

State Notes

TOPICS OF LEGISLATIVE INTEREST

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Community College Revenue Sources: How Colleges Have Managed Increasing Costs and Declining State Aid

By Bill Bowerman, Chief Analyst

Introduction

Between fiscal year (FY) 2001-02 and FY 2008-09 annual State appropriations for community colleges have decreased by \$23.3 million (7.3%), from \$319.2 million to \$295.9 million. During the same time period, expenditures by most colleges have increased well above the rate of inflation. This article provides an overview of revenue for community colleges and how reductions in State aid have been offset by other revenue sources and cost containment measures.

The source of most of the data for this article is the Activities Classification Structure (ACS) 2007-08 Data Book & Companion, Department of Energy, Labor, and Economic Growth, February 23, 2009. Analyzing data on a statewide basis presents various challenges, as described below.

- 1) State aid is appropriated on an October 1 through September 30 fiscal year-basis, while community colleges operate on a July 1 through June 30 fiscal year.
- 2) Further complicating the analysis of revenue is the fact that FY 2007-08 State appropriations included a \$25.8 million delayed payment related to reductions made in FY 2006-07. Delaying the State aid payment was one of the methods used to offset General Fund budget shortfalls for the State in FY 2006-07. Section 211(2) of the FY 2007-08 Community College appropriation bill (Public Act 120 of 2007) required community colleges to accrue the delayed payment to their institutional fiscal year ending June 30, 2007. However, accounting standards do not allow for that accrual, and most of the revenue reports included the delayed payment in FY 2007-08 reporting.
- 3) Comparing sources of revenue for community colleges on a statewide basis involves information in terms of aggregates and averages. There is a wide disparity among community college districts related to their ability to generate revenue from property taxes, which are controlled by the taxable value in each district and the millage rate. Property tax revenue accounts for less than 20.0% of total operating fund revenue at Alpena (17.0%), Bay de Noc (14.0%), Gogebic (14.0%), Jackson (13.0%), Mid Michigan (12.0%), and Henry Ford (18.0%). Property tax revenue accounts for more than 50.0% of total college operating fund revenue at Monroe (53.0%), Oakland (59.0%), Washtenaw (54.0%), Wayne (60.0%), and West Shore (52.0%). The reduction of State aid to community colleges has a heightened impact on colleges that cannot generate significant amounts from property taxes and tuition. State aid ranges from 13.0% of total operating fund revenue at Oakland and Wayne to 50.0% at Gogebic.

College Operating Expenditures

Table 1 compares FY 2001-02 statewide community college operating fund expenditures with those expenditures in FY 2007-08.



Table 1

Community College Operating Fund Expenditures				
	FY 2001-02	FY 2007-08	Change From FY 2001-02 to FY 2007-08	
			Change	Percent
<u>GROUP 1</u>				
ALPENA	\$9,694,709	\$13,197,394	\$3,502,685	36.1%
BAY DE NOC	9,938,827	13,626,621	3,687,794	37.1
GLEN OAKS	7,853,603	9,598,963	1,745,360	22.2
GOGEBIC	6,300,282	7,387,300	1,087,018	17.3
KIRTLAND	10,613,502	13,858,534	3,245,032	30.6
MID MICHIGAN	9,995,554	15,247,992	5,252,438	52.5
MONTCALM	8,376,276	14,107,891	5,731,615	68.4
NORTH CENTRAL	8,022,941	12,239,187	4,216,246	52.6
SOUTHWESTERN	12,729,908	14,468,030	1,738,122	13.7
WEST SHORE	7,702,496	10,671,750	2,969,254	38.5
<u>GROUP 2</u>				
JACKSON	\$23,831,017	\$34,029,371	\$10,198,354	42.8%
KELLOGG	24,990,315	29,316,009	4,325,694	17.3
LAKE MICHIGAN	16,305,608	22,848,164	6,542,556	40.1
MONROE	17,438,803	23,577,181	6,138,378	35.2
MUSKEGON	20,547,825	28,538,626	7,990,801	38.9
NORTHWESTERN	25,786,552	32,623,072	6,836,520	26.5
ST. CLAIR	20,236,255	25,792,983	5,556,728	27.5
<u>GROUP 3</u>				
DELTA	\$43,630,724	\$61,535,991	\$17,905,267	41.0%
GRAND RAPIDS	57,916,669	88,671,165	30,754,496	53.1
HENRY FORD	67,126,165	69,304,917	2,178,752	3.2
KALAMAZOO VALLEY	32,638,483	45,253,705	12,615,222	38.7
MOTT	50,586,159	61,964,108	11,377,949	22.5
SCHOOLCRAFT	42,166,641	59,983,753	17,817,112	42.3
WASHTENAW	56,390,414	80,702,318	24,311,904	43.1
WAYNE COUNTY	63,280,695	94,644,305	31,363,610	49.6
<u>GROUP 4</u>				
LANSING	\$71,822,715	\$96,731,146	\$24,908,431	34.7%
MACOMB	78,240,211	98,624,122	20,383,911	26.1
OAKLAND	91,510,341	128,924,300	37,413,959	40.9
STATE AGGREGATE	\$895,673,690	\$1,207,468,898	\$311,795,208	34.8%

