resources are used to support the DW assessments. It appears that the larger colleges are benefited by using the current approach versus an FTES based assessment. While this is true, it is also true that the small colleges have a higher per-FTES revenue starting point. According to District representatives this was established when the new model was implemented with help from the State Chancellor's Office in setting the base revenue numbers for each college within LACCD. If however, those are the appropriate base revenue numbers for the small colleges the assessments are in fact drawing down more of their allocations. The small colleges do not seem to achieve any savings in funding support functions by being part of the total FTES pool.

For the small colleges each $100 dollars of difference per FTES can be worth $550,000 to $680,000. This can be significant when you are working on the margins to live within a budget. The following table illustrates the impact to the colleges of using FTES for assessing District level costs.

Los Angeles Community College District
2005/2006 Allocations

College	Base Funded FTES	Present DW Assess Per FTES	Using FTES at $916.14 Per FTES	Difference in Rate of Assess	Change in Assessed $
City	15,220	$878.41	$916.14	$37.73	$574,251
East	18,752	$882.77	$916.14	$33.37	$625,754
Harbor	6,793	$947.94	$916.14	($31.80)	($216,017)
Mission	5,556	$963.92	$916.14	($47.78)	($265,466)
Pierce	12,802	$927.41	$916.14	($11.27)	($144,279)
S West	5,686	$936.21	$916.14	($20.07)	($114,118)
T Tech	12,086	$921.87	$916.14	($5.73)	($69,253)
Valley	12,911	$904.21	$916.14	$11.93	$154,028
West	6,483	$997.43	$916.14	($81.29)	($527,003)
ITV	695	$942.38	$916.14	($26.24)	($18,237)
Total	96,984				

The current way of assessing the district-wide costs is consistent with policy. There is a case to be made for using FTES not just because of the impact described above. The current methodology uses total general fund unrestricted revenues from whatever source to assess costs. It does not appear to be linked to the services provided as much as it is to an ability to pay based on level of revenue. It takes approximately 20% of each dollar the colleges generate, which acts as a disincentive to find local sources of added revenue. It ignores any valuation of categoricals. The allocations spread sheet covering all nine colleges lists revenues on the first half and lists uses on the second half arriving at a net figure for the colleges. These uses are Sheriff costs, DW budget assessments for college support, deficit paybacks, open orders and balances. Typically expenses are related to needed services and FTES is a better gauge of services needed than revenues. In fact FTES is key driver for almost everything fiscal. For instance it has been and now more than before the key in the new revenue model. We normally measure costs based on a per-FTES basis and productivity by WSCH or FTES. Using FTES for the district-wide assessments seems more logical and appears to be fair.

Along this same line the base funding for the small colleges has a spread between them of 2% to 4 %. A small spread would be expected due to the differences on square footage, non-credit FTES and headcount but given the fairly narrow bandwidth of FTES difference between the four small colleges, the spread should be smaller. In the base funding for 05/06 West is first at $4,421.52, Mission second at $4,334.12, Southwest third at $4,262.08 and Harbor fourth at $4,244.35. The percentage difference in funding per FTES between West and Harbor is 4.0%. That 4.0% base revenue difference of $177 per FTES is equivalent to $1.2 million dollars. There will be a difference in funding between all nine colleges because of program based funding. For Harbor that difference seems to have expanded based on actions and circumstances over the last 9 years. Based on the State funding rates applied to the workload measures the portion that appears to be affected by this widening of the gap is about $118 per FTES. This point is illustrated on Attachment 1 to this report. Attachment 2 looks at the same base revenue rate going back to 1998/99 and helps illustrate the point about the widening in funding rates.

When the current allocation model was established in 98/99 the goal was to use the state appropriations calculations as the base. This was the basis for setting the funding but added to that were some M&O and student services fixed amounts from 97/98 as suggested by the State Chancellor's Office. Each year thereafter had nuances which when applied to the marginal funding were added to the base and brought forward to the next year. As a result the differences between colleges changed and in the case of Harbor to its disadvantage. I have labeled this "formula creep". While this appears to be the case it should be noted that the level of forgiveness granted to Harbor over the years exceeds the value of this potential funding difference by approximately $3.5 million. See Attachment 3 for more detailed information.

LACCD uses the State's model to allocate resources to the colleges. As is noted above there has been a little "formula creep" over the last nine years. In the big picture it is not significant but for an individual college, such as Harbor, it can be. Given that SB 361 will change that model in a significant way and will most likely move the small colleges to an equal level of base funding it doesn't seem worthwhile to spend an inordinate amount of time figuring out why this "formula creep" occurred. It is important in the scope of this analysis to understand that it did. While SB 361is not a factor in the current model, the implication is that funding differences as they exist now can be eliminated.

