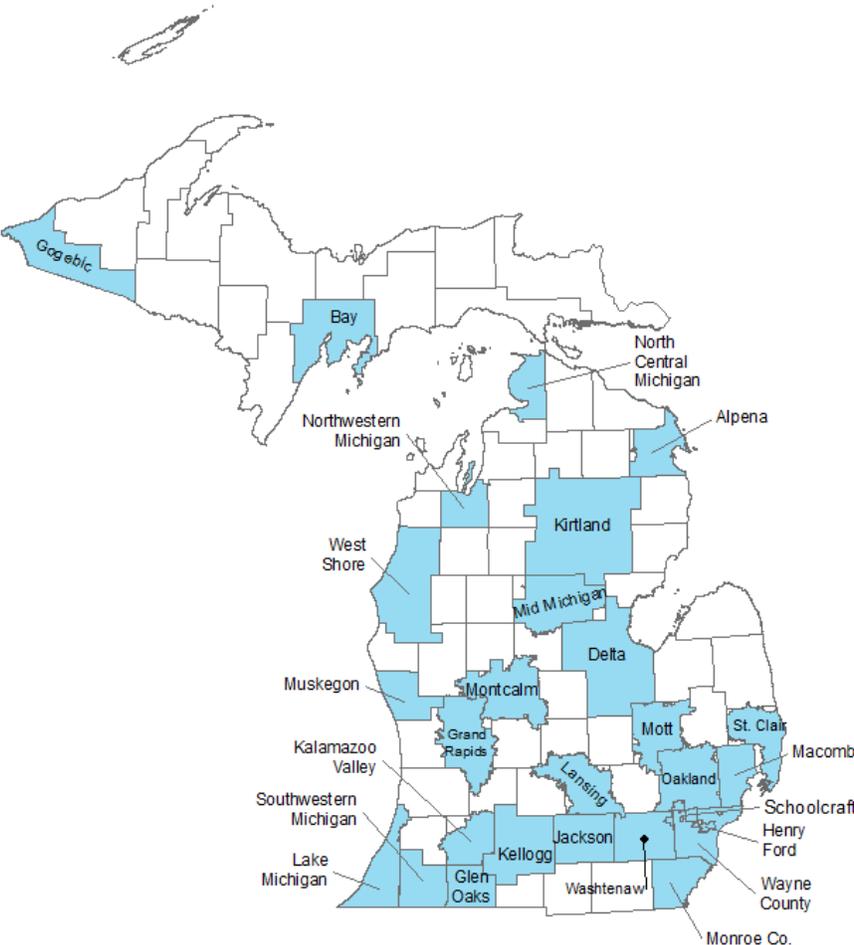


**Performance Indicators Review Task Force
Findings and Recommendations
January 15, 2016**

Michigan Public Community Colleges



Performance Indicators Review Task Force Members

Senator Darwin Booher
35th Senate District

Senator David Knezek
5th Senate District

Representative John Bizon
62nd House District

Representative Henry Yanez
25th House District

Dr. Rose Bellanca,
President, Washtenaw Community College

Dr. Laura Coleman
President, Bay de Noc Community College

Dr. James Jacobs
President, Macomb Community College

Mr. Timothy Nelson
President, Northwestern Michigan College

Mr. Dan Horn, State Budget Office
Department of Technology, Management, and Budget, Higher Education and
Community College Analyst

Introduction

Section 230a of Public Act 85 of 2015 (the Education Omnibus Appropriation Act for fiscal year (FY) 2015-16) created a task force to review, evaluate, discuss, and make recommendations regarding performance indicators established for community colleges pursuant to Section 242 of Public Act 154 of 2005 (which established a similar task force). (For the language of Section 230a, please see [Appendix A.](#)) The charge to the task force was to determine "whether the current metrics used [for distributing State funds to community colleges] are the most appropriate and reliable performance indicators available and determine the most efficient methodology for connecting state funding to those indicators". Section 230a required a report containing Task Force findings and recommendations to be submitted 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.

