

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

Fall 2015



### **Michigan Public Community Colleges: Ten Years of the Performance Indicators Task Force Funding Model**

**By Bill Bowerman, Associate Director**

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#### **Introduction**

Section 230a of the State School Aid Act (included in [Appendix A](#)) creates a task force to "review, evaluate, discuss, and make recommendations" regarding performance indicators that were developed in 2006 to distribute State aid to Michigan public community colleges. The task force is charged with reviewing whether the current metrics used are the most appropriate and reliable performance indicators and determining the most efficient methodology for aligning State funding to those indicators. A report containing findings and recommendations of the Task Force is due by January 15, 2016. The following provides an overview of the current performance indicators and how they have affected community college funding over the last 10 years.

#### **Background**

In 2005, Section 242 of Public Act 154 of 2005 (included in [Appendix A](#)) created a task force, commonly referred to as the Performance Indicators Task Force, to make recommendations regarding the allocation of State aid to community colleges. The Task Force was charged with determining the most appropriate and reliable performance indicators and the most efficient methodology for connecting State appropriations to those indicators. Section 242 also stated the legislative intent that State funding to community colleges would be based partially or wholly on performance indicators in future budget years. The Task Force consisted of four legislators who served on the Senate and House Appropriation Subcommittees on Community Colleges and four community college presidents.

The Task Force was formed in October 2005 and met six times over a five-month period. It directly reviewed 17 metrics. The Task Force recommendation agreed upon a formula model with three categorical indicators and several metrics to be applied in each category to verify performance.<sup>1</sup> The Task Force also recommended a funding level for State appropriations to implement the model. The model proposed a \$20.0 million increase to community college operations, with half of the increase being allocated for the purpose of sustaining the system, i.e., an across-the-board increase to base funding. The rationale was to begin restoring funds reduced from college operations during periods of State revenue shortfalls. The other half of the funding would be allocated based on three performance indicators:

1. Enrollment and Business Efficiency. Metrics recommended for this indicator included a two-year average of student contact hours and the proportion of general operating funds allocated for administrative costs.

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<sup>1</sup> The entire Performance Indicators Task Force proposal and recommendations can be obtained through the following link:  
[http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCccl\\_PerformanceIndicators.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCccl_PerformanceIndicators.pdf)

2. Completion. Metrics recommended included successful course completions, subtotals of course completions in high-cost areas, and a two-year average of the number of graduates.
3. Local Strategic Value. Metrics recommended included the number of continuing education students, the number of cooperative agreements with baccalaureate institutions, the number of strategic partnerships with businesses, and college-sponsored arts and culture.

A version of the Performance Indicators Task Force Model was first used in fiscal year (FY) 2006-07. The formula progressed over time to include an administrative cost metric, as recommended by the Task Force, and in FY 2012-13 a specific list of measurable data items was added to the local strategic value component.

It is relevant to note that the current performance funding model does not take into account the relative ability of colleges to generate property tax revenue due to disparities in tax bases, or their relative ability to generate tuition revenue due to the number of students within the college district.

### **Current Formula**

In 2015, Section 230 of Public Act 85 of 2015 (included in [Appendix A](#)) delineates the criteria for the distribution of funding increases to community colleges. Subsection (1) of Section 230 provides for the following allocations:

- a) Proportionate to Previous Fiscal Year Base Appropriations, 50.0%. The Performance Indicators Task Force funding model included as a priority the restoration of funding subject to budget cuts since FY 2001-02. Therefore, the formula model provided that 50.0% of annual funding increases should be allocated in an "across-the-board" manner. There have been no adjustments to this part of the formula since its inception.
- b) Contact Hour Equated Students, 10.0%. This category originally received 17.5% of the formula allocations. Allocations are based on the number of student contact hours as measured by a two-year average as reported in the Activities Classification Structure (ACS)<sup>2</sup>. In FY 2012-13, the allocation was reduced from 17.5% to 10.0%, with the difference being allocated to the administrative costs portion of the formula.
- c) Administrative Costs, 7.5%. This allocation is based on a two-year average of administrative costs represented as a percentage of general fund operating costs, as reported in the ACS. The two-year average administrative cost percentage is subtracted from a ceiling percentage each year (24.0% in FY 2015-16). Colleges with larger differences from the ceiling amount receive a proportionately larger amount of funding relative to other community colleges, thus rewarding colleges with lower

