

State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2011



Community College Revenue Sources - REVISED

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Introduction

This article updates information included in the March/April 2009 State Notes article: "Community College Revenue Sources: How Colleges Have Managed Increasing Costs and Declining State Aid". The conclusion of the article stated:

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.

While there were no reductions to State appropriations for community college operations in fiscal year (FY) 2010-11, approximately \$3.0 million in renaissance zone reimbursements were eliminated from the budget. The FY 2011-12 enacted appropriation for community colleges included a \$12.0 million (4.1%) decrease from the \$295.9 million FY 2010-11 appropriation. From FY 2001-02 through FY 2011-12, annual State appropriations for community colleges have decreased by \$35.3 million (11.1%), from \$319.2 million to \$283.9 million.¹ As shown below, community colleges also continue to face challenges related to revenue from property taxes and tuition.

Background

The sources of data for this article include the Activities Classification Structure (ACS) Data Book & Companion for 2001-02 and 2009-10, and annual appropriation bills. Representing community college information on a statewide average or aggregate basis can result in a misleading impression of the financial position of many colleges. For example, 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 (19.0%), Bay de Noc (14.0%), Gogebic (14.0%), Jackson (11.0%), Mid Michigan (10.0%), and Henry Ford (14.0%). Property tax revenue accounts for 50.0% or more of total college operating fund revenue at Monroe (50.0%), Oakland (55.0%), Washtenaw (50.0%), Wayne (54.0%), and West Shore (50.0%). Community colleges with lower student populations do not have the ability that large urban colleges have to generate revenue from tuition. The reduction of State aid to community colleges has a greater impact on colleges that cannot generate significant amounts from property taxes and tuition. State aid ranges from 12.0% of total operating fund revenue at Oakland and Washtenaw to 44.0% at Gogebic.

College Operating Expenditures

Table 1 compares FY 2001-02 statewide community college operating fund expenditures with those expenditures in FY 2009-10.

¹ Amounts include operations and at-risk funding. Renaissance zone payments are not included.



Table 1
Community College Operating Fund Expenditures

	FY 2001-02	FY 2009-10	Change From FY 2001-02 to FY 2009-10	
			Change	Percent
Alpena	\$9,694,709	\$14,260,337	\$4,565,628	47.1%
Bay de Noc	9,938,827	15,295,764	5,356,937	53.9
Delta	43,630,724	64,573,393	20,942,669	48.0
Glen Oaks	7,853,603	10,253,055	2,399,452	30.6
Gogebic	6,300,282	8,370,690	2,070,408	32.9
Grand Rapids	57,916,669	103,440,112	45,523,443	78.6
Henry Ford	67,126,165	83,733,790	16,607,625	24.7
Jackson	23,831,017	38,328,328	14,497,311	60.8
Kalamazoo Valley	32,638,483	53,651,807	21,013,324	64.4
Kellogg	24,990,315	31,894,352	6,904,037	27.6
Kirtland	10,613,502	16,251,430	5,637,928	53.1
Lake Michigan	16,305,608	25,189,848	8,884,240	54.5
Lansing	71,822,715	107,412,250	35,589,535	49.6
Macomb	78,240,211	106,901,025	28,660,814	36.6
Mid Michigan	9,995,554	18,965,975	8,970,421	89.7
Monroe	17,438,803	25,007,474	7,568,671	43.4
Montcalm	8,376,276	13,865,871	5,489,595	65.5
Mott	50,586,159	71,681,858	21,095,699	41.7
Muskegon	20,547,825	30,281,527	9,733,702	47.4
North Central	8,022,941	13,908,075	5,885,134	73.4
Northwestern	25,786,552	34,479,713	8,693,161	33.7
Oakland	91,510,341	139,434,729	47,924,388	52.4
St. Clair	20,236,255	27,220,276	6,984,021	34.5
Schoolcraft	42,166,641	65,098,917	22,932,276	54.4
Southwestern	12,729,908	18,470,203	5,740,295	45.1
Washtenaw	56,390,414	87,551,395	31,160,981	55.3
Wayne County	63,280,695	95,012,801	31,732,106	50.1
West Shore	7,702,496	11,229,725	3,527,229	45.8
State Aggregate	\$895,673,690	\$1,331,764,720	\$436,091,030	48.7%