The Task Force consisted of two members of the Michigan House of Representatives, two members of the Michigan Senate, four community college presidents, and one person representing the Department of Technology, Management, and Budget (DTMB). The Task Force first met on November 5, 2015. Discussion at that meeting centered on the current formula and a proposal for a new formula from the Michigan Community College Association (MCCA). Task Force members were asked to use the time between the November and December Task Force meetings to review the MCCA proposal, submit questions, and propose other revisions. On November 18, 2015, Task Force members received a Senate Fiscal Agency detailed analysis of the MCCA proposal, including a summary of each metric and how the distribution would be calculated, a side-by-side comparison of the current and proposed formulas, and a list showing the distribution of a \$10.0 million increase through the MCCA-proposed formula compared with the distribution under the current formula.

As discussed below, at its final meeting in December 2015, the Task Force reached a general agreement to approve the MCCA proposal.

Overview of MCCA Proposal

The MCCA funding model includes the following:

- A base allocation for sustainability (decreased from the current percentage);
- A completion component (new and significantly increased in percentage);
- A contact hour component weighted by cost category (increased from the current percentage);
- An administrative costs component (decreased from the current percentage);
- A local strategic value (decreased from the current percentage); and
- Use of the formula for funding increases and not redistributing base appropriations.

The proposed completion component varies substantially from the weighted degree component of the current performance indicators model. The MCCA proposed funding model has three performance metrics that include rewarding community colleges based on the proportionate share of completers, rewarding colleges based on average rates of completion, and rewarding colleges based on average improvement in average rates of completion.

The goal for developing the proposed model is the same as the goal for the 2006 model developed pursuant to Public Act 154 of 2005: determining the most appropriate and reliable performance indicators and the most efficient methodology for connecting State appropriations to those indicators. The following information provides a more detailed comparison between the current community college performance indicators funding model and the proposed MCCA performance funding model.

Current Performance Indicators Task Force Funding Model

The current funding model includes an across-the-board allocation of 50.0% of annual funding increases to provide for system sustainability and to restore funds reduced from college operations during periods of State revenue shortfalls. The remaining funds are allocated based on three categorical indicators: Enrollment and Business Efficiency, Completions, and Local Strategic Value. The following distribution currently is used pursuant to Section 230 of Public Act 85 of 2015:

- Proportionate to Previous Fiscal Year Base Appropriations/System Sustainability, 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.
- 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).¹ 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.
- 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 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%.
- Weighted Degree/Certification Completion Formula, 17.5%. Data for this metric are obtained through the Integrated Postsecondary Education Data System (IPEDS).² Data are based on a two-year average. The following weights are applied to completions:

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

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

¹ 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).

² IPEDS is the Integrated Postsecondary Education Data System collection program for the National Center for Education Statistics, a part of the Institute for Education Sciences within the United States Department of Education.

Category A: Economic Development and Business or Industry Partnerships

- (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.

Category B: Educational Partnerships

- (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 four-year colleges and universities to promote successful transfer, such as articulation, 2+2, or reverse transfer agreements or operation of a university center.

Category C: Community Services

- (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.

MCCA Proposed Funding Model

The MCCA proposed funding model includes elements similar to the current formula; however, it uses different metrics for performance indicators, changes the contact hour metric by weighting health and technology contact hours, and changes percentage allocations to metrics, as discussed below.

