Community College Funding Formula Taskforce
Review and Findings
December 15th, 2022

Community College Formula Taskforce Members

- Representative Ben Frederick, Chair, House Appropriations Subcommittee on Universities and Community Colleges
- Senator Kimberly LaSata, Chair, Senate Appropriations Subcommittee on Higher Education and Community Colleges
- Representative Samantha Steckloff, Minority Vice Chair, House Appropriations Subcommittee on Universities and Community Colleges
- Senator Jeff Irwin, Minority Vice Chair, Senate Appropriations Subcommittee on Higher Education and Community Colleges
- Beth Bullion, State Budget Office, Office of Education (State Budget Director designee)
- Brandy Johnson, Director, Michigan Community College Association
- Dr. Glenn Cerny, President, Schoolcraft College
- Dr. Don MacMaster, President, Alpena Community College
- Dr. Beverly Walker-Griffea, President, Charles S Mott Community College

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Introduction

Section 230(8) of Public Act 144 of 2022, the Fiscal Year 2023 community colleges appropriations bill, calls for the creation of a taskforce to review, evaluate, discuss, and make recommendations regarding community college operations funding, with a focus on addressing disparities and ensuring that funding levels are equitable across tuition, state support, and local tax revenue. Legislation requires this taskforce to publish its recommendations by December 15, 2022.

Public Act 144 of 2022 charges the taskforce to:

> *"Review whether the current performance metrics used for the performance funding formula are the most appropriate and reliable performance indicators available and determine the most efficient methodology for connecting state funding to those indicators. The task force shall also review, examine, and suggest methodology concerning equitable and appropriate funding levels to community colleges"*

This taskforce comprised of 9 members, including the chairs and minority chairs of the House and Senate Subcommittees on Higher Education and Community Colleges, the state budget director's designee, the President of the Michigan's Community College Association (MCCA), and three members from Michigan public community colleges, as designated by the MCCA president. The MCCA designated community college presidents are from a mid-size urban, a large suburban, and a smaller rural college.

Michigan's 28 community colleges receive funding through three primary revenue streams: state appropriations, local property tax revenue, and tuition and fees. These revenue streams vary for each institution. Community colleges in Michigan provide vital education opportunities for Michigan residents and the workforce. State investment in community colleges ensures opportunities for Michigan students and helps the state achieve its Sixty by 30 goal[1] to increase the number of working-age adults with a skill certificate or college degree to 60 percent by 2030. During a three-month period, the Community College Review Taskforce reviewed the current state funding structure for community colleges. A summary of the taskforce's review and findings are laid out below.

Overview of Review Process

On September 14th, 2022, the State Budget Director, Christopher Harkins, sent a letter to the taskforce members naming them to the Community College Formula Review Taskforce. The Community College Formula Review Taskforce convened three meetings to review and discuss Michigan's community college operations funding. The meetings were held in virtual formats on October 19, November 16, and December 9, 2022. Aside from the nine taskforce members, representatives from the House Fiscal Agency, Senate Fiscal Agency, Center for Educational Performance and Information (CEPI), Sixty by 30 Office in the Department of Labor and Economic Opportunity, and State Budget Office were asked to join the meeting to provide insight on the formula. Additionally, external partners from HCM Strategists and Business Leaders for Michigan presented at these meetings to provide national context about community college funding to the taskforce.

The first meeting on October 19th, 2022, consisted of presentations from the House Fiscal Agency, State Budget Office, and HCM Strategists. The presenters discussed the current community college formula,

[1] https://www.sixtyby30.org/

Michigan's specific community college revenue structure, and the national landscape for community college funding. In the first meeting the taskforce highlighted their main objectives for the review:

1. Quantify community college operations funding disparities, including inequities across tuition, state support, and local tax revenue.
2. Identify best practices in community college funding, including the most appropriate and reliable performance indicators to help achieve the state's postsecondary education goals.
3. Determine potential changes to the state's current funding formula.

After the first meeting, a sub-work group was created to develop background information on the following:

- Revenue trends by fund source over the last 4 years for each community college.
- Review of how adequacy and outcome measures are captured in other states' formulas.
- Draft and define a list of preferred values for a community college formula.
- Review of available data that may capture performance outcomes.