Source: Audited Financial Statements as reported in the Activities Classification Structure (ACS) Data Books & Companion, Department of Energy, Labor, and Economic Growth

From FY 2001-02 to FY 2009-10, community colleges reported expenditure increases of 48.7%, from \$895,673,690 to \$1,331,764,720; aggregate expenditures per FYES decreased from \$7,665 to \$7,512 (2.0%). During the same time period, the United States Consumer Price Index increased by 21.5%. Factors affecting expenditures include:

- Enrollments. Fiscal year equated student (FYES) is defined as the calculated equivalent of a student who completes one full year of instructional work (31 semester credit hours). From FY 2001-02 to FY 2009-10, total FYES at community colleges increased by 60,475 (51.8%), from 116,802 to 177,277. Additional students require additional college resources.
- Demand for high-tech and health care-related classes. Certain classes are more expensive to provide compared with general education courses. For example, statewide the cost-per-student contact hour for health occupations courses is \$8.12 compared with \$5.40 for general



education courses, and \$9.93 for technical and industrial courses. From FY 2001-02 to FY 2009-10, statewide FYES in health occupations increased from 8,548 to 15,001 (75.5%). 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.

- Increasing employee-related costs. Community colleges report that employee-related costs (salaries and fringe benefits) account for 70.1% to 83.8% of their operating fund expenditures. The State aggregate is 78.0%. From FY 2001-02 to FY 2009-10, expenditures for salaries increased by 45.7%, while expenditures for fringe benefits increased by 63.2%. Cost increases for fringe benefits are attributable to health care and retirement, which consistently exceed inflation rates. The United States Department of Health and Human Services National Health Expenditures projections predict that this trend will continue. From FY 2001-02 to FY 2009-10, community college (employer) payments to the Michigan Public School Employees Retirement System (MPERS) increased by 39.2%, from 12.17% of members' wages to 16.94% of members' wages. For FY 2010-11 and FY 2011-12, the MPERS rate increased to 20.66% of members' wages and 24.46% of members' wages respectively.² The FY 2011-12 MPERS rate is a 101.0% increase over FY 2001-02.

College Operating Revenue

Table 2 is based on information contained in the ACS for FY 2001-02 and FY 2009-10. 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,³ 30.3% of total community college operating revenue. By FY 2009-10, declining State revenue and ensuing budget reductions reduced State aid to approximately 18.9% of the total operating revenue sources for community colleges.

Table 2

Community College Operating Fund Revenue						
Community College Revenue	FY 2001-02	Percent of Total	FY 2009-10	Percent of Total	Change from FY 2001-02	Percent from FY 2001-02
State Aid	\$316,410,944	30.3%	\$293,489,146	18.9%	(\$22,921,798)	(7.2%)
Property Tax	416,867,238	39.9	565,647,618	36.5	148,780,380	35.7
Tuition & Fees	280,043,137	26.8	633,514,887	40.8	353,471,750	126.2
Other	31,890,847	3.1	58,716,048	3.8	26,825,201	84.1
Total	\$1,045,212,166	100.0%	\$1,551,367,699	100.0%	\$506,155,533	48.4%

Source: ACS

State Aid

Table 3 provides a comparison of State aid (operations and at-risk funding) appropriations for community colleges from FY 2001-02 through FY 2011-12. The FY 2011-12 appropriation represents a \$12.0 million (4.1%) decrease from the \$295.9 million FY 2010-11 appropriation. Fiscal

² FY 2009-10, FY 2010-11, and FY 2011-12 rates listed apply to employees who first worked before July 1, 2010.

³ Differences in State aid amounts listed in Table 2 and Table 3 are due to the October to September State fiscal year and the July-to-June fiscal year for community colleges.



year 2011-12 appropriations for community colleges are \$35.3 million (11.1%) below the \$319.2 million appropriated in FY 2001-02.