- Base allocation for sustainability, 30.0%. This is a decrease from the current 50.0%. The model includes a baseline increase for each college that recognizes ongoing costs that each college incurs for operations.
- Performance/Completions, 30.0%. This component would replace the current weighted degree/completions metric that receives 17.5% of the current formula. Three distributions of 10.0% each would be made under this category:
 - Performance Improvement. This component is based on improvement in six-year average rates of completion. The data source is the Governor's dashboard on completion rates. Completions include certificates, degrees, and transfers. This metric measures the college against itself. While the proposal envisions eventually using three cohorts, the MCCA model includes two (2007 and 2008). Colleges with improved rates receive a share of 20.0% of the funding allocated to this category. Eighty percent of the amount allocated to this category is distributed to all 28 community colleges proportionately based on the prior-year appropriation for each college (across-the-board).
 - Performance Completion Number. This metric rewards colleges for their proportionate share of completers relative to statewide completions. Each reported IPEDS completion counts as one (no weighting). Completions include certificates and degrees. The measure places an equal value on certificates and degrees because both have value in the labor market. The data source for this metric is IPEDS.
 - Performance Completion Rate. This measures a college's performance relative to all 28 public community colleges using two cohorts (2007 and 2008) to smooth year-to-year variances. The metric is based on six-year completion rates. The data source is Governor's dashboard on completion rates. Completions include certificates, degrees, and transfers. Colleges that are the farthest above the average get the largest increase from 20.0% of the funding allocated to this metric. Colleges at or below the statewide average completion rate get nothing from the 20.0% portion of funding allocated to this metric. However, all colleges receive a share of 80.0% of the funding allocated to this metric, based on the prior-year appropriation for each college (across-the-board).
- Contact Hour Completions, 30.0%. This is an increase from the current 10.0% allocation. This metric recognizes course enrollment, and the new weighting for health and technology programs recognizes higher costs for those programs. A weighting of 2x is given to health and technology programs.
- Administrative Efficiency, 5.0%. This is a decrease from the current 7.5% allocation. The methodology for the distribution remains the same as for the current funding model. Colleges with lower administrative costs (represented as a percentage of their operating expenditures) receive a larger portion of funding from this category.

- Local Strategic Value, 5.0%. This is a decrease from the current 15.0% allocation. The MCCA does not list any specific change to the current methodology for distributing funding under this category. However, the proposal does refer to the consideration of workforce placement data once they are available.

Table 1 summarizes the difference between the current Performance Indicators Task Force Model and the MCCA proposal.

Table 1

Performance Indicators Task Force Current Formula Compared to MCCA Proposal		
Metric	Current Formula	MCCA Proposed Formula
System Sustainability/Increase proportionate to base (across-the-board adjustment)	50.0%	30.0%
Contact Hours	10.0% Contact hours not weighted.	30.0%. Weighted (contact hours in health and technology 2x).
Performance	17.5% Weighted Degree/Certification Completion.	30.0% as follows: 10.0% Completion Improvement; 10.0% Number of Completions; 10.0% Completion Rate.
Administrative Costs	7.5%	5.0%
Local Strategic Value	15.0%	5.0%
Total	100.0%	100.0%
Formula Methodology³		
Proportionate to Base	65.0%	51.0%
Metrics	35.0%	49.0%

Table 2 shows the funding impact of the proposed formula based on a \$10.0 million (3.2%) increase to FY 2015-16 appropriations for community college operations. Thirteen colleges receive more funding under the MCCA proposal, while 15 receive less. However, the differences range from a five-tenths of a percent decrease to an eight-tenths of a percent increase. For 20 colleges the change is less than two-tenths of one percent.

³ Across-the-board (proportionate to base) distributions for the current formula include: 50.0% System Sustainability and 15.0% Local Strategic Value. Across-the-board distributions for the MCCA proposal include 30.0% System Sustainability, 16.0% Hold Harmless (portion of performance funding), and 5.0% Local Strategic Value.

