Community College Reform – Funding Formula

Task Force Report

The FY13 General Appropriations Act (GAA) specifically requires the Department of Higher Education (DHE) Commissioner to develop a funding formula for the community colleges which incorporates the allocation of appropriations to the individual community colleges based, in part, on performance (see attached legislation). This section of the FY13 GAA, Section 171, requires the Commissioner to consider the following:

> (1) accurate enrollment data for each college and the operational goals and needs for each college;
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> (2) institutional performance with respect to clearly defined goals and metrics;
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> (3) the relationship of the allocation formula to state initiatives relative to innovation and institutional action in support of workforce development, partnerships with commonwealth businesses and industry, collaboration with state universities and vocational-technical schools, and overall revenue available to each institution.

There are numerous legislative concerns driving the development of a new formula for community college appropriations: 1) ensuring that performance by community colleges supported by public monies would be assessed and rewarded based on a series of metrics that both reflected the DHE's Vision Project and reflected other priorities of the legislature; 2) disparities/inequities in state funding between colleges on a per student basis; and 3) assurance that efforts to stop the growth in student charges are instituted.

Formula work has taken place in the past in Massachusetts and has resulted in fairly elaborate formulae that take into account a significant number of variables. Many states have experimented with formula funding in the past with mixed results. The Massachusetts experience, like many states', foundered on the fact that the formula produced a very high need number; the state could not afford it; and the formula was so complicated that final agreement on the approach could not be achieved. Performance-based funding combined with a base allocation seems to be more feasible.

Tennessee, Oregon, Indiana, and Ohio are states that have moved to a performance-based funding system. Arkansas, Louisiana, South Dakota, Texas, and West Virginia are in the process of developing performance-based formula systems. There is also a continuing debate about whether a formula should be applied to just new funds or to all funds available. Only in one year, 2002, was a formula applied to the distribution of new dollars in Massachusetts, and even then, the adjustment was incremental.

Still today, there is a real consensus that something needs to be done to resolve the broad funding disparities across our community college campuses. There is also a broad consensus that Performance Funding is a legitimate approach to the distribution of state funds.

Over the past several months, DHE officials have convened an advisory group comprised of Community College Presidents (selected by their peers) and Representatives from the Massachusetts Teachers Association (MTA). Section 171 specifically requires the Commissioner to consult with the Presidents of the Community Colleges and Representatives from the MTA. This advisory group served as the foundation for that consultation.

Four meetings were held in a consultative mode and a national expert, Dennis Jones, President of the National Center for Higher Education Management Systems (NCHEMS), was commissioned to assist the Commissioner and his staff in this work. It became clear that a number of key issues needed to be addressed.

The first challenge was to agree on the methodology for the so-called base appropriation, and for the application of performance metrics. The second challenge was to develop a truly integrated funding model that also rewarded superior performance by the colleges. Third, consistent with the charge to the Commissioner in Section 171, the Commissioner/Department needs to have an incentive pool of funds to support experimental and best practice activities that have the potential to improve performance or efficiencies at campuses. An additional and significant challenge that became clearer is the need to address the issue of institutions that might lose funds under any proposed funding formula scenario.

In addition to the challenges, there was a strong recognition that there should and must be a correlation between the level of student fees and the level of state tax dollar support. There is also a strong recognition of the correlation between state economic and work force success and Community College activity.

After consultation with Community College Presidents and the MTA, the following reflects the recommended approach to Community College funding:

> A) Excellence Adjustment - An *excellence* adjustment pool shall be established to be added to the top of the funds available; selectively appropriated to those colleges that have the lowest state funding per FTE student; or used to fill the gap for those colleges that lose funds as a result of this formula’s implementation. This fund in the $6 to $7 million range would be a one-time base increase in the appropriation made available to Community Colleges. The justification for this excellence pool is reflective of national data that suggests that some Massachusetts Community Colleges are funded at a level which is lower than competing states (see chart). If Massachusetts is to compete effectively with other states, both educationally and economically, and to be the “best in the nation”, less than adequate funding will not produce the hoped for results. It would also reduce the negative impact on those colleges that are “overfunded” compared to other Massachusetts Community Colleges.
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> B) Base Cost of Operations - A base amount of $4.5 million is allocated to every college before the formula is applied. This amount is in recognition of the fact that a minimum amount of funds is required just to support the basic costs of opening and running any community college. This number is based on a hypothetical budget of how

much it would cost to operate a community college with a fairly liberal set of assumptions. It also assumes a 60/40 ratio of state support to student revenues.

C) Stop-loss - A "stop loss" provision is added which, in effect, assures that in any one year no college can lose more than X% of their previous year's appropriation. It is recommended that this percent be established at 5% in Year One and be utilized for the first five years of the formula implementation.

D) Base Appropriation - A formula with fifty percent of funding tied to student credit hours completed on an annual basis would be applied. Credit hours would be weighted based on the costs to produce such credit hours; more costly credit hours would receive a higher weight. This costing is based on national cost studies that established the relative costs of offering different types of academic programs, science courses for example being more expensive than liberal arts.

E) Performance-funding - Fifty percent of funding would be applied to *performance* with the following metrics used to judge performance – student success rates reflected in certificate completions, associate completions, transfers, 30 credits achieved, first full math and English courses completed, and graduation rates. A multiplier reflecting areas of special concern and risk would also be utilized so that college completion results could be enhanced to reflect diversity and work force priorities.

F) Data Refinement - Continuing work needs to be done to assure that the data that is being utilized to set completion and performance outcomes in the formula are appropriately applied, relevant, and applied consistently across all campuses. At the beginning of every year, a review would be conducted of the data elements that have been incorporated into the Funding Formula in order to refine its overall precision and relevance. If necessary, enhancements will be made to the manner in which specified data elements are defined and collected. If it is determined that new data collections are necessary, the DHE will collaborate with the campuses to integrate the new elements into the DHE central database.

G) Variable Adjustments – The three basic components of the formula: student credit hours completed, college completion variables, and alignment variables are fully supported by the Task Force with the expectation that such variables could be adjusted and or added to in any year. The assumption is that this is a dynamic rather than static process. Appropriate credits, completion priorities, and at risk and public demand needs will all change over time and the formula must be responsive to such changes and demands.

H) Incentive Pool (Performance Incentive Fund) - An *incentive* pool akin to the current Performance Improvement Fund set aside would be annually available to provide grants for innovative activity.

l) Collective Bargaining - Any collective bargaining funding would also be added to each college's base because these funds are in essence a pass-through from the state to the individual staff and faculty members. No real new funds are available for academic and operational activity with these collective bargaining appropriations.

These recommendations have been thoroughly reviewed with the Community College Presidents and the MTA Representative. They have all made helpful suggestions to improve the effort including a reaffirmation that a formula that provides equitable funding to respond to student need and state priorities is essential. The Task Force also believes that the formula presented is rational and balanced and takes into account relevant variables. Each data element and application was thoroughly reviewed with the Task Force. This formula also gives the State and Local Leaders of the Community Colleges enhanced tools to manage changes in behavior and practice. Those participating in the development of this approach accepted the validity of such an approach but are concerned about the negative financial implications for some colleges if implemented. Not surprisingly, a significant interest among a majority of stakeholders is in adding more funds to the appropriation for Community Colleges.

We look forward to further discussions with Community College Presidents and State Leaders about how best to proceed in establishing the performance-based funding approach for Community Colleges in the FY14 State budget and subsequent budgets. Any change in the allocation of State funds is difficult but these recommendations can set the stage for a more equitable and responsive state funding approach.

The following link will bring you to a graphic presentation of how such a formula approach might work with the ability to adjust aspects of this formula based on final implementation decisions: https://dl.dropbox.com/u/41391234/MAModel2.1.swf.

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