Table 3
Community Colleges State Appropriations FY 2001-02 and FY 2010-11

Community College	FY 2001-02	FY 2011-12	FY 2011-12 % Over FY 2001-02
Alpena.....	\$5,415,977	\$4,984,300	(8.0%)
Bay de Noc	5,228,594	5,040,200	(3.6)
Delta	14,924,104	13,336,200	(10.6)
Glen Oaks.....	2,621,344	2,320,900	(11.5)
Gogebic	4,444,025	4,140,500	(6.8)
Grand Rapids.....	18,707,559	16,649,700	(11.0)
Henry Ford.....	22,873,301	20,145,000	(11.9)
Jackson.....	12,684,209	11,219,700	(11.5)
Kalamazoo Valley.....	12,939,470	11,522,700	(10.9)
Kellogg.....	10,235,318	9,047,900	(11.6)
Kirtland.....	3,217,147	2,872,900	(10.7)
Lake Michigan.....	5,616,015	4,937,700	(12.1)
Lansing	32,380,906	28,651,900	(11.5)
Macomb	34,472,041	30,490,300	(11.6)
Mid Michigan.....	4,715,839	4,266,800	(9.5)
Monroe.....	4,561,498	4,094,000	(10.2)
Montcalm	3,299,224	2,946,800	(10.7)
Mott.....	16,400,616	14,526,400	(11.4)
Muskegon	9,484,150	8,256,700	(12.9)
North Central	3,318,548	2,886,500	(13.0)
Northwestern	9,580,843	8,430,300	(12.0)
Oakland	21,847,342	19,455,900	(10.9)
St. Clair	7,345,023	6,534,100	(11.0)
Schoolcraft.....	12,878,904	11,477,300	(10.9)
Southwestern.....	7,013,475	6,143,700	(12.4)
Washtenaw	13,098,937	11,827,300	(9.7)
Wayne County	17,373,105	15,425,900	(11.2)
West Shore	2,518,804	2,248,900	(10.7)
Total	\$319,196,318	\$283,880,500	(11.1%)

Source: ACS and appropriation acts

Tuition

From FY 2001-02 to FY 2009-10, the statewide average in-district tuition rate increased by \$22.75 (42.1%), from \$53.95 per credit/contact hour to \$76.70 per credit/contact hour. During the same time period, the statewide average out-of-district tuition rate increased by \$45.28 (56.6%), from \$80.07 to \$125.35. As a revenue source, tuition accounted for 26.8% of community college operating revenue in FY 2001-02. By FY 2009-10, tuition accounted for 40.8% of college operating revenue. For FY 2010-11 and FY 2011-12, the statewide in-district tuition rate increased by 6.1% and 5.3%, respectively.

Table 4 provides a comparison of community college in-district tuition rates between FY 2001-02 and FY 2011-12.



Table 4

Michigan Community College In-District Tuition Rate History FY 2001-02 and FY 2010-11			
Community College	FY 2001-02	FY 2011-12	FY 2011-12 % Over FY 2001-02
Alpena.....	\$58.00	\$99.00	70.7%
Bay de Noc	56.75	97.00	70.9
Delta	61.40	84.00	36.8
Glen Oaks.....	54.00	85.00	57.4
Gogebic	49.00	96.00	95.9
Grand Rapids.....	60.00	95.50	59.2
Henry Ford.....	55.00	75.00	36.4
Jackson.....	55.00	100.50	82.7
Kalamazoo Valley	45.25	79.50	75.7
Kellogg.....	51.75	79.50	53.6
Kirtland.....	54.10	86.00	59.0
Lake Michigan.....	51.00	81.00	58.8
Lansing	50.00	79.00	58.0
Macomb.....	56.00	84.00	50.0
Mid Michigan.....	54.25	88.00	62.2
Monroe.....	49.00	77.00	57.1
Montcalm	54.74	83.00	51.6
Mott.....	61.15	98.68	61.4
Muskegon	50.00	81.50	63.0
North Central	48.40	74.50	53.9
Northwestern	56.00	82.10	46.6
Oakland	50.30	66.70	32.6
St. Clair	61.00	91.00	49.2
Schoolcraft.....	55.00	84.00	52.7
Southwestern.....	52.00	99.25	90.9
Washtenaw	53.00	85.00	60.4
Wayne County	54.00	89.00	64.8
West Shore	54.50	79.00	45.0
Average.....	\$53.95	\$85.70	58.9%