The sub-work group presented their findings at the second taskforce meeting on November 16th, 2022. Additionally, each of the three community college presidents presented to the taskforce on measures of adequate funding levels, student support measures, and local revenue sources for Michigan's community colleges. After this review, taskforce members engaged in a discussion of the strengths and weaknesses of the current formula and developed guiding values when looking at community college funding.

Between the second and the third meeting, the sub-work group compiled a report draft that summarizes the material presented and discussed in this review. The draft report was presented at the third meeting on December 9th, 2022. The last review meeting focused on finalizing the findings of the report and talking through next steps for community college funding in Michigan.

This report is a summary of the review conducted by the taskforce. The report provides an overview of the research and discussion points presented at the three taskforce meetings. Additionally, the report summarizes the ideas and feedback from individual members throughout the process.

History of Michigan's Community College Formula

Michigan's community colleges have received state appropriations through a variety of funding mechanisms and formulas over the years. Beginning in fiscal year 1979, funding was allocated using a needs determination model, recognizing that there were differences among the state's public community colleges and the funding needs to support them. The funding has evolved over subsequent years.

The Activities Classification Structure (ACS) was developed in fiscal year 1983 for the collection of community college data. The first formula used in Michigan was the Gast-Mathieu Formula, instituted in 1984. This formula was designed to be a more complete funding formula to replace older versions which relied on data collected from the colleges which were often incomplete, unreliable, or missing. Utilizing data made available by the ACS made for easier access to reliable, auditable data and much of it was used by the Gast-Mathieu formula to help allocate the operations increases.

This formula calculated a dollar amount of need for each college based on instructional and non-instructional costs, tax equalization grants, local and student funding responsibility, and other sources of revenue available. Base funding levels for community colleges in fiscal year 2023 are significantly influenced by these original funding levels first established in 1984. Although colleges have experienced various changes in their enrollment, population demographics, and other non-state revenue sources over the past 40 years, many of those changing variables are not recognized in the current formula because the incremental increases over time have been relative to the 1984 base.

For the years in which the Gast-Mathieu formula was in place, it was not always fully utilized. In several years, the operations increase was allocated entirely across-the-board and when the formula was used, the increase was often only partially funded through the formula.

A 2007 version of the formula allocated any additional appropriated funds 50 percent across-the-board and 50 percent through three performance metrics:

- **Enrollment and business efficiency:** This included a two-year average of student contact hours and the proportion of general operating funds being used for administrative costs.
- **Completion:** This included successful course completions, subtotals of completions in high-cost areas of study, and a two-year average number of graduates.
- **Local Strategic Value:** This included the number of continuing education students, the number of cooperative agreements with four-year institutions, the number of strategic partnerships with businesses, and college-sponsored arts and culture.

The formula was then altered in fiscal year 2013 to reduce the contact hours allocation from 17.5 percent to 10 percent and to add measurable data items regarding the local strategic value component. This model allocated funding as follows:

FY 13 Enacted Formula	
50% Across-the-board funding	
Contact Hours	10% based on the number of student contact hours provided.
Performance	17.5% on weighted degree and certification completions
Administrative Costs	7.5%
Local Strategic Value	15.0%
Total:	100.0%

In fiscal year 2012, a 4.1 percent budget reduction was instituted relying partly on this formula to allocate those cuts.

Current Formula and Implications

In 2016, a Performance Indicators Task Force established a revised performance indicators distribution formula for the allocation of increased operations funding for community colleges. This revised formula was initially adopted in the fiscal year 2017 enacted budget and is maintained in the current budget.

Unlike previous formulas, this current formula places less emphasis on operational cost components and drivers, and more emphasis on degree and certificate completions, measuring three aspects of completion.

<table>
<tr><th colspan="2">FY 23 Enacted Formula</th></tr>
<tr><td colspan="2">30% Across-the-board and proportionate to base funding of previous fiscal year.</td></tr>
<tr><td>Contact Hours</td><td>30.0% Weighted (contact hours in health and technology/industrial 2X)</td></tr>
<tr><td>Performance</td><td>1.) 10% Number of degree and certificate completions.

