Financing Community Colleges: National Context

October 19, 2022

Michigan Community College Taskforce Meeting
Agenda

- State Support for Community Colleges
- Various State Models
- Final Thoughts
- Appendices
  - Community College Resources
Community College Resources
Simplified View: Community College Core Revenues

The majority of community college revenues come from state and local appropriations, followed by tuition. This varies across states on several factors.

Institutions also receive other grants and contracts from federal and state sources.

Source: Trends in College Pricing
Core Revenues (per FTE) Broken out by State + Local Support and Tuition

State and local support ranges from a high of 91% of total per FTE funding in Utah to a low of 19% in Vermont.

Source: 2021 SHEF and IPEDS analysis
Not all states have local funding that supports community colleges. In states with local appropriations, there is significant variation across states in the reliance on local support. On average, local funding accounts for 35% of all funding coming from State + Local sources.

Source: 2021 SHEF and IPEDS analysis
Local Funding in State Context: Access + Equity for Low-Income Populations

Local resources can be a more consistent or stable source of income for community colleges but can also exacerbate gaps due to variations in tax bases (lower-income communities having lower tax bases). Another consideration is the use of tuition discounts. Several states with local funding have in-district tuition discounts for students within the taxing district.

<table>
<thead>
<tr>
<th>Local funding with in-district discount</th>
<th>Local funding without in-district discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas, Idaho, Illinois, Maryland, Michigan, Missouri, Montana, New Jersey, New Mexico, Pennsylvania, South Carolina, Texas</td>
<td>Arizona, California, Iowa, Mississippi, North Carolina, Nebraska, New York, Oregon, Wisconsin, Wyoming</td>
</tr>
</tbody>
</table>

Average In-District Tuition and Fee Discount

Source: Postsecondary Analytics
States and community colleges often lack a clear picture of:

- Each revenue stream and policies that govern how they flow to community colleges
- Funding environment as a whole:
  - Degree to which it creates uneven playing field
  - Relationship between revenue streams and policies
  - Incentives, constraints, and opportunities created

Need this information to:

1. Create institution-centered state policy by understanding how revenue streams influence community college policy and practice
2. Adjust how revenue streams flow to support effective institutional practice
3. Determine how best to create funding environments to increase attainment and reduce equity gaps

This information is critical component of assessing adequacy, equity, and effectiveness of community college funding policy regimes
State Revenue Stream Variation

- **Overall proportion** of state postsecondary funding that flows to community colleges
- Percent of revenue from state, local, tuition and related policies
- Degree to which each creates *inequity* across community colleges
- Presence of *differential tuition* for out of taxing district
- Student-centered funding formula (SCFF): % total revenue, incentives
- Prominence of categorical/restricted funding
- Coherence/clarity of policies dictating revenue stream flows

Each has an effect on how well community colleges can focus on attainment and equity gaps
Major Revenue Streams

Texas

Ohio

California

State 20%  Local 49%  Tuition 30%

State 50%  Local 16%  Tuition 34%

State 100%  Various  Restricted  Core Ops  FTE  Enrollment  Outcomes  Enrollment Core Ops  FTE  Enrollment
Key Takeaways

Similarities
- Enrollment incentives dominant: 40% TX 59% OH 75% CA
- Outcomes incentives modest: 3% TX 25% OH 8% CA
- Local dollars do not provide strong incentives re: equity, attainment

Differences
- Local revenue major driver of inequity in TX; lesser degree in OH
- CA for the most part neutralizes inequitable local taxes

REVENUE STREAM ANALYSIS AS A WHOLE
- Little evidence revenue streams support evidence-based practices
- Variation, complexity of revenue streams send inconsistent messages to community colleges
Focusing on State Funding
**K12 vs. Higher Education Formulas**

Higher Education and K12 funding are historically different. K12 is considered an entitlement and formulas inform appropriation amounts. Higher education is typically a discretionary investment at the state level. Formulas may include certain factors (costs, student characteristics, program priorities) but don’t guarantee a certain level of state investment.