Source: Audited Financial Statements as reported in the Activities Classification Structure (ACS) 2007-08 Data Book & Companion, Department of Energy, Labor, and Economic Growth, February 23, 2009.



From FY 2001-02 to FY 2007-08, community colleges reported expenditures increasing by 34.8%, from \$895,673,690 to \$1,207,468,898. During the same time period, the United States Consumer Price Index increased by 19.9%. The driving forces behind the expenditure increases include rising enrollments, demand for classes that are more costly to offer compared with other types of instruction, and increases in employee-related costs.

Fiscal year equated student (FYES) is defined as the calculated equivalent of a student completing one full year of instructional work (31 semester credit hours). From FY 2001-02 to FY 2007-08, total FYES statewide at community colleges increased by 25.2%, from 116,802 to 146,234.

Certain classes are more expensive to provide compared with general education courses. For example, Monroe County Community College reports that the cost-per-student contact hour for a licensed practical nurse (LPN) is \$19 compared with \$4 for social science and math courses. From FY 2001-02 to FY 2007-08, statewide FYES in health occupations increased from 8,548 to 13,054 (52.7%). The health occupations category includes nursing, diagnostic technologies, therapeutic technologies, dental technologies, and other health-related programs. Demand for industrial and high technology courses also has increased. These courses result in additional costs to the colleges for equipment, software, and other technology.

Most community colleges report that employee-related costs (salaries, retirement, and insurance) account for 75.0% to 80.0% of their operating budget. Increases in costs of health care premiums and retirement consistently exceed inflation. From FY 2001-02 to FY 2007-08, community college (employer) payments to the Michigan Public School Employees Retirement System increased by 37.4%, from 12.17 % of members' wages to 16.72% of members' wages. Health care costs also grew dramatically over the same time period.

In addition, energy costs increased significantly from FY 2001-02 to FY 2007-08. Although these costs have been mitigated by energy-saving efforts, the statewide aggregate energy cost per cubic foot rose by 46.7% from FY 2001-02 to FY 2007-08.

Each year, community colleges file reports with the Department of Management and Budget, listing cost-containment measures implemented by the colleges. These cost-saving measures have to be balanced against the need to attract and retain qualified staff. Most of the reports include the following cost-saving measures:

- Increased efficiency in scheduling classes
 - Increasing class sizes
 - Reducing frequency offered
 - Eliminating low-enrollment/high-cost instructional programs
 - Providing web-based instruction
- Staff adjustments
 - Eliminating/consolidating positions
 - Outsourcing
 - Reducing professional development and travel
 - Replacing full-time staff with part-time personnel
 - Retirement/separation incentives



- Employee concessions
 - Wage freezes/COLA delays
 - Benefit changes (increased co-pays, deductibles, premiums)
- Other Measures
 - Deferred maintenance
 - Energy conservation (use and technology)
 - Reducing community service
 - Delaying purchases/Group/bulk purchasing
 - Self-insurance

College Operating Revenue

Table 2 is based on information contained in the ACS for FY 2001-02 and FY 2007-08. Revenue sources for Michigan public community colleges consist mainly of State aid, local property tax revenue, and tuition. In FY 2001-02, State aid as a share of total operating revenue for community colleges totaled \$316.4 million, 30.3% of total community college operating revenue. By FY 2007-08, declining State revenue and ensuing budget reductions reduced State aid to approximately 21.7% of the total operating revenue sources for community colleges. The FY 2007-08 ACS report included the delayed State aid payment related to FY 2006-07 budget reductions in the FY 2007-08 State aid revenue amounts. Netting the delayed payment out of Table 2 would show State aid at 20.3% of total college revenue and an increase of 34.7% instead of 37.2% in statewide total college revenue.