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<sup>2</sup> The ACS was created in response to Section 8 of Public Act 419 of 1978 for the purpose of documenting financial needs of community colleges. The ACS defines Contact Hour Equated Students as the calculated equivalent of a student having completed one full year of instruction (31 credit hours multiplied by 16 contact hours = 496 contact hours of instruction).



percentages of administrative costs. Beginning in FY 2012-13, the administrative cost metric has been funded through the reduction in the Contact Hour Equated Students metric from 17.5% to 10.0%.

- d) Weighted Degree/Certification Completion Formula, 17.5%. Data for this metric are obtained through the Integrated Postsecondary Education Data System (IPEDS).<sup>3</sup> Data are based on a two-year average. The following weights are applied to completions:

	<u>Weight</u>
General and Business	1
Natural Science	2
Engineering/Technology	4
Health	4

- e) Local Strategic Value, 15.0%. Colleges are required to meet four out of five best practices listed in each of the following categories:

- Category A: Economic Development and Business or Industry Partnerships.
- Category B: Educational Partnerships.
- Category C: Community Services.

(Appendix A contains a complete listing of best practices listed under 2015's Section 230 (3).)

This methodology for meeting the local strategic value requirement was first implemented in FY 2012-13. Each college is required to certify, through a board of trustees resolution, how the college meets best practice measures within each category. If a college qualifies for funding based on this metric, funds are distributed proportionately based on the prior-year appropriation (i.e., across-the-board).

Appendix B provides details of FY 2015-16 formula allocations.

### **Impact**

Budget reductions and continuation appropriations have hindered the implementation of the Performance Indicators Task Force funding model. The Task Force goal of restoring State appropriations for community college operations to FY 2001-02 levels and providing inflationary increases has not been met. The FY 2015-16 appropriation for community college operations is \$311.5 million, which is \$7.7 million below the \$319.2 appropriation in FY 2001-02 in noninflation-adjusted dollars. However, overall funding for community colleges has increased during that time period, mainly due to Michigan Public Employees Retirement System (MPERS) reimbursements that began in FY 2012-13. The FY 2015-16 MPERS reimbursement totals \$71.2 million. The total State appropriation for community colleges from

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<sup>3</sup> IPEDS is the postsecondary education data collection program for the National Center for Education Statistics, a part of the Institute for Education Sciences within the United States Department of Education.



FY 2001-02 to FY 2015-16 increased by \$67.6 million (21.1%), from \$320.2 million to \$387.8 million. During the same time period, the United States Consumer Price Index is projected to have increased by 34.5%.<sup>4</sup>

In order for performance-based State funding to influence outcomes, a greater amount of funding would be necessary for distribution through the model. It is also important to note that the current performance funding model allocates 65.0% of the distribution across-the-board (i.e., incremental adjustments based on existing funding). Appendix C compares FY 2005-06 State appropriations for college operations (the year before the Performance Indicators Task Force funding model was implemented) with FY 2015-16 appropriations. As shown, the change in each college's share as a percentage of the total State appropriation has ranged from -0.130% to 0.164%.

State funding as a share of total community college revenue also has been decreasing since FY 2001-02. A comparison of FY 2001-02 and FY 2013-14 is shown in Table 1.

**Table 1**

<b>Community College Operating Fund Revenue Sources</b>				
	<b>FY 2001-02</b>	<b>Percent of Total</b>	<b>FY 2013-14</b>	<b>Percent of Total</b>
State Aid .....	\$316,410,944	30.3%	\$298,244,000	20.0%
Tuition and Fees .....	280,043,137	26.8%	642,706,143	43.2%
Property Taxes.....	416,867,238	39.9%	521,969,615	35.1%
Other .....	31,890,847	3.1%	24,804,198	1.7%
<b>Total .....</b>	<b>\$1,045,212,166</b>	<b>100.0%</b>	<b>\$1,487,723,956</b>	<b>100.0%</b>

**Source:** ACS

In FY 2001-02, the ACS reported that State aid accounted for 30.3% of college general fund operating revenue. By 2013-14, State aid as a percentage of college operating revenue had decreased to 20.0%. During the same time, tuition increased from 26.8% of college general fund operating revenue to 43.2%. State aid declining as a percentage share of total college operating revenue also limits the capability of performance funding to affect outcomes.