<table>
<thead>
<tr>
<th></th>
<th>K12</th>
<th>Higher Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy</td>
<td>Yes. Adequacy well established</td>
<td>No. Adequacy not well established.</td>
</tr>
<tr>
<td>Entitlement</td>
<td>Yes. Funding is an entitlement appropriation in state budgets.</td>
<td>No. Funding is often considered discretionary. Formulas seen as allocation models that provide rationale how state funding is distributed to institutions.</td>
</tr>
<tr>
<td>Other Funding Sources</td>
<td>Yes. Funding formulas in most states work to equalize or adjust for variations in local funding (tax revenue) capacity.</td>
<td>Partial. Funding formulas most often do not adjust for variations in revenue from other sources (local + tuition/fees). Some states have taken steps to account for variations.</td>
</tr>
<tr>
<td>Student Background</td>
<td>Yes. Funding formulas consider for different student characteristics.</td>
<td>Partial. State funding formulas have increasingly moved to account for differing student characteristics in formula.</td>
</tr>
</tbody>
</table>
## Common Formula Components in CC Funding Models

<table>
<thead>
<tr>
<th></th>
<th>Base Funding</th>
<th>Enrollment</th>
<th>Student Success/Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Funding</strong></td>
<td>• Sometimes referred to as core funding.</td>
<td>• Typically based on enrolled student credit hours</td>
<td>• Progression and completion focused components</td>
</tr>
<tr>
<td></td>
<td>• May be a set amount given to each institution</td>
<td>• Often includes variable costs for different types and levels of courses</td>
<td>• Often includes additional “weights” or funding for success of certain students</td>
</tr>
<tr>
<td></td>
<td>• Comes “off the top” or first element to be funded</td>
<td>• Sometimes factors in varying student characteristics</td>
<td>• Often includes priorities for certain program areas</td>
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<tr>
<td></td>
<td></td>
<td>• May include small institution factor</td>
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# Principles for a Strong Community College Funding System

<table>
<thead>
<tr>
<th>Principle</th>
<th>State Approaches</th>
<th>Current Michigan Funding Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>A funding system that provides some level of <strong>core funding to reflect</strong></td>
<td>Funding based on O+M costs, sometimes adjusted for size of school</td>
<td>Base operations are across the board and proportionate to prior year funding levels.</td>
</tr>
</tbody>
</table>
| costs of operations **

A funding system that is **responsive to changes in the system on both enrollments and outcomes.** | Funding based on combination of enrollments and outcomes.                       | Weighted contact hours, with higher weights for health, tech/industrial fields. Various completion-based outcomes. |
| A funding system that **accounts for differing student needs.**          | Typically a feature in states that have outcomes/student success metrics incorporated into funding models. Should also consider concentration/enrollment based factors. | Does not account for differing student needs and associated costs to successfully serve them. |
| A funding system that **aligns with state’s current needs for a more educated and trained workforce.** | Several states with outcomes funding models have priority for specific in-demand degrees or certificates. Data can be a limiting factor for more direct workforce metrics. | Michigan’s funding model provides higher weights for contact hours in health/tech/industry. Does not provide higher funding/weights for degree areas. |
Adequacy in Community College Finance

• **What does it cost to provide an adequate community college education?**
  • Answer: *We don’t really know.*
    • Absence of analysis of how much it costs
    • Lack of understanding of varying costs for different student groups
    • Lack of understanding (or at least scaling) of effective practices that support student success.
  • This hinders the ability to orient around a rational financing structure.
  • Field is moving in this direction: to better understand costs that can help inform funding levels and strategies.
State Specific Examples
# State Examples

<table>
<thead>
<tr>
<th>State</th>
<th>Responsive to Changes</th>
<th>Accounts for differing student needs</th>
<th>Aligns to need for more educated and trained workforce</th>
<th>Factors in local funding</th>
<th>Articulates state role (level of commitment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michigan</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Oregon</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>California</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>North Carolina</td>
<td>X</td>
<td></td>
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<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Ohio</td>
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<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Tennessee</td>
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<td>X</td>
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</tbody>
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Funding Model Comparison

Michigan  Oregon  California  North Carolina  Ohio  Tennessee

- Base (Core)
- Enrollment
- Student Success
- Other
North Carolina

• Funding Considerations

  • Formula in place since 2010, adjustments made in 2012 and 2014

  • State funding accounts for 64% of total community college funding

  • Local resources are not a consideration in state allocation

  • No in-district discount for students
North Carolina: Formula Components

Tiered FTE Funding (~62%): Funding for FTE based on course alignment in areas that have documented skills gaps in North Carolina and pay higher wage.