Funds awarded based on the college's share of completions relative to the overall statewide completion number.

2.) 10% Completion Rate

Funds awarded based on 6-year completion rates. 20% of this category's funding is for colleges at or above the statewide average and 80% is across-the-board.

3.) 10% Completion Improvement

Funds awarded based on improvement in completions over a 6-year period. 20% of this category's funding is for colleges demonstrating more completion improvement and 80% is across-the-board.</td></tr>
<tr><td>Administrative Costs[2]</td><td>5.0%</td></tr>
<tr><td>Local Strategic Value[3]</td><td>5.0%</td></tr>
<tr><td>Total:</td><td>100.0%</td></tr>
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The use of weighted contact hours recognizes high-cost areas of instruction, such as health and technology programs. Including three metrics for completions allows for more equitable funding allocations based on performance.

Much of the data used in the current funding formula is collected and managed by the Center for Educational Performance and Information (CEPI) through the Michigan Community College Data Inventory (MCCDI) report:

[2] Administrative Costs are based on 2-year average data provided by the Workforce Development Agency. Cost percentages are subtracted from an established ceiling (24% in FY 2017).

[3] Local strategic value allocations are awarded across-the-board once a community college qualifies for the funding. As a result, LSV percentages are added here to system sustainability and other across-the-board adjustments to show total across-the-board percentages within each formula.

Measure	Data Source	Other Options
Contact Hours (weighted)	MCCDI	
Performance Completion Improvement	CEPI – Student Success Rates	
Performance Completion Number	IPEDS[4]	CEPI – College Degree and Certificates Awarded
Performance Completion Rates	CEPI – Student Success Rates	
Administrative Costs	MCCDI	
Local Strategic Value	Community Colleges	

The taskforce engaged in several discussions recognizing the fact that there are only 3 significant sources of revenue for community colleges – state funding, local revenue, and tuition and fee revenue.

- **State funding** is driven by the funding formula outlined above, amounts that are still rooted in funding levels determined almost 40 years ago. During this time, the function of community colleges and the mission of each community college has changed significantly. While this formula does have performance metrics, the currently enacted budget only utilizes the formula to distribute *increases* to overall state appropriations.
- Michigan allows community colleges to levy property tax millages to generate additional **local revenue**. Each community college has a different tax base and different local millage rates, meaning that the capacity to generate local revenue is not equal. However, because property tax rate increases are subject to approval by the voters, and because revenues are influenced by swings in property tax value, community colleges have little ability to drive change to local revenue amounts.
- State funding and local revenue are largely constrained by factors outside of the community college's control. Because of this, the only significant lever available to most colleges to generate additional financial resources are through **tuition and fees**. Additional revenue can come from enrolling additional students or by raising the cost of attendance. The fiscal year 2023 enacted budget ties state funding increases to tuition restraint requirements, limiting the amount by which colleges can increase tuition. This change forces a college to weigh the impact of losing state funding against the financial implications of raising tuition above a rate determined by law.

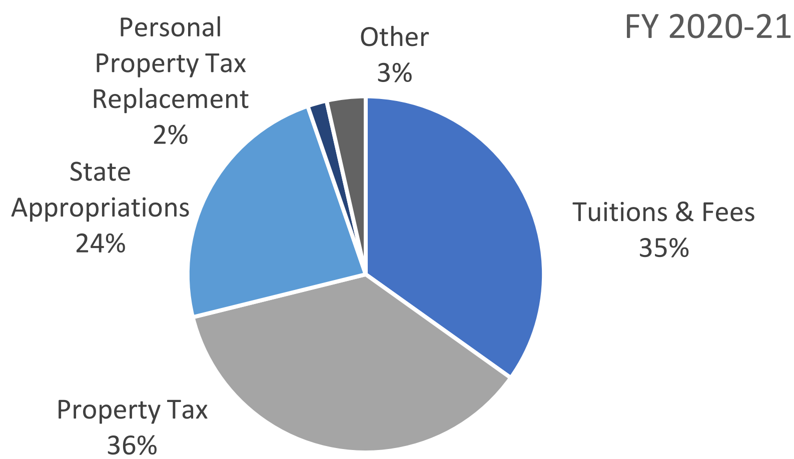
Many refer to the three main revenue streams for community colleges as three legs to a stool. Over the last 40 years, since the first use of a funding formula, the legs of the stool have shifted, causing the funding landscape for colleges to become less balanced. When looking at funding for community colleges in Michigan, it is critical to look at all three legs of the funding system to get a more holistic picture of the operations funding landscape.

