

MEMORANDUM



DATE: April 13, 2017
TO: All Interested Parties
FROM: Perry Zielak, Fiscal Analyst
RE: Community Colleges Performance Indicators Formula

This memorandum summarizes the revised performance indicators distribution formula used for the allocation of increased operations funding to community colleges as set out by the Performance Indicators Task Force in January 2016. The revised performance indicators formula was utilized for the first time under the Fiscal Year (FY) 2016-17 community colleges budget (2016 PA 249). \$4.4 million was appropriated using the new method.

Background

The community colleges budget began consistently using performance metrics to distribute operations appropriations starting with the creation of the Community College Performance Indicators Task Force in 2005. The goal was to create a formula that would find reliable college performance measures to assist the state in future funding decisions while also holding the 28 community colleges accountable. The performance funding formula was used to allocate increased operations funding beginning with the FY 2006-07 budget. However, the FYs 2009-10 and 2010-11 Community Colleges budget did not include increases, so the formula was not utilized. In FY 2011-12 the formula was used to help calculate operations funding reductions. An altered performance funding formula was used beginning with FY 2012-13.

The FY 2015-16 budget included boilerplate language forming a new Community College Performance Indicators Task Force to review and recommend new metrics for a revised distribution formula. The task force included members of the Legislature, members from the Governor's office, House and Senate Fiscal Agencies, various community colleges presidents, and the Michigan Community College Association. After two meetings, the task force issued its recommended formula changes in January 2016.

Prior Performance Funding Model

The performance funding model began with four categories in FY 2006-07. The model was revised for the FY 2012-13 budget and used in subsequent budget years through FY 2015-16. It allocated funding based on the following categories:

- **50% on System Sustainability/Across-the-Board Adjustment:** The model included a priority to restore funding cuts that had been made in prior fiscal years. Due to this consideration, the formula allocated 50% of annual funding increases to all community colleges in an "across-the-board" manner.

- **10% on Contact Hour Equated Students¹ (CHES):** Allocations made in this category were based on the number of student contact hours based on a two-year average reported by the colleges in the Activities Classification Structure (ACS)².
- **7.5% on Administrative Costs:** Allocations made in this category were based on a two-year average of administrative costs compared to general fund operating costs reported in the ACS. Colleges that had lower administrative costs were rewarded with higher allocations.
- **17.5% on Weighted Degree & Certification Completions:** The numbers used for completions originated from the federal Integrated Postsecondary Education Data System (IPEDS) and were based on a two-year average. More weight was given to completions and degrees within Health and Engineering/Technology fields.
- **15% on Local Strategic Value:** Community colleges had to meet a minimum number of best practices from three different categories (economic development and business partnerships, educational partnerships, and community services) in order to receive funding through this component.

Current Performance Funding Model

While the Performance Indicators Funding Task Force recommended a specific funding model to use in its January 2016 report, the Governor's FY 2016-17 Executive Recommendation for the Community Colleges budget used its own revised funding formula that was similar to the task force model but differed on a few categories and percentage allocations. Both the House and Senate Community College Appropriations Subcommittees, and the final enacted budget, used the formula recommended by the task force for performance funding allocations in the FY 2016-17 budget. The current model allocates funding based on the following categories:

- **30% on Across-the-Board Adjustment:** This category distributes funding based on the college's individual base amount percentage in proportion to overall funding from the prior fiscal year (i.e. if College X's prior fiscal year operations grant was 2% of all community colleges grants, College X will receive 2% of this category's funding). This percentage was lowered from 50% in the prior version of the formula to decrease the formula's dependence on across-the-board allocations.
- **30% on Contact Hour Equated Students (CHES):** This category distributes funding based on the number of CHES per college. Students in health and technology programs receive increased weighting under the calculation for this category to account for higher instruction costs. This percentage was increased from 10% in the prior version of the formula.
- **10% on Performance Completion Improvement:** This category awards funding based on the improvement in completions (degrees, certificates, or transfers to a four year college) over a six-year period. Colleges that demonstrate more completion improvement receive a slight funding increase, based on 20% of the category's funding. The remaining 80% of this category's funding is distributed in an across the board proportion.
- **10% on Performance Completion Number:** This category awards funding based on the college's share of completions relative to the overall number of completions statewide.