Institutional + Academic Support (~37%): Support salaries, fringe benefits and other costs related to administration, student support and academic program support.

Performance Based (~2%): Student progress and completion metrics.

Sources: NC Leg
Ohio

• Funding Considerations

• Formula in place since 2014, with some adjustments since.

• State funding accounts for approximately 43% of total CC funding.

• Only 6 community colleges can levy local taxes. These college discount within-district tuition.

• Local resources are not a consideration in state allocation.
**OH: Formula Components**

- **Success Points, 25%**
- **Cost-Based Course Completions**, 50%
- **Cost-Based Credential Completions**, 25%

*Access Category Weights Applied*

- **Adult**: Age 25 or older at time of first enrollment at that college
- **Low-Income**: Pell-eligible ever in college
- **Minority**: Black, Hispanic, Native American
- **Academically Underprepared**: Using remediation free standards. Math Only.

All data averaged over three-years
Tennessee

- Funding Considerations
  - Formula in place since 2010, with mandatory review every 5 years.
  - State funding accounts for approximately 43% of institutional funding.
  - Community colleges do not levy local resources
## Tennessee’s Outcomes Based Formula

**Source:** THECB, *Outcomes Based Funding Resources*

<table>
<thead>
<tr>
<th>Category</th>
<th>Metrics (Weights Varied Based on Institutional Priority)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Hour Accumulation</strong></td>
<td>Students Accumulating 12 credit hours</td>
</tr>
<tr>
<td></td>
<td>Students Accumulating 24 credit hours</td>
</tr>
<tr>
<td></td>
<td>Students Accumulating 36 credit hours</td>
</tr>
<tr>
<td><strong>Completion Benchmarks</strong></td>
<td>Technical Short-Term Certificates</td>
</tr>
<tr>
<td></td>
<td>Long-Term Certificates</td>
</tr>
<tr>
<td></td>
<td>Associates</td>
</tr>
<tr>
<td></td>
<td>Awards per 100/FTE</td>
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<tr>
<td><strong>Other Mission-Aligned</strong></td>
<td>Dual Enrollment</td>
</tr>
<tr>
<td></td>
<td>Workforce Training</td>
</tr>
<tr>
<td></td>
<td>Transfers w/12 credits</td>
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<td></td>
<td>Job Placement</td>
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</tbody>
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### Focus Populations (Accounting for Differing Student Needs)

- Adult
- Low Income
- Academically Underprepared

- 80% Weight for One Category = 1.8 Outcomes
- 100% Weight for Two Categories = 2 Outcomes
- 120% Weight for Three Categories = 2.2 Outcomes
When accounting for supplemental (enrollment based funding for priority populations) and components of student success funding directed toward priority populations, California allocates ~21% of funding based upon differing student needs. Ohio and Tennessee allocate ~13% and ~10.6% of funding for priority populations within their funding models respectively.
Aligning to State Needs: Educated + Trained Workforce

In addition to funding based on student progression and overall completion, states are starting to incorporate metrics intended to reflect or align with workforce needs as part of the outcomes-based funding components.

Common Metrics

- Job Placement / Wage Metrics
- Extra Weighting for High Demand Credentials
- Separate Metrics for High Demand Credentials
- Other Related Metrics (*i.e.*, Apprenticeships, Licensure/Certification, Non-Credit Workforce Training)

Considerations

- Identify priorities for job placement/workforce outcomes
  - All job placements? Earnings levels?
  - Jobs in certain fields (STEM+H);
  - Jobs aligned with student field of study; jobs in high need areas; jobs paying above certain wage level
- Evaluate data sources and validity
  - Data that are consistently reported and verifiable is common
  - Challenge to incorporating job/post-graduate outcome metrics
  - As component of funding models.
Summary

• Consider ways to factor in the role/impact of local resources on equity in access for students and resources across institutions.

• Build capacity to understand adequacy: what does it cost to successfully serve students from different backgrounds? What combination of resources and funding approaches are best aligned to these needs?

• Consider a set of core funding principles for formula review: responsive to change, account for different student needs, align to state needs for more educated and trained workforce.

• Work to articulate the state’s role in funding for community colleges and how best to support access, affordability and workforce-aligned outcomes for students.

• Evaluate other aspects that can influence community college finance and student access and success: such as dual enrollment and non-credit that may alter a colleges business model.
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