[4] IPEDS: Integrated Postsecondary Information System, collected nationally

Michigan Community College Landscape

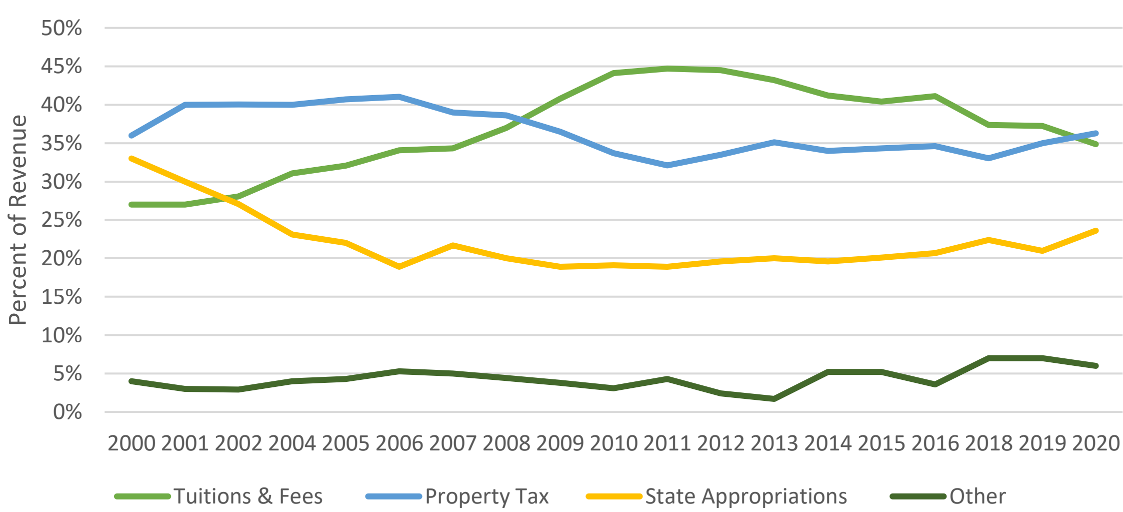
Community colleges have become more reliant on revenue sources other than state appropriations. In FY 2020-21, the most recent year with complete data, 24 percent of community college funding was from state appropriations, 35 percent was from tuition and fees, and 36 percent was from local property taxes.

Community College's Aggregate Operating Fund Revenue



Over the last twenty years, the nominal amount of state funding for community colleges has increased. However, this leg of the stool has not kept up with inflation, nor has its growth kept up with the proportional increases in local revenue and tuition, which has contributed to a less balanced revenue system for colleges. In addition, the financial crisis in 2008 suppressed local property tax values and the ability of colleges to raise revenue. These factors forced community colleges to become more reliant on tuition and fee revenue as demonstrated below. Only recently has the overall share of revenue from tuition and fees been in decline – which has coincided with recovering local revenue and increased state support.

Community College Revenue Trends – Funding by Source



These statewide trends do not capture the fact that each community college has a unique revenue picture. There is a large variance in revenue sources across the community college landscape.