**Conclusion**

The 2006 Performance Indicators Task Force recommendations were focused on system sustainability, long-term stability in funding, and annual inflationary increases. The goal of the Task Force was to accomplish the implementation of performance metrics without redistributing existing funds. Section 230a of the State School Aid Act provides for a review of the current performance funding model to determine whether the metrics used are the most appropriate and reliable performance indicators available and to determine the most efficient methodology for connecting State funding to those indicators. Due to the fact that a relatively small amount of funding has been distributed based on metrics, the efficacy of the current model will be difficult to evaluate.

<sup>4</sup> Based on the May 2015 Consensus Revenue Estimate.

Appendix A

**Section 230a of Public Act 85 of 2015**

Sec. 230a. (1) A task force shall be formed by October 15, 2015 to review, evaluate, discuss, and make recommendations regarding performance indicators established under the authority of section 242 of 2005 PA 154. The task force shall review whether the current metrics used are the most appropriate and reliable performance indicators available and determine the most efficient methodology for connecting state funding to those indicators.

(2) The task force described in subsection (1) shall consist of the following members:

(a) Two members of the Michigan house of representatives. One member shall be designated by the speaker of the house, and 1 member shall be designated by the house minority leader.

(b) Two members of the Michigan senate. One member shall be designated by the senate majority leader, and 1 member shall be designated by the senate minority leader.

(c) One representative from the department of technology, management, and budget, designated by the state budget director.

(d) Four representatives of Michigan public community colleges. The Michigan Community College Association shall designate 1 representative from each of the 4 groups described in the activities classification structure data book published by the workforce development agency.

(3) The task force described in subsection (1) shall submit a report containing its findings and recommendations to the house and senate appropriations subcommittees on community colleges, the house and senate fiscal agencies, and the state budget director by January 15, 2016.

**Section 242 of Public Act 154 of 2005**

Sec. 242. (1) A task force shall be formed by October 15, 2005 to review, evaluate, discuss, and make recommendations regarding performance indicators to be utilized in future budget years to guide decisions regarding state funding to community colleges. The task force shall consist of the following members:

(a) Two members of the Michigan house of representatives. One member shall be designated by the speaker of the house, and 1 member shall be designated by the house minority leader.

(b) Two members of the Michigan senate. One member shall be designated by the senate majority leader, and 1 member shall be designated by the senate minority leader.

(c) Four representatives of Michigan public community colleges. The Michigan community colleges association shall designate 1 representative from each of the 4 groups described in the activities classification structure data book published by the department of labor and economic growth under section 501.

(2) The task force described in subsection (1) shall consider at least all of the following performance indicators for community colleges in performing its duties under subsection (1):

(a) Total number of degrees and certificates awarded and subtotals of degrees and certificates awarded in high-cost areas.

(b) Total number of student contact hours provided and subtotals of student contact hours provided in high-cost areas.

(c) Expenditures for administration as a percentage of total operating fund expenditures.

(d) Licensure, certification, and registry exam pass rates and the number of individuals obtaining licensure or certification or passing a registry exam.

(e) Degree and certificate completion rates.

(f) Student transfer rates.

(g) Performance at transfer institutions.

(h) Student goal attainment.

- (i) Placement and wage rates.
- (j) Number of dual enrollment participants.
- (k) Number of individuals participating in employer-sponsored training.
- (3) The task force described in subsection (1) shall submit a report containing its findings and recommendations on the following topics to the house and senate appropriations subcommittees on community colleges, the house and senate fiscal agencies, and the state budget director by February 1, 2006:
  - (a) The most appropriate and reliable performance indicators to be utilized to guide decisions on state funding to community colleges.
  - (b) The most efficient methodology for connecting state funding to those indicators.
- (4) The department of labor and economic growth shall work with the task force to establish mechanisms to collect and verify data for any indicators that the task force recommends but for which reliable data are not currently available.
- (5) It is the intent of the legislature that state funding to community colleges will be based partially or wholly on performance indicators in future budget years.