LACCD's allocation model has as its center piece the State funding formula. With SB 361 becoming law it would seem necessary for the District to move quickly to establish a process and plan to move to this new methodology for the District model. It will not be possible to use the program based funding formula since that information will not be captured for funding purposes nor will there be any funding rates associated with the old program based funding components. **The District will have to address this structural change.**

There are some real benefits to the change. LACCD should eventually be funded at a better rate. The 05/06 FTES decline experienced by the District is a factor in determining when that will occur. The simplicity of SB 361 will make it easier for each college to understand the apportionment funding and monitor it going forward.

Any change can cause anxiety. To make this one work smoothly the District needs to work through internal transitional issues much like the State Chancellor's Office has had to do for the system, taking care to make sure that all colleges are treated fairly and that actions taken do not weaken the financial base in such a way as to cause the colleges to decline.

Attachment 4 recaps the small colleges' per FTES funding rates, credit and non-credit base numbers for the last nine years. It also illustrates the rate of overall growth from 1998/99 to 2005/06. The two smallest colleges, Mission and Southwest achieved significantly more growth than West and Harbor. The Chancellor was concerned about the smallest colleges being able to grow into greater efficiency and achieve some economies that a larger size would bring. It would appear that this is happening. If the allocation model were changed regarding assessments then the small colleges would have more resources to possibly achieve further growth.

While the focus of the report is on Harbor and the other small colleges there are a couple of observations worth noting regarding the large colleges. Comparing Attachments 4 and 5 which are histories from 98/99 to 05/06 there is a great deal of similarity in the rates of change between small and large.

In looking at Attachments 6 and 7 for the large colleges which are structured like Attachments 1 and 2 for the small colleges, there is some similarity in patterns. The smaller the college is within the group the higher the per FTES rate for the difference. There is an exception which seems to support the premise that Harbor has been disadvantaged. For the large college group the two biggest colleges maintain a similarity from 98/99 to 05/06 whereas for the small college group the two largest being Harbor and West from 98/99 to 05/06 there is a growing disparity in the difference per FTES.

SUMMARY

When considering the impact of district-wide assessments on the small colleges and the differences between the small colleges' allocations it would appear that they are more susceptible to experiencing financial problems. As an example collective bargaining is done centrally and each college is expected to fund the implementation of any contract changes out of its allocation. This can be harder for the small colleges again because they have fewer discretionary dollars with which to work or if their growth is less than the District as a whole. Certainly they have less ability to weather the financial hit of declining FTES or finding the means to repay prior years' deficits or paying larger assessments to fund forgiveness of sister college deficits. Adjusting the allocation model to make assessments on an FTES basis could improve this circumstance.

The number of spending deficits incurred in recent years by the small colleges for which there has been forgiveness suggests that there may be a funding problem. Because the forgiveness comes from the District reserves the subsequent year assessments have to make up for it which makes the large colleges feel unfairly burdened and the small colleges feel as if they are not doing their part for the benefit of the whole organization. If the assessments were done differently it would mean that the small colleges could better meet their own obligations up front and in the long run could help all of the colleges feel better about where they are collectively. It would also reduce the need for forgiveness and could mean greater accountability if the model is then perceived as fair.

Over time the funding rate between the small colleges has developed a gap. It would appear that Harbor has been negatively affected by this. This coupled with the affects of the district-wide assessments reduces the resources available to Harbor and to varying degrees the other three small colleges as well. Given the level of forgiveness, Harbor has not suffered financially although in specific years it could have demonstrated a positive outcome rather than a deficit.

With the passage of SB 361 the District would be best served to move toward its implementation versus spending time dissecting further program based funding flaws.

<u>Overspending of Budget by Harbor College</u>

At the simplest level there are two variables that affect the outcome of any budget year for Harbor or any other college, how much revenue they have and how much they spend. The key revenue factors have been addressed in the previous portion of this report. If the District agrees with the analysis then it would appear that over time Harbor has benefited less via program based funding which by 05/06 reached about $118 per FTES. Taking that into account, Harbor would not have overspent the last two years however there have been years in the recent past and anticipated in the 05/06 year wherein Harbor incurred deficits in excess of the revenue adjustments described. As was stated earlier in this report the aggregate level of forgiveness exceeds the level of funding difference so in that sense Harbor was not harmed financially. Again Attachment 3 provides greater detail regarding this point.

As is true with all community colleges most of the operational costs are in personnel and related benefits. Harbor College has for a number of years employed an approach to part time faculty instruction that is ripe for out-of-control spending and at the same time can hold no one accountable. The College does not budget for the costs of part time instruction yet spends several million dollars a year to deliver classes. Each year the College has to find resources within its budget to cover this or as has been the case in the last five years deficit spend. The College President has indicated that this is a practice she intends to change but it will take more than one year to properly align resources to match true expenditure patterns. This is an important management step to take regardless of the college's financial condition.