Percent of Total Operating Revenue by Fund Source

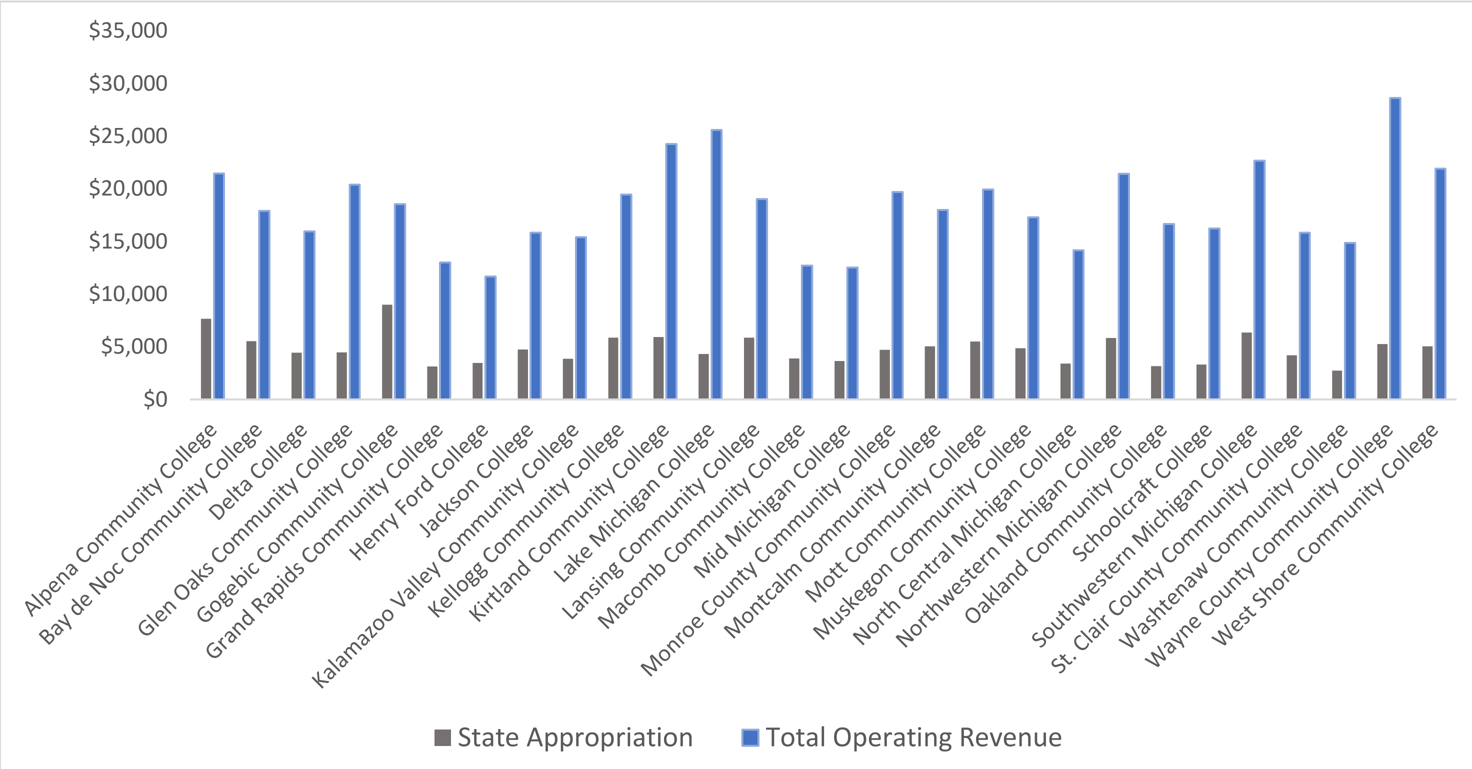
Some community colleges can rely on steady local revenue from a larger property tax base. Oakland County Community College, Washtenaw Community College and Lake Michigan Community College are the three institutions that get the highest percent of their revenue from local property tax, each over 55 percent. Over the past 4-years Oakland Community College, Lake Michigan College and Wayne County Community College have had the largest property tax earnings of $5,459, $5,433, and $3,733 per FYES[5] respectively.

Conversely, Mid-Michigan College, Jackson College and Bay De Noc Community College have the lowest percent of funding from local property tax, less than 13 percent. Over the past 4-years, Mid-Michigan College, Bay De Noc Community College, and Henry Ford College have had the lowest property tax earnings of $734, $628, and $396 per FYES respectively.

Rural community colleges tend to be more dependent on state revenues, since these colleges do not have large student populations to generate enrollment and tuition revenue from, nor do they have large property tax bases from which they can generate local revenue. Colleges like Gogebic, Alpena, and Bay de Noc receive the greatest share of revenue from the state.