Table 2

Community College Operating Fund Revenue						
Community College Revenue	FY 2001-02	Percent of Total	FY 2007-08	Percent of Total	Change from FY 2001-02	Percent from FY 2001-02
State Aid	\$316,410,944	30.3%	\$310,876,116	21.7%	(\$5,534,828)	(1.7%)
Property Tax	416,867,238	39.9	558,893,181	39.0	142,025,943	34.1
Tuition & Fees	280,043,137	26.8	492,364,216	34.3	212,321,079	75.8
Other	31,890,847	3.1	71,577,033	5.0	39,686,186	124.4
Total	\$1,045,212,166	100.0%	\$1,433,710,546	100.0%	\$388,498,380	37.2%

Source: FY 2001-02 and FY 2007-08 ACS

State Aid

Table 3 provides a history of State aid (operations and at-risk funding) appropriations for community colleges from FY 2001-02 through FY 2008-09. While there have been increases in recent years, those adjustments have not offset reductions made since FY 2001-02. Fiscal year 2008-09 appropriations for community colleges are \$23.3 million (7.3%) below the \$319.2 million appropriated in FY 2001-02. The FY 2008-09 appropriation includes an overall 2.0% increase over the FY 2007-08 appropriation for community colleges (netting out the delayed payment from FY 2006-07). The FY 2009-10 Governor's recommendation would maintain that level of funding, which is less than what colleges received statewide in FY 1999-2000. The

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information in Table 3 is adjusted to net out the delayed payment from FY 2007-08 in order to reflect the actual impact of State aid payments.

Table 3

State Appropriations for Community Colleges								
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
ALPENA	\$5,415,977	\$5,226,563	\$4,931,300	\$4,931,200	\$4,853,400	\$4,983,400	\$5,115,300	\$5,206,300
BAY DE NOC	5,228,594	5,057,658	4,783,600	4,783,500	4,709,800	5,050,700	5,161,000	5,241,200
DELTA	14,924,104	14,450,752	13,247,600	13,247,500	13,014,200	13,407,100	13,557,800	13,856,100
GLEN OAKS	2,621,344	2,540,572	2,333,500	2,333,400	2,290,700	2,353,000	2,374,200	2,417,300
GOGEBIC	4,444,025	4,302,469	4,093,800	4,093,700	4,017,700	4,106,800	4,265,900	4,333,800
GRAND RAPIDS	18,707,559	18,129,871	16,636,100	16,636,000	16,364,700	16,829,400	17,007,700	17,352,100
HENRY FORD	22,873,301	22,148,444	20,301,400	20,301,300	19,947,000	20,481,900	20,683,300	21,060,800
JACKSON	12,684,209	12,281,961	11,258,700	11,258,600	11,062,800	11,340,100	11,452,300	11,663,200
KALAMAZOO VALLEY	12,939,470	12,532,330	11,483,900	11,483,800	11,273,300	11,608,000	11,734,400	11,980,600
KELLOGG	10,235,318	9,909,540	9,086,900	9,086,800	8,941,800	9,197,000	9,297,000	9,475,400
KIRTLAND	3,217,147	3,125,026	2,861,200	2,861,100	2,792,600	2,873,400	2,910,000	2,968,200
LAKE MICHIGAN	5,616,015	5,432,078	4,975,700	4,975,600	4,883,800	5,028,400	5,074,900	5,169,300
LANSING	32,380,906	31,361,118	28,747,200	28,747,100	28,236,900	29,025,300	29,327,600	29,916,000
MACOMB	34,472,041	33,382,797	30,599,200	30,599,100	30,062,200	30,930,600	31,242,900	31,858,300
MID MICHIGAN	4,715,839	4,575,479	4,194,700	4,194,600	4,133,500	4,252,600	4,350,100	4,430,600
MONROE	4,561,498	4,417,152	4,051,200	4,051,100	3,984,800	4,107,300	4,158,200	4,248,200
MONTCALM	3,299,224	3,192,474	2,932,500	2,932,400	2,881,000	2,956,700	2,985,500	3,056,600
MOTT	16,400,616	15,883,355	14,561,400	14,561,300	14,308,000	14,691,300	14,835,900	15,122,700
MUSKEGON	9,484,150	9,180,484	8,413,900	8,413,800	8,233,600	8,410,900	8,450,800	8,597,300
NORTH CENTRAL	3,318,548	3,192,087	2,908,500	2,908,400	2,854,000	2,927,600	2,954,200	3,004,700
NORTHWESTERN	9,580,843	9,285,469	8,526,200	8,526,100	8,372,000	8,573,900	8,654,500	8,804,400
OAKLAND	21,847,342	21,153,961	19,390,900	19,390,800	19,055,500	19,632,300	19,845,700	20,282,600
ST. CLAIR	7,345,023	7,120,212	6,536,200	6,536,100	6,427,700	6,626,700	6,710,900	6,854,600
SCHOOLCRAFT	12,878,904	12,473,201	11,432,300	11,432,200	11,227,900	11,523,400	11,644,800	11,894,300
SOUTHWESTERN	7,013,475	6,791,248	6,217,000	6,216,900	6,092,800	6,259,700	6,319,100	6,427,600
WASHTENAW	13,098,937	12,692,456	11,639,600	11,639,500	11,442,300	11,849,200	11,995,500	12,289,300
WAYNE COUNTY	17,373,105	16,816,331	14,972,600	14,972,500	14,982,100	15,381,500	15,733,900	16,022,500
WEST SHORE	2,518,804	2,433,506	2,232,700	2,232,600	2,206,300	2,271,200	2,300,600	2,346,500
TOTAL	\$319,196,318	\$309,088,594	\$283,349,800	\$283,347,000	\$278,652,400	\$286,679,400	\$290,144,000	\$295,880,500