Harbor's first deficit under the new model was in 2000/2001. In the two subsequent years it ballooned to over $3 million and in the last two years was reduced to about $500,000. Several key things happened that contributed to both the increase and decline in the size of the deficit.

In 2000/2001 Harbor generated 648 unfunded FTES, in 2001/2002 the unfunded number grew to 1,353, in 2002/2003 it fell off to 791, in 2003/2004 it was 405 and in 2004/2005, zero unfunded FTES. There is a cost associated with carrying unfunded FTES. In Harbor's case it peaked in 2001/2002 when the deficit reached its highest level. At that point the approximate cost to produce 1,353 FTES would be about $1.5 million. The methodology to estimate that assumes each class generates about 3.5 FTES. Dividing the 1,353 by 3.5 yields about 386 sections at roughly $4,000 per section would be in excess of $1.5 million.

Two things happened to bring the unfunded number down. Some of it converted to funded status which helped on the revenue side and the college generated less FTES overall from a high of 7,342 in 2001/2002 to 6,794 in 2004/2005. To the degree that Harbor is now being funded for all FTES produced then it has corrected its budget for the impact unfunded FTES would have on overspending.

What also occurred that impacted Harbor was the district-wide opportunity to convert unfunded growth to funded status in the 04/05 year due to excess growth funds being available at the state level. While other colleges in the District were able to capitalize on this opportunity Harbor was not able to do so at the same level. As a result of the additional district-wide growth revenues collective bargaining in the District added to the salary schedule beyond COLA. Harbor had to cover the added salary costs but did not have the same magnitude of growth as did other colleges in the District.

In 2000/2001 Harbor College was funding 145 full-time regular faculty positions, which for Harbor as well as the other colleges includes full-time teaching overloads. At this same point in time West was funding only 107 such positions, Mission – 92 and Southwest – 106. The cost to Harbor was significant and appears to be disproportionate to the other small colleges. It could well be that Harbor's level of overload was greater than the other small colleges. The District data did not distinguish between regular and overload. Since that time Harbor has reduced full-time regular faculty positions by 27 or 18.6%. It now is more consistent with the other small colleges. Harbor has also reduced management by 5 positions or 14.7%, maintenance/operations by 5 positions, 11.9% and unclassified positions by 7, 9.2%. Only Southwest has made reductions of a comparable number. These actions by Harbor have contributed to the lowering of the deficit.

While these actions have helped greatly the decline in FTES for 05/06 will exacerbate the situation and could cause additional deficits without further expenditure reductions.

It may be that Harbor still has some room to make additional expenditure reductions. The table that follows examines the ranking within the District of the four small colleges, not among themselves but for all nine colleges. It is interesting to note that while Harbor consistently ranks around 6th or 7th in FTES its overall costs per FTES until recently have been near the top in the District. This is also true for the subsets of instruction and administration; however with the actions noted above Harbor ranked 4th in administrative costs in 04/05 which was the lowest of the four small colleges and improved its rank both in overall costs and instruction as well.

College Rank in FTES/ Per FTES Cost Rank	98/99	99/00	00/01	01/02	02/03	03/04	04/05
	(A rank of 1 means highest and 9 means lowest)						
Harbor FTES	6	8	**7**	**6**	**6**	**7**	**6**
Harbor Total Cost	2	1	**2**	**2**	**2**	**2**	**3**
Harbor Instr Costs	3	1	**1**	**2**	**3**	**2**	**4**
Harbor Admin Costs	2	2	**3**	**3**	**3**	**3**	**4**
So West FTES	9	9	**9**	**9**	**9**	9	8
So West Total Cost	1	2	**1**	**4**	**4**	8	5
So West Instr Costs	4	3	**3**	**6**	**9**	8	9
So West Admin Costs	1	1	**1**	**2**	**2**	5	3
West FTES	7	7	6	8	**8**	6	**7**
West Total Cost	5	5	8	1	**1**	3	**1**
West Instr Costs	6	7	9	4	**2**	4	**3**
West Admin Costs	3	3	5	1	**1**	2	**2**
Mission FTES	8	6	8	7	7	8	9
Mission Total Cost	9	8	6	9	8	4	2
Mission Instr Costs	9	9	8	9	7	6	2

Mission Admin Costs	6	8	4	6	4	1	1

(A rank of 1 means highest and 9 means lowest)