Source: ACS and Michigan Community College Business Officers Association Survey

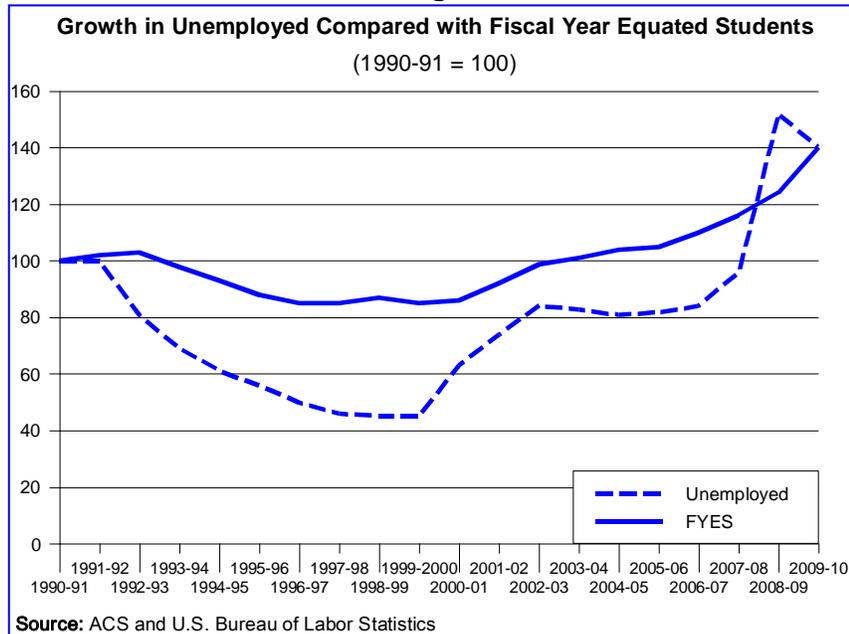
The ability to generate additional revenue through tuition increases is affected by changes in enrollments. While FYES increased substantially from FY 2001-02 to FY 2009-10, that trend is not likely to continue. Historically, enrollments at community colleges show a strong correlation to changes in unemployment. Figure 1 compares growth in Michigan unemployment with growth in community college FYES from 1990-91 to 2009-10.

The Michigan Association of Collegiate Registrars and Admissions Officers Enrollment Reports for the fall of 2010 and 2011 listed enrollment declines for most community colleges. The availability of grant funding for worker training programs also has an impact on the number of community college students. No Worker Left Behind enrollments at two-year institutions totaled 8,260 in FY 2007-08, 20,884 in FY 2008-09, and 27,671 in FY 2009-10.⁴ However, Federal appropriation constraints are expected to have an impact on future funding for this program.

⁴ The No Worker Left Behind program provides up to two years of free tuition for eligible participants who are unemployed, laid off, or employed with a household income of \$40,000 or less.



Figure 1



Other indicators of future declines in community college enrollments include Michigan age demographics and K-12 enrollments. Fall 12th grade headcounts show declines in recent years. The 2010 Decennial Census shows decreases for the age groups listed in [Table 5](#).

Table 5
2000 to 2010 Change for Ages 0-14 Years Old

Age Group	2000	2010	Change	Percent Change
Under 5 years	672,005	596,286	(75,719)	(11.3%)
5 to 9 years	745,181	637,784	(107,397)	(14.4)
10 to 14 years	747,012	675,216	(71,796)	(9.6)

Source: United States 2010 Decennial Census

Downward pressures on enrollments could be offset to a certain extent if a greater number of four-year students attend community colleges to complete the first two years of their undergraduate program. The increasing cost at four-year institutions could affect enrollments at community colleges.