[5] FYES is Fiscal Year Equated Student – A full time equated measure of student enrollment

Fiscal Year 2020-2021 Community College Revenue per FYES



National Landscape[6]

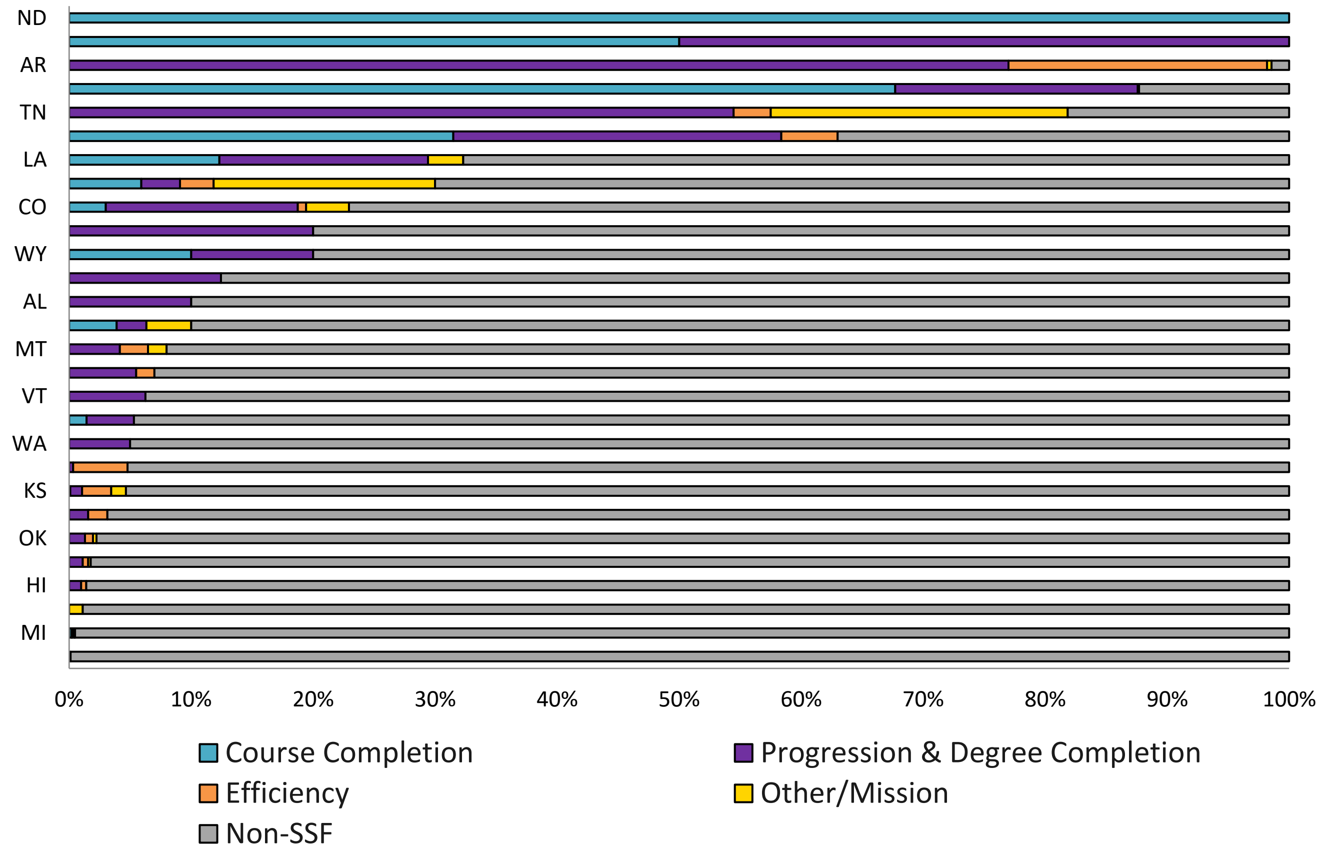
Community college finance is complex and varies substantially across states. The total amount of revenue community colleges receive varies substantially. On average the sector receives slightly under $12,000 per FTE[7], but amounts ranged from $6,700 in Nevada to over $21,000 in Wyoming. Generally speaking, community colleges receive the largest proportion of their resources from state appropriations, followed by tuition and local funds. However, states differ substantially in terms of the proportion of funding received via these major revenue sources. For example, state and local support ranges from a high of 92 percent of total funding per FTE in Utah to a low of 19 percent in Vermont. In 28 states, community colleges receive no local revenue; and in states in which local funding is present, it accounts for 35 percent of total revenue on average, but is over 60 percent in some states. The proportion of revenue derived from tuition also varies substantially from about 4 percent in California to well over 60 percent in several states.