**Section 230 of Public Act 85 of 2015**

Sec. 230. (1) Money included in the appropriations for community college operations under section 201(2) in fiscal year 2015-2016 for performance funding is distributed based on the following formula:

- (a) Allocated proportionate to fiscal year 2014-2015 base appropriations, 50%.
  - (b) Based on contact hour equated students, 10%.
  - (c) Based on administrative costs, 7.5%.
  - (d) Based on a weighted degree formula as provided for in the 2006 recommendations of the performance indicators task force, 17.5%.
  - (e) Based on the local strategic value component, as developed in cooperation with the Michigan Community College Association and described in subsection (2), 15%.
- (2) Money included in the appropriations for community college operations under section 201(2) for local strategic value shall be allocated to each community college that certifies to the state budget director, through a board of trustees resolution on or before October 15, 2015, that the college has met 4 out of 5 best practices listed in each category described in subsection (3). The resolution shall provide specifics as to how the community college meets each best practice measure within each category. One-third of funding available under the strategic value component shall be allocated to each category described in subsection (3). Amounts distributed under local strategic value shall be on a proportionate basis to each college's fiscal year 2014-2015 operations funding. Payments to community colleges that qualify for local strategic value funding shall be distributed with the November installment payment described in section 206.
- (3) For purposes of subsection (2), the following categories of best practices reflect functional activities of community colleges that have strategic value to the local communities and regional economies:
- (a) For Category A, economic development and business or industry partnerships, the following:
    - (i) The community college has active partnerships with local employers including hospitals and health care providers.
    - (ii) The community college provides customized on-site training for area companies, employees, or both.
    - (iii) The community college supports entrepreneurship through a small business assistance center or other training or consulting activities targeted toward small businesses.

(iv) The community college supports technological advancement through industry partnerships, incubation activities, or operation of a Michigan technical education center or other advanced technology center.

(v) The community college has active partnerships with local or regional workforce and economic development agencies.

(b) For Category B, educational partnerships, the following:

(i) The community college has active partnerships with regional high schools, intermediate school districts, and career-tech centers to provide instruction through dual enrollment, concurrent enrollment, direct credit, middle college, or academy programs.

(ii) The community college hosts, sponsors, or participates in enrichment programs for area K-12 students, such as college days, summer or after-school programming, or science Olympiad.

(iii) The community college provides, supports, or participates in programming to promote successful transitions to college for traditional age students, including grant programs such as talent search, upward bound, or other activities to promote college readiness in area high schools and community centers.

(iv) The community college provides, supports, or participates in programming to promote successful transitions to college for new or reentering adult students, such as adult basic education, general education development certificate preparation and testing, or recruiting, advising, or orientation activities specific to adults.

(v) The community college has active partnerships with regional 4-year colleges and universities to promote successful transfer, such as articulation, 2+2, or reverse transfer agreements or operation of a university center.

(c) For Category C, community services, the following:

(i) The community college provides continuing education programming for leisure, wellness, personal enrichment, or professional development.

(ii) The community college operates or sponsors opportunities for community members to engage in activities that promote leisure, wellness, cultural or personal enrichment such as community sports teams, theater or musical ensembles, or artist guilds.

(iii) The community college operates public facilities to promote cultural, educational, or personal enrichment for community members, such as libraries, computer labs, performing arts centers, museums, art galleries, or television or radio stations.

(iv) The community college operates public facilities to promote leisure or wellness activities for community members, including gymnasiums, athletic fields, tennis courts, fitness centers, hiking or biking trails, or natural areas.

(v) The community college promotes, sponsors, or hosts community service activities for students, staff, or community members.

(4) Payments for performance funding under section 201(2) shall be made to a community college only if that community college actively participates in the Michigan transfer network sponsored by the Michigan Association of Collegiate Registrars and Admissions Officers and submits timely updates, including updated course equivalencies at least every 6 months, to the Michigan transfer network. The state budget director shall determine if a community college has not satisfied this requirement. The state budget director may withhold payments for performance funding until a community college is in compliance with this section.