Notes: Amounts include appropriations for operations and at-risk payments. FY 2006-07 does not include reductions contained in EO 2007-3 and 2007 PA 17. FY 2007-08 does not include FY 2006-07 delayed payment.

Source: ACS and appropriation acts



Tuition

From FY 2001-02 to FY 2007-08, the statewide in-district tuition rate increased by \$17.59 (32.5%), from 54.09 per credit hour to \$71.68 per credit hour. During the same time period, the out-of-district tuition rate increased by \$34.55 (43.1%), from \$80.07 to \$114.62. As a revenue source, tuition accounted for 26.8% of community college operating revenue in FY 2001-02. By FY 2007-08, it accounted for 35.0% of college operating revenue.

Property Tax Revenue

Growth in property tax revenue is limited by constitutional provisions. Also, tax increment finance authorities and tax abatements affect potential growth in property tax revenue to community colleges. However, from FY 2001-02 to FY 2007-08, revenue from property taxes grew enough to remain at about 40.0% of total operating revenue statewide. This trend will not continue. The January Consensus Revenue Forecast indicated that State Education Tax revenue, which is tied to statewide taxable values, rose 3.9% in FY 2006-07, but fell 0.1% in FY 2007-08. Declines of 3.3% and 2.5% are forecast for FY 2008-09 and FY 2009-10, respectively. Calendar year 2009 County Equalization Reports show assessed values decreasing by 10.0% in Wayne County, 8.9% in Oakland County, and 8.3% in Macomb County. Another indication of the future decline in property tax revenue for community colleges is the average home price. In calendar year 2007, home prices statewide fell 6.8%, and they were down 16.2% in 2008. As of March 2009, average home prices are down 27.3% from the January to March period of 2008.

Conclusion

Community colleges state that their goal is "to provide quality education at an affordable price". It will become increasingly difficult for colleges to balance revenue and expenditures without raising tuition above inflationary increases. While overall revenue has grown for most community colleges, revenue has not kept pace with cost increases. State aid will not decrease from the current level through FY 2010-11 due to requirements of the Federal American Recovery and Reinvestment Act of 2009. After FY 2010-11, lingering State budget issues will limit the State's ability to increase funding for community colleges. State aid at best will continue at the same level, or more likely be reduced beginning in FY 2011-12. That, combined with projections regarding taxable values, leaves tuition increases and cost containment measures as the only likely means to deal with increasing costs in future years.