States also vary substantially in terms of the formulas utilized to determine the proportion of state funding each community college receives. In most states, formulas are comprised of three components: base or core funding typically calculated as a percentage increase from the last enacted budget; the size of enrollment; and student success or outcomes metrics. More than half the states now incorporate at least some outcomes in their community college funding formulas. The majority of these states allocate

[6] National Landscape research was conducted by HCM Strategist
[7] FTE – Full Time Equivalent student

less than 25 percent of state funding based on outcomes, while a handful allocate between 50 percent and 100 percent of their funding that way. Increasingly, states provide additional resources to colleges that enroll and credential high-priority populations such as low-income, adult, and minoritized students. For example, since 2014, Ohio has utilized a formula that distributes community college resources based 50 percent on enrollment; 25 percent on retention and progression; and 25 percent on credential completion. The formula also weights those outcomes more heavily when achieved by students who are low-income, adult, minoritized and academically underprepared.

Student Success Funding as a Percentage of FY 2020 State Institutional Support: Two-Year Sector



Source: HCM Strategists, "Driving Better Outcomes: Fiscal Year 2020 State Status & Typology Update"

Adequacy in Community College Finance

Until very recently there were no estimates of the cost of providing an adequate community college education—that is, the resources needed to enroll, support, and credential students at a reasonable level. Several states are now exploring how to ensure that community colleges receive adequate and equitable funding. In October 2022, researchers completed a first-ever analysis to answer this question[8]. Using data drawn from Texas community colleges, they established relationships between student need factors, institutional factors, student achievement on state outcomes, and spending per

[8] An Examination of the Costs of Texas Community Colleges; https://ies.ed.gov/ncee/rel/regions/southwest/pdf/REL_2023142.pdf

college. While the specific costs of all elements would necessarily vary by state, the Texas study is instructive for Michigan.

Researchers first calculated a base cost per student, and then determined weights that would a) drive more resources to institutions depending on the percentage of students enrolled that require more resources to succeed; and b) more resources for smaller colleges. The student factors that they applied weights to are as follows:

WEIGHTS FOR STUDENT FACTORS	Weights per FTE
% First-generation students	2.49
% Low-income (under $30k/yr)	1.31
% Older than 24	2.63
% English Language Learners	1.19
% Dual Credit	0.84
WEIGHTS FOR INSTITUTIONAL FACTORS	
Fewer than 4,001 students enrolled	1.28
4,001-30,000 students enrolled	1.18

Taskforce Recommendations

Strengths and Weaknesses of Formula

Upon reviewing the community college funding landscape on a state and national level the taskforce engaged in discussions on the strengths and weaknesses of the current funding formula. In these discussions the perspectives from the three community college presidents were relied upon to identify three areas of importance: adequate funding levels, student success outcomes, and local revenue support.

It became clear in the discussions that there is an appetite in Michigan to create funding performance measures that directly impact student success. Dr. Beverly Walker-Griffea, President of Mott Community College, gave a presentation to the taskforce that highlighted the importance of investing in student success programs. Increasingly, community colleges are faced with the responsibility of providing both an education *and* resources for student health and well-being. To attract and support a dynamic student body, more colleges are offering basic need resources to ensure student success and to support people who are facing food insecurity, housing insecurity, transportation costs, dependent children, mental health stress, and financial instability. The cost of a meaningful response for these students is high. It was the view of Dr. Walker-Griffea and other community college representatives that these resources should be captured in performance metrics that reward multifaceted approaches to student success and promote best practices in this space.