¹ CHES is the calculated equivalent of one full year of instruction, defined as 496 hours of instruction.

² ACS is the community college database currently operated by the Center for Educational Performance and Information (CEPI), located within the Department of Technology, Management, and Budget.

- **10% on Performance Completion Rate:** This category awards funding based on six-year completion rates of the 2007 and 2008 student cohorts. Similar to the completion improvement category, 20% of the funding is distributed to colleges that are equal to or above the statewide completion rate average. 80% of the remaining funding in this category is distributed proportionately to all community colleges.
- **5% on Administrative Costs:** This percentage was lowered from 7.5% in the prior version of the formula. Colleges that have lower administrative costs are allocated a larger portion of funding in this category.
- **5% on Local Strategic Value:** This percentage was lowered from 15% in the prior version of the formula. Community colleges must still meet a minimum number of four out of five best practices within three categories (economic development/business partnerships, educational partnerships, and community services) to receive funding.

To summarize the current formula's differences compared to the prior version: the current model decreased the across-the-board funding increase percentage. The newest model also places an emphasis on community college completions, using three different completion measures to recognize actual rates of completion, the improvement of completion numbers, and a comparison against the statewide average. The task force recognized that certain fields, such as health or engineering, have increased instruction costs over traditional liberal art courses. Therefore, the current formula weights students in those fields more heavily in an effort to address those higher costs.

The current performance funding formula has been in use for one fiscal year. There is not yet enough data to evaluate whether the current formula achieves its goal of holding community colleges accountable for their performance while adequately recognizing the financial challenges the colleges face, such as increased operations costs around technology and health courses that are rising in demand.

Appendix 1 shows how the \$4.4 million increase for community college operations for FY 2016-17 was distributed under the current performance funding model compared to a hypothetical distribution under the previous performance funding model.

Appendix 1: FY 2016-17 Community College Performance Funding Increases

College	Current Formula			Previous Formula		
	Total Performance Funding	FY 2016-17 Appropriation	% Change from FY16	Total Performance Funding	Total Operations Funding	% Change from FY16
Alpena	\$80,300	\$5,544,700	1.50%	\$74,600	\$5,539,000	1.40%
Bay de Noc	\$70,700	\$5,560,900	1.30%	\$74,000	\$5,564,200	1.30%
Delta	\$203,700	\$14,907,700	1.40%	\$209,200	\$14,913,200	1.40%
Glen Oaks	\$35,800	\$2,586,900	1.40%	\$35,200	\$2,586,300	1.40%
Gogebic	\$67,900	\$4,577,800	1.50%	\$59,300	\$4,569,200	1.30%
Grand Rapids	\$263,200	\$18,450,500	1.40%	\$244,900	\$18,432,200	1.30%
Henry Ford	\$282,700	\$22,176,000	1.30%	\$280,700	\$22,174,000	1.30%
Jackson	\$152,300	\$12,397,600	1.20%	\$162,900	\$12,408,200	1.30%
Kalamazoo Valley	\$184,500	\$12,873,900	1.50%	\$190,500	\$12,879,900	1.50%
Kellogg	\$137,400	\$10,087,500	1.40%	\$139,700	\$10,089,800	1.40%
Kirtland	\$48,500	\$3,270,000	1.50%	\$56,000	\$3,277,500	1.70%
Lake Michigan	\$75,100	\$5,492,800	1.40%	\$76,400	\$5,494,100	1.40%
Lansing	\$389,100	\$31,677,300	1.20%	\$417,100	\$31,705,300	1.30%
Macomb	\$442,300	\$33,681,800	1.30%	\$431,300	\$33,670,800	1.30%
Mid-Michigan	\$76,400	\$4,834,100	1.60%	\$77,200	\$4,834,900	1.60%
Monroe County	\$71,100	\$4,636,700	1.60%	\$74,200	\$4,639,800	1.60%
Montcalm	\$62,500	\$3,343,100	1.90%	\$54,500	\$3,335,100	1.70%
Mott	\$213,800	\$16,115,500	1.30%	\$219,500	\$16,121,200	1.40%
Muskegon	\$129,900	\$9,150,600	1.40%	\$122,400	\$9,143,100	1.40%
North Central	\$65,600	\$3,290,400	2.00%	\$53,900	\$3,278,700	1.70%
Northwestern	\$117,500	\$9,318,000	1.30%	\$123,600	\$9,324,100	1.30%
Oakland	\$341,500	\$21,770,900	1.60%	\$312,800	\$21,742,200	1.50%
Schoolcraft	\$202,900	\$12,909,300	1.60%	\$199,400	\$12,905,800	1.60%
Southwestern	\$74,900	\$6,732,500	1.10%	\$83,200	\$6,740,800	1.20%
St. Clair	\$101,300	\$7,259,300	1.40%	\$98,200	\$7,256,200	1.40%
Washtenaw	\$232,900	\$13,534,000	1.80%	\$228,900	\$13,530,000	1.70%
Wayne County	\$244,400	\$17,234,200	1.40%	\$268,000	\$17,257,800	1.60%
West Shore	\$31,800	\$2,478,000	1.30%	\$32,400	\$2,478,600	1.30%
TOTAL	\$4,400,000	\$315,892,000	1.40%	\$4,400,000	\$315,892,000	1.40%