	98/99	99/00	00/01	01/02	02/03	03/04	04/05
City FTES	2	2	2	1	2	2	2
City Total Cost	7	7	3	7	9	7	7
City Instr Costs	7	6	5	8	8	7	6
City Admin Costs	9	6	2	5	9	4	5
East FTES	1	1	1	2	1	1	1
East Total Cost	8	9	7	5	7	9	9
East Instr Cost	8	8	4	3	4	9	8
East Admin Costs	8	9	7	4	8	9	9
Pierce FTES	5	5	5	4	4	4	4
Pierce Total Cost	3	3	5	8	5	6	8
Pierce Instr Cost	2	4	7	7	5	5	7
Pierce Admin Costs	4	4	6	9	7	7	7
Trade FTES	4	4	4	**5**	**5**	5	5
Trade Total Cost	4	4	4	**3**	**3**	1	6
Trade Instr Cost	1	2	2	**1**	**1**	1	1
Trade Admin Costs	5	5	8	**7**	**5**	6	8
Valley FTES	3	3	3	**3**	3	3	3
Valley Total Cost	6	6	9	**6**	6	5	4
Valley Instr Cost	5	5	6	**5**	6	3	5
Valley Admin Costs	7	7	9	**8**	6	8	6

Years with bold face type indicate deficit years.

It wasn't until the 04/05 year that Harbor had made enough spending adjustments to have a real impact on rankings.

As was noted earlier in this report of the four small colleges Mission is the only one to not experience a net deficit. It is clear from the chart above that expenditures were very much in check in the years 98/99 through 02/03. Mission had a very large non-credit component in its FTES base which cost less to offer and maintain. This would affect overall costs and instructional costs. In recent years Mission has experienced a shift in FTES from non-credit to credit and seen a sizable increase in its funding level even though the total FTES has not changed much. These circumstances along with the fact that the 98/99 base revenue for Mission is high have helped in keeping Mission College in the black. See Attachment 2 for more information on the 98/99 base calculations.

The table above suggests that Harbor tends to spend more on instruction than others. This is supported by other comparative data produced by the District. When comparing unrestricted expenditures by activity, over the last three years 02/03, 03/04 and 04/05, Harbor has spent more of its budget on instruction and other instructional services than the other three small colleges. The source for this statement was the District Report of Unrestricted General Fund Expenditures by Activity. In looking at expenditures by object code for 04/05 Harbor had the second highest cost per FTES for academic salaries in the District. This category includes full time instructors, librarians, counselors and administrators. Harbor's spending in this category and in benefits were the only two that stood out as being on the high side when compared to the other colleges. Since benefits are directly linked to salaries it makes sense that this object code is also higher. Gaining control over the hourly instructional budget and continued review of funded regular positions will help lower costs further.

Harbor has in recent years improved its classroom productivity reaching a high of 535 in 2003 but dropping back down to 508 in 2004. While this doesn't appear to be significant it can make the difference on being able to live within the college's budget. The basic difference is about 1.5 students per section. If the college offered roughly 1,800 sections in a year at 3 contact hours then the 1.5 students would translate into 270 FTES. If this 270 FTES was growth then it could represent roughly $800,000 of income for the college. Keeping the productivity number strong is important to sustaining a budget and can help lower instructional costs. In Harbor's case this is even more important because of its large nursing program. According to the College President nursing faculty make up about 10% of the regular contract faculty in the college. The program represents about 6% of the operational budget and generates about 4% of the FTES. Nursing programs are important but costly, requiring the College to do more with the balance of the curriculum. For a small college this is even more crucial if it is to maintain a balanced budget.

Harbor has also seen an increase in the cost of its athletics program. Such costs can be more difficult to anticipate because of the variables affecting the program from year-to-year. While the program is not large in terms of faculty FTE the ancillary costs can be significant. This isn't a criticism of either nursing or athletics but rather recognition of facts with which the administration has to deal. When you have a high cost program as your largest single program in terms of faculty resources it will take more of the available college funds to support it.

SUMMARY

Harbor's spending for a period of years appears to be a little high for it size in the areas of instruction and administration. It has been only recently that adjustments have occurred to improve this. The situation has been exacerbated by the approach used by the College regarding hourly instructional costs.

Some productivity gains have been realized but that has fallen off a bit. For a smaller college offering a large program in a high cost field like nursing and coupled with another costly program, athletics, good productivity is very important to maintaining a balanced budget.

Harbor's President is taking steps to address the hourly instructional budget. This can help lower costs and improve productivity. It can also be a means by which the instructional program offerings are developed in a strategic way for an overall balance and consideration of the FTES implications.

The College has seen the size of the deficits drop substantially due in large part to lower total FTES generation but also more unfunded FTES becoming funded. Staffing reductions have also made a difference. In Harbor's case continued vigilance regarding personnel costs and sustaining higher productivity are key to a longer term success in budget management.

To the degree Harbor can grow in a cost effective manner discretionary resources will be enhanced.