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. In FY 2001-02, property tax revenue accounted for 39.9% of community college operating fund revenue statewide. In FY 2007-08, property taxes still accounted for approximately 39.0% of community college operating fund revenue. By FY 2009-10, property tax revenue decreased to 36.5% of operating fund revenue. From FY 2001-02 to FY 2008-09, the taxable value of property in community colleges districts increased by \$80.2 billion (38.8%), from \$206.8 billion to \$287.0 billion.



Over the next two fiscal years (FY 2009-10 and FY 2010-11), the taxable value decreased by \$18.1 billion (6.3%).

The State Education Tax revenue is tied to statewide taxable values. That revenue declined by 1.9% in FY 2008-09 and 5.4% in FY 2009-10. The 2011 May Consensus Revenue Forecast indicated that State Education Tax revenue would continue to decline by 4.1% in FY 2010-11 and 1.2% in FY 2011-12. For FY 2012-13, the current projection is that State Education Tax revenue will increase by 1.1%.

Proposed elimination of the personal property tax also would have an impact on revenue for community colleges, depending on the source and amount of replacement revenue. In calendar year 2010, personal property tax revenue accounted for 7.1% of property tax revenue for community colleges statewide. As a percentage of property tax revenue by college, personal property tax revenue ranged from 2.2% of property tax revenue for Southwestern Michigan College to 14.4% for Bay de Noc. Four other community colleges received more than 10.0% of their property tax revenue from the personal property tax: Gogebic (10.9%), Henry Ford (13.7%), Kellogg (11.1%), and Wayne (10.7%).⁵ The actual impact on each community college would depend on its overall reliance on property taxes, as discussed under the background section above. Property tax millage revenue also funds debt retirement for six community colleges.

Based on the discussion above, the only opportunity to generate additional funds from property taxes would be through a request to the voters for a millage increase. These requests usually do not have a successful outcome.

Cost Containment

While demand and costs have resulted in community college expenditures' increasing above the rate of inflation, the increases have been mitigated by cost containment measures. Over recent years, most community colleges have reported savings from:

- Increased efficiency in scheduling classes – adjusting the size and frequency of classes, eliminating low-enrollment/high-cost instructional programs, and providing webc-based instruction.
- Staff adjustments -- eliminating/consolidating positions, outsourcing, reducing professional development and travel, replacing full-time staff with part-time personnel, and adopting retirement/separation incentives.
- Employee concessions – instituting wage freezes/COLA delays, changing benefits (increased co-pays, deductibles, premiums). The impact of Public Act 152 of 2011 could further reduce costs, depending on what share of health insurance premium costs is currently paid by the employee.
- Other measures – deferring maintenance, conserving energy (use and technology), reducing community service, delaying purchases/group/bulk purchasing, and self-insuring.

⁵ Utility personal property is only available at the county/city/township level. Amounts used for percentage calculations include only those local units within the boundaries of the community college's district with a single school district within the unit's boundaries, and thus underestimate the totals for each community college. Statewide, taxes on utility personal property that were able to be allocated to these units accounted for only \$2.1 billion of the total \$7.7 billion in utility personal property taxable value statewide, and \$60.9 million of \$232.6 million in personal property taxes levied by units other than counties, cities, and townships. Property tax revenue received by community college districts from other counties through contractual agreements also is not reflected in these calculations.



Conclusion

Several factors will lead to continued reliance on tuition increases and cost containment measures to meet the demand for community college services over the near future. Section 201a of Public Act 62 of 2011 (the FY 2011-12 School Aid budget) stated legislative intent that FY 2012-13 State appropriations for community colleges would be maintained at the FY 2011-12 level. This could be a best case scenario, depending on State revenue collections and any future legislation affecting the State tax base. Distributions of State aid also could be affected if the current allocation to community colleges were changed to some type of formula distribution, as has been done for incremental increases and decreases in the past. Current consensus revenue estimating numbers do not project a statewide revenue growth in the property tax base until FY 2012-13. Based on Federal budget constraints, possible future reductions could occur for Federal funding sources, including No Worker Left Behind and Pell grants. All of the above will have an impact on the ability of community colleges to balance revenue and expenditures without continuing to raise tuition above inflationary increases.