Notes: The previous model numbers are House Fiscal Agency estimates as updated data for two categories within the formula are no longer available due to the switch to the current performance formula.

Appendix 2 shows how the \$4.4 million increase was distributed to the 28 community colleges under the new performance formula.

Appendix 2: FY 2016-17 Community College Performance Funding Increases

	New Money: \$4,400,000	30%	10%	10%	10%	30%	5%	5%	100%
	FY 2015-16 Base	Sustainability	Performance-Improvement	Performance-Completion Number	Performance-Completion Rate	Contact Hours	Administrative	Local Strategic Value	Total Performance Funding
Alpena	\$5,464,400	\$23,156	\$23,971	\$4,860	\$6,175	\$11,415	\$6,820	\$3,859	\$80,300
Bay de Noc	\$5,490,200	\$23,266	\$6,204	\$6,029	\$12,231	\$13,909	\$5,153	\$3,878	\$70,700
Delta	\$14,704,000	\$62,311	\$16,678	\$29,868	\$16,616	\$58,152	\$9,689	\$10,385	\$203,700
Glen Oaks	\$2,551,100	\$10,811	\$2,883	\$3,747	\$8,949	\$7,442	\$202	\$1,802	\$35,800
Gogebic	\$4,509,900	\$19,111	\$15,019	\$3,230	\$13,106	\$8,692	\$5,556	\$3,185	\$67,900
Grand Rapids	\$18,187,300	\$77,072	\$25,309	\$22,562	\$20,552	\$94,895	\$9,989	\$12,845	\$263,200
Henry Ford	\$21,893,300	\$92,777	\$26,411	\$20,516	\$30,819	\$86,365	\$10,351	\$15,463	\$282,700
Jackson	\$12,245,300	\$51,892	\$14,742	\$13,731	\$20,138	\$34,843	\$8,293	\$8,649	\$152,300
Kalamazoo Valley	\$12,689,400	\$53,773	\$14,340	\$17,815	\$20,454	\$58,272	\$10,887	\$8,962	\$184,500
Kellogg	\$9,950,100	\$42,165	\$11,244	\$12,837	\$17,090	\$36,647	\$10,398	\$7,028	\$137,400
Kirtland	\$3,221,500	\$13,652	\$3,640	\$4,798	\$3,640	\$12,640	\$7,814	\$2,275	\$48,500
Lake Michigan	\$5,417,700	\$22,958	\$6,304	\$5,660	\$6,122	\$24,303	\$5,879	\$3,826	\$75,100
Lansing	\$31,288,200	\$132,589	\$35,357	\$41,122	\$41,281	\$106,144	\$10,612	\$22,098	\$389,100
Macomb	\$33,239,500	\$140,858	\$37,562	\$43,227	\$43,449	\$142,984	\$10,805	\$23,476	\$442,300
Mid-Michigan	\$4,757,700	\$20,162	\$6,757	\$9,650	\$5,376	\$24,825	\$6,220	\$3,360	\$76,400
Monroe County	\$4,565,600	\$19,348	\$5,159	\$6,718	\$5,159	\$21,675	\$9,787	\$3,225	\$71,100
Montcalm	\$3,280,600	\$13,902	\$13,469	\$4,363	\$10,026	\$10,809	\$7,612	\$2,317	\$62,500
Mott	\$15,901,700	\$67,386	\$21,448	\$21,735	\$17,970	\$64,770	\$9,309	\$11,231	\$213,800
Muskegon	\$9,020,700	\$38,227	\$27,428	\$7,702	\$10,194	\$29,152	\$10,779	\$6,371	\$129,900
North Central	\$3,224,800	\$13,666	\$12,004	\$4,645	\$10,232	\$13,681	\$9,071	\$2,278	\$65,600
Northwestern	\$9,200,500	\$38,989	\$13,243	\$10,117	\$10,397	\$29,632	\$8,604	\$6,498	\$117,500
Oakland	\$21,429,400	\$90,811	\$24,216	\$35,093	\$24,216	\$145,013	\$7,045	\$15,135	\$341,500