While the current funding formula does measure completion rates and give incentives for higher need workforce programs, it does not specifically address student support programs as performance measures. The taskforce identified student support measures as a potential area for consideration in future funding.

Both Dr. Cerny, President of Schoolcraft College, and Dr. MacMaster, President of Alpena Community College stressed the importance of maintaining the state financial support for each community college, specifically any change to the existing formula should hold harmless the level of funding a community college is receiving this fiscal year. In the past 19 years, the state appropriations for community colleges had an overall growth of 52 percent. While stable investment from the state is a strength of the current funding formula, the overall growth does not match inflation and contributes to resource pressures for community colleges, especially those colleges without wide local revenue generating capacity. It was also noted that the amount of money run through the current funding formula does not make enough of an impact to change colleges behavior.

The community college presidents also highlighted the importance of intent and framing any changes in the distributions of funds. The current formula inherently forces community colleges to compete against each other. As colleges compete for a greater proportion of funding it has the potential to create winners and losers and could lessen the focus on student success measures.

More emphasis on performance measures and more money running through the formula would need to occur to drive meaningful large-scale change. A common theme of taskforce discussions was that the current formula provides stable funding and considers some high-level performance metrics. Conversation in the taskforce suggested the overall weakness for community college funding in Michigan centers around the level of state investment. Creating new performance metrics could better incentivizes community colleges to invest in student success outcomes but any change to the formula needs to take into account the entire revenue landscape for community colleges.

Thinking of the three main revenue sources for community colleges as legs to a stool, balancing the three legs is important. The taskforce recommends intentional research into changing performance metrics or the level of funding that runs through a performance formula to prevent inequity across the 28 community colleges.

Values for Michigan’s Community College Formula

As policymakers consider future changes to community college operations funding in Michigan, the taskforce recommends the following values guide the discussion:

Values: To equitably determine and distribute operations funding for community colleges in Michigan, the performance funding formula should consider all the following:

- ***Stable –*** Funding should not vary widely year after year. A consistent and steady state funding stream will better equip colleges to help the state meet its Sixty by 30 goal.
- ***Simple –*** A funding formula should be easy to understand, calculate, and drive student outcomes including certificate and degree completion and transfers along with metrics that contribute to the momentum toward these goals (credit benchmarks, gateway course completion, and requirement completion). It should minimize burdening colleges with additional reporting requirements, and it should incentivize colleges to invest in practices and innovations that will improve student outcomes.
- ***Equitable*** – Not all colleges serve the same types of students, nor do they have the same available resources. A funding formula should recognize these differences and ensure each college is positioned to serve their unique student body and successfully pursue their unique mission.

- ***Equitable Student Support*** – A funding formula should encourage schools to actively support underrepresented students with multiple student success resources and programs.
- ***Responsive*** – Between changes in student demographics, career opportunities and interests, and workforce needs of the state, the focus of community college administrators are constantly changing. A funding formula should be nimble enough to adapt to these changes in a timely manner to help serve the needs of the students, the colleges, and the state.
- ***Adequate*** – Base funding levels for community colleges were set in 1984. Colleges have experienced significant changes since then. Any increases in funding should consider these changes, and should consider available state, local, and tuition dollars generated by the college.

Conclusion

Community colleges provide vital functions to the State of Michigan. They provide workforce development in regional and statewide critical needs areas, contributing to the state's economic prosperity. They provide high-quality, affordable higher education to many disadvantaged and first-generation college students. In many rural areas, they serve as the only source advanced job training. Increasingly, they provide services beyond educational needs – including supporting community physical and mental health.

It is imperative that the State of Michigan continue to support community colleges. To do so, the state should ensure that funding mechanisms consider the needs of the colleges to support their ongoing work. During the taskforce's review, it became apparent that a performance funding formula cannot be developed in isolation from also assessing all other funding sources for the colleges. Any changes in a funding formula must consider the broader sense of funding from state appropriations, local property taxes and tuition and fees. It is the hope of this taskforce that the findings and values outlined in this report will serve as guiding recommendations for future work on how Michigan supports its community colleges.