## FY 2015-16 Community College Appropriations

College	FY 2014-15 Year-To-Date	FY 2015-16 Adjustments							FY 2015-16 Initial Appropriation	Percent Change
		50.0% Proportionate To Base	17.5% Weighted Degree Formula	10.0% Student Contact Hours	7.5% Admin. Costs	15.0% Local Strategic Value	Total Distribution	Non-Formula Adjustments*		
Alpena	\$5,390,700	\$37,735	\$10,402	\$3,454	\$10,830	\$11,321	\$73,700		\$5,464,400	1.4%
Bay de Noc	5,419,500	37,937	11,024	4,477	5,865	11,381	70,700		5,490,200	1.3%
Delta	14,498,900	101,493	38,684	19,550	14,879	30,448	205,100		14,704,000	1.4%
Glen Oaks	2,516,100	17,613	8,807	2,404	917	5,284	35,000		2,551,100	1.4%
Gogebic	4,451,400	31,160	6,810	2,456	8,709	9,348	58,500		4,509,900	1.3%
Grand Rapids	17,947,500	125,633	31,482	30,047	14,905	37,690	239,800		18,187,300	1.3%
Henry Ford	21,623,800	151,367	33,714	28,941	10,023	45,410	269,500		21,893,300	1.2%
Jackson	12,087,300	84,612	26,364	10,885	10,763	25,383	158,000		12,245,300	1.3%
Kalamazoo Valley	12,503,100	87,522	37,094	19,277	16,131	26,257	186,300		12,689,400	1.5%
Kellogg	9,813,500	68,695	20,679	11,296	15,369	20,608	136,600		9,950,100	1.4%
Kirtland	3,167,700	22,174	10,960	3,442	10,591	6,652	53,800		3,221,500	1.7%
Lake Michigan	5,342,900	37,400	9,632	7,802	8,794	11,220	74,800		5,417,700	1.4%
Lansing	30,877,600	216,144	77,783	33,686	18,144	64,843	410,600		31,288,200	1.3%
Macomb	32,816,600	229,717	60,465	47,070	16,683	68,915	422,900		33,239,500	1.3%
Mid Michigan	4,682,000	32,774	15,893	7,758	9,420	9,832	75,700		4,757,700	1.6%
Monroe	4,492,900	31,450	10,319	6,832	14,709	9,435	72,700		4,565,600	1.6%
Montcalm	3,226,700	22,587	9,328	3,258	11,925	6,776	53,900		3,280,600	1.7%
Mott	15,686,100	109,803	37,541	20,632	14,696	32,941	215,600		15,901,700	1.4%
Muskegon	8,901,000	62,307	13,781	9,129	15,768	18,692	119,700		9,020,700	1.3%
North Central	3,172,400	22,207	5,998	4,429	13,138	6,662	52,400		3,224,800	1.7%
Northwestern	9,078,800	63,552	15,963	9,707	13,385	19,066	121,700		9,200,500	1.3%
Oakland	21,123,300	147,864	53,434	49,697	10,744	44,359	306,100		21,429,400	1.4%
St. Clair	7,061,600	49,431	13,362	8,154	10,630	14,829	96,400		7,158,000	1.4%
Schoolcraft	12,513,700	87,596	41,999	24,980	11,844	26,279	192,700		12,706,400	1.5%
Southwestern	6,576,400	46,035	10,679	5,506	5,210	13,811	81,200		6,657,600	1.2%
Washtenaw	13,077,300	91,542	65,754	24,612	14,435	27,462	223,800		13,301,100	1.7%
Wayne County	16,727,600	117,094	70,277	27,962	11,742	35,128	262,200		16,989,800	1.6%
West Shore	2,414,900	16,904	4,394	2,630	2,303	5,071	31,300		2,446,200	1.3%
<b>Subtotal Operations:</b>	<b>\$307,191,300</b>	<b>\$2,150,348</b>	<b>\$752,623</b>	<b>\$430,073</b>	<b>\$322,552</b>	<b>\$645,103</b>	<b>\$4,300,700</b>	<b>\$0</b>	<b>\$311,492,000</b>	<b>1.4%</b>
Independent Part-Time Student Grants	\$0							\$0	0	0.0%
MPSERS Retiree Health Care	1,733,600							0	1,733,600	0.0%
MPSERS Reform Costs	52,300,000							17,200,000	69,500,000	32.9%
Renaissance Zone Reimbursements	3,500,000							1,600,000	5,100,000	45.7%
<b>Total Appropriations:</b>	<b>\$364,724,900</b>	<b>\$2,150,348</b>	<b>\$752,623</b>	<b>\$430,073</b>	<b>\$322,552</b>	<b>\$645,103</b>	<b>\$4,300,700</b>	<b>\$18,800,000</b>	<b>\$387,825,600</b>	<b>6.3%</b>
State School Aid Fund	364,724,900	2,150,348	752,623	430,073	322,552	645,103	4,300,700	(112,310,800)	\$256,714,800	-29.6%
GF/GP	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$131,110,800	\$131,110,800	---