Schoolcraft	\$12,706,400	\$53,846	\$15,218	\$23,832	\$20,777	\$70,798	\$9,467	\$8,974	\$202,900
Southwestern	\$6,657,600	\$28,213	\$7,523	\$5,249	\$7,523	\$17,962	\$3,714	\$4,702	\$74,900
St. Clair	\$7,158,000	\$30,333	\$8,462	\$8,427	\$14,678	\$27,373	\$6,945	\$5,056	\$101,300
Washtenaw	\$13,301,100	\$56,366	\$19,040	\$40,843	\$20,865	\$76,882	\$9,510	\$9,394	\$232,900
Wayne County	\$16,989,800	\$71,997	\$22,017	\$29,014	\$19,199	\$82,516	\$7,680	\$12,000	\$244,400
West Shore	\$2,446,200	\$10,366	\$4,350	\$2,611	\$2,764	\$8,211	\$1,808	\$1,728	\$31,800
	\$311,492,000	\$1,320,000	\$440,000	\$440,000	\$440,000	\$1,320,000	\$220,000	\$220,000	\$4,400,000

Appendix 3 shows the Local Strategic Value category criteria that each community college must meet four out of five practices within each grouping.

Appendix 3: Local Strategic Value Criteria

Category A: Economic Development and Business/Industry Partnerships

- Active partnerships with local employers including hospitals and healthcare providers.
- Provides customized on-site training for area companies, employees, or both.
- Supports entrepreneurship through a small business assistance center or other training or consulting activities targeted towards small businesses.
- Supports technological advancement through industry partnerships, incubation activities, or operation of a Michigan technical education center or other advanced technology center.
- Active partnerships with local or regional workforce and economic development agencies.

Category B: Educational Partnerships

- 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.
- Hosts, sponsors, or participates in enrichment programs for area K-12 students, such as college days, summer or after-school programming, or Science Olympiad.
- Provides, supports, or participates in programming to promote successful transitions to college for traditional age students, and promote college readiness in area high schools and community centers.
- Provides, supports, or participates in programming to promote successful transitions to college for new or reentering adult students, such as adult basic education, a high school equivalency test preparation program and testing, or recruiting, advising, or orientation activities specific to adults.
- 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.

Category C: Community Services

- Provides continuing education programming for leisure, wellness, personal enrichment, or professional development.
- 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.
- 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.
- 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.
- Promotes, sponsors, or hosts community service activities for students, staff, or community members.