Table 2

MCCA Formula Proposal - Comparison to Current Formula							
College	FY 2015-16 Enacted	Current Formula	MCCA Proposal	Dollar Change	Current Formula % Change to Year-To-Date	MCCA Formula % Change to Year-To-Date	Percent Difference
Alpena	\$5,464,400	\$171,400	\$183,779	\$12,379	3.1%	3.4%	0.2%
Bay de Noc	5,490,200	164,200	157,993	(6,207)	3.0	2.9	(0.1)
Delta	14,704,000	476,800	463,997	(12,803)	3.2	3.2	(0.1)
Glen Oaks	2,551,100	81,400	82,406	1,006	3.2	3.2	0.0
Gogebic	4,509,900	135,900	155,243	19,343	3.0	3.4	0.4
Grand Rapids	18,187,300	557,200	598,688	41,488	3.1	3.3	0.2
Henry Ford	21,893,300	625,800	634,410	8,610	2.9	2.9	0.0
Jackson	12,245,300	367,200	343,949	(23,251)	3.0	2.8	(0.2)
Kalamazoo Valley	12,689,400	433,400	419,605	(13,795)	3.4	3.3	(0.1)
Kellogg	9,950,100	317,700	312,484	(5,216)	3.2	3.1	(0.1)
Kirtland	3,221,500	125,300	108,794	(16,506)	3.9	3.4	(0.5)
Lake Michigan	5,417,700	174,000	170,856	(3,144)	3.2	3.2	(0.1)
Lansing	31,288,200	954,300	888,562	(65,738)	3.1	2.8	(0.2)
Macomb	33,239,500	982,600	1,006,670	24,070	3.0	3.0	0.1
Mid-Michigan	4,757,700	176,200	174,000	(2,200)	3.7	3.7	0.0
Monroe County	4,565,600	169,400	162,082	(7,318)	3.7	3.6	(0.2)
Montcalm	3,280,600	125,400	142,827	17,427	3.8	4.4	0.5
Mott	15,901,700	501,300	487,670	(13,630)	3.2	3.1	(0.1)
Muskegon	9,020,700	278,200	295,163	16,963	3.1	3.3	0.2
North Central	3,224,800	122,100	148,827	26,727	3.8	4.6	0.8
Northwestern	9,200,500	282,800	268,253	(14,547)	3.1	2.9	(0.2)
Oakland	21,429,400	712,000	776,846	64,846	3.3	3.6	0.3
St. Clair	7,158,000	224,100	230,885	6,785	3.1	3.2	0.1
Schoolcraft	12,706,400	448,400	458,010	9,610	3.5	3.6	0.1
Southwestern	6,657,600	188,700	169,831	(18,869)	2.8	2.6	(0.3)
Washtenaw	13,301,100	521,200	530,074	8,874	3.9	4.0	0.1
Wayne County	16,989,800	610,300	556,266	(54,034)	3.6	3.3	(0.3)
West Shore	2,446,200	72,700	71,830	(870)	3.0	2.9	0.0
Total	\$311,492,000	\$10,000,000	\$10,000,000	\$0	3.2%	3.2%	0.0%

Task Force Recommendation

The final meeting of the Performance Indicators Review Task Force was held on December 10, 2015. At that meeting, there was a general consensus to approve the MCCA proposal for a new model, with exceptions noted below.

The new model does the following:

- Maintains base appropriations and includes a sustainability (across-the-board) allocation to provide stability, enabling colleges to effectively plan annual budgets.
- Recognizes high-cost areas of instruction through the weighted contact hour component.
- Includes three metrics for completions to allocate funding more equitably based on performance.
- Increases the amount of funding allocated through performance metrics, while decreasing across-the-board distributions.
- Uses reliable performance indicators and efficient methodologies to connect State funding to those indicators.

As with the existing funding model, the new model does not take into consideration the varying ability of college districts to generate revenue from property taxes. It also does not take into account issues related to individual demographics of community college districts.

Exceptions to Task Force Recommendation:

- Representative Bizon expressed concern regarding the relatively small amount of State funding that would be distributed through performance indicators. Representative Bizon suggested that distributing a portion of base appropriations through the formula be considered at some point in the future, through the annual budget process. The MCCA recommendation proposed using the model only for funding increases. It was the consensus of the Task Force that going into the base was an issue for the annual appropriations process and not the Task Force.
- The DTMB appreciated the opportunity to participate as a member of the Task Force, but did not endorse the MCCA proposal at the time the Task Force approved it.

Appendix A: Section 230a of Public Act 85 of 2015, Enacted House Bill 4115, amendments to the State School Aid Act.

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.