\* Non-Formula Adjustments include cost increases for MPSERS Reform, Renaissance Zone Reimbursements, and funding adjustments between the State General Fund and the School Aid Fund. The FY 2014-15 Year-To-Date column includes the funding shift contained in Public Act 5 of 2015, which shifted \$167.1 million from General Fund/General Purpose revenue to the School Aid Fund, resulting in the entire FY 2014-15 Community College budget being funded from the School Aid Fund.

**State Notes**  
TOPICS OF LEGISLATIVE INTEREST  
 Fall 2015



Appendix C

<b>State Appropriations for Community Colleges Operations</b>					
	<b>FY 2005-06</b>	<b>Percent Share Of Total</b>	<b>FY 2015-16</b>	<b>Percent Share Of Total</b>	<b>Percent Share Change</b>
Alpena	\$4,853,400	1.7%	\$5,464,400	1.8%	0.013%
Bay de Noc	4,709,800	1.7	5,490,200	1.8	0.072
Delta	13,014,200	4.7	14,704,000	4.7	0.050
Glen Oaks	2,290,700	0.8	2,551,100	0.8	(0.003)
Gogebic	4,017,700	1.4	4,509,900	1.4	0.006
Grand Rapids	16,364,700	5.9	18,187,300	5.8	(0.034)
Henry Ford	19,947,000	7.2	21,893,300	7.0	(0.130)
Jackson	11,062,800	4.0	12,245,300	3.9	(0.039)
Kalamazoo Valley	11,273,300	4.0	12,689,400	4.1	0.028
Kellogg	8,941,800	3.2	9,950,100	3.2	(0.015)
Kirtland	2,792,600	1.0	3,221,500	1.0	0.032
Lake Michigan	4,883,800	1.8	5,417,700	1.7	(0.013)
Lansing	28,236,900	10.1	31,288,200	10.0	(0.089)
Macomb	30,062,200	10.8	33,239,500	10.7	(0.117)
Mid Michigan	4,133,500	1.5	4,757,700	1.5	0.044
Monroe	3,984,800	1.4	4,565,600	1.5	0.036
Montcalm	2,881,000	1.0	3,280,600	1.1	0.019
Mott	14,308,000	5.1	15,901,700	5.1	(0.030)
Muskegon	8,233,600	3.0	9,020,700	2.9	(0.059)
North Central	2,854,000	1.0	3,224,800	1.0	0.011
Northwestern	8,372,000	3.0	9,200,500	3.0	(0.051)
Oakland	19,055,500	6.8	21,429,400	6.9	0.041
St. Clair	6,427,700	2.3	7,158,000	2.3	(0.009)
Schoolcraft	11,227,900	4.0	12,706,400	4.1	0.050
Southwestern	6,092,800	2.2	6,657,600	2.1	(0.049)
Washtenaw	11,442,300	4.1	13,301,100	4.3	0.164
Wayne County	14,982,100	5.4	16,989,800	5.5	0.078
West Shore	2,206,300	0.8	2,446,200	0.8	(0.006)
<b>Total</b>	<b>\$278,652,400</b>	<b>100.0%</b>	<b>\$311,492,000</b>	<b>100.0%</b>	<b>0.000%</b>

**Source:** Activities Classification Structure (ACS) Data Books and appropriation acts. Amounts include appropriations for operations and at-risk payments. Beginning In FY 2011-12, at-risk payments were rolled into the operations appropriations for community colleges. Amounts do not include appropriations for MPSERS reimbursements or renaissance zone reimbursements.