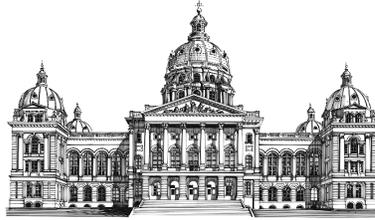

Iowa Legislative Services Agency Fiscal Services

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State Capitol
Des Moines, IA 50319
October 26, 2004

Allocation of State Aid to Community Colleges

ISSUE

The Department of Education and the Legislative Services Agency have differed in interpretations of a formula used to allocate the annual State general aid appropriation to community colleges.

AFFECTED AGENCIES

Department of Education

CODE AUTHORITY

Chapter 260C, Code of Iowa

BACKGROUND

Since the establishment of the community college system in 1965, the General Assembly has annually appropriated a lump sum for general aid to the State's community colleges. Over the years, the allocation of the annual appropriation among the colleges has often been prescribed by the General Assembly in statute, specifying a dollar amount for each college. In those years, the formula used to determine the allocation was not included in the statute. Occasionally, in lieu of specific allocations, the General Assembly has described a formula in statute to be used by the Department of Education in allocating the appropriation. The formula has varied but has usually included a component based on enrollment.

In 1996, the General Assembly directed the Department of Education, in conjunction with the Iowa Association of Community College Trustees, to submit recommendations for "a funding formula that identifies and addresses community college needs." In January 1998, the Department submitted the Iowa Community College Funding Formula Task Force Report, which recommended a formula for determining the amount of the total annual appropriation request for community colleges, as well as a formula for allocating the annual appropriation among the colleges. The allocation formula, excerpted from the Task Force Report, is provided in **Attachment A**. In October 1998, the State Board of Education adopted

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administrative rules (IAC 281—21.45) that include an allocation formula for the annual community college general aid appropriation (**Attachment B**).

Since that time, the General Assembly has continued to allocate specific dollar amounts to each community college in statute as part of the annual general aid appropriation. The allocations have been determined by the Fiscal Services Division of the Legislative Services Agency (LSA), based upon the Division's interpretation of the recommended formula in the 1998 Task Force Report.

CURRENT SITUATION

During the 2004 Legislative Session, the Education Appropriations Subcommittee adopted a bill that included the annual community college general aid appropriation and specific dollar allocations determined by the LSA. The appropriation and allocations became part of SF 2298 (FY 2005 Omnibus Appropriations Act). During the General Assembly's consideration of SF 2298, a representative of one of the community colleges contacted the LSA and the co-chairs of the Education Appropriations Subcommittee, concerned that the allocations did not correctly reflect the recommended formula in the 1998 Task Force Report.

It was determined that the LSA's interpretation of the allocation formula described in the Task Force Report differed from the Department of Education's interpretation set out in administrative rules. Upon consideration, the General Assembly amended SF 2298 to allocate the general aid appropriation based upon the formula described in administrative rules.

The difference between the two interpretations of the formula involves the sequencing of several factors. It becomes an issue only when the amount of increase in the annual appropriation is large enough to require the application of the formula's later steps. A comparison of the results of the two interpretations applied to the FY 2005 appropriation is provided in **Attachment C**.

CONCLUSION

The description of the formula in the 1998 Task Force Report is not clear and, therefore, subject to interpretation. Several community college representatives who participated in or provided assistance to the Iowa Community College Funding Formula Task Force have assured the LSA that the Department of Education's administrative rules reflect the intent of the Task Force.

The Iowa Association of Community College Presidents continues to discuss the issue of equity in allocating State funding among the colleges and whether the formula described in the 1998 Task Force Report and set out in administrative rules should be changed. Michael C. Morrison, President, North Iowa Area Community College, appeared before the Community College Council on January 14, 2004, to discuss a variety of methods for analyzing equity. Mr. Morrison's presentation is provided in **Attachment D**.

STAFF CONTACT: Robin Madison (Ext. 15270)

Task Force Recommendation for Allocating the Annual State General Aid Appropriation to Community Colleges

*Excerpted from the
1998 Iowa Community College Funding Formula Task Force Report*

1. Allocate to each community college district on an annually advancing basis the previous year's appropriation, provided the overall total appropriation to the community college system is sufficient to do so. This rolling appropriation base includes the historical provisions for property tax equalization, small-scale operation, differential program costs for vocational-technical education and arts and science college transfer programs, and other "funding formula" considerations related to space and enrollment.
2. The increase in state general aid appropriated by the Iowa General Assembly will be distributed on the following prioritized basis:
 - a. A two percent minimum inflation appropriation to each community college multiplied by the college's most recent previous state aid allocation.
 - b. However, if the national rate of inflation exceeds two percent, the appropriation increase of state general aid to each college will equal the national inflation rate if the increase in state aid appropriations to community colleges is equal to or greater than the national inflation rate.
 - c. The growth in the total general state aid that exceeds inflation or two percent, whichever is greater, will be distributed based on each college's most recent proportionate enrollment share. However, the minimum total amount to be distributed in this manner will be one percent of the previous year's total appropriation of general state aid.
 - d. If the increase in total state general aid is below the two percent level, the total appropriation increase will be distributed as an inflationary adjustment.

Administrative Rules Formula for Allocating the Annual State General Aid Appropriation to Community Colleges

Excerpted from Chapter 281, Iowa Administrative Code

21.45(2) Moneys appropriated by the general assembly from the general fund to the department of education for community college purposes for general state financial aid for a fiscal year shall be allocated to each community college by the department of education based on each community college's base funding, the inflation rate, and the college's proportional share of the total Full-Time Equivalent Enrollment (FTEE). The appropriations shall be allocated in the following manner and sequence:

- a. Base funding. The amount of general state financial aid each community college received as an allocation from appropriations made from the state general fund in the base year.
- b. Inflation rate. After the base funding has been determined, a 2 percent inflation increase shall be multiplied by each college's state aid allocation from the base year.
- c. If the increase in the total state general aid exceeds 2 percent, an amount up to 1 percent shall be distributed based upon each college's most recently determined proportional share of FTEE.
- d. Additional inflation rate. If the inflation rate exceeds 2 percent and the increase in total state aid permits, each community college's allocation shall be increased until the inflation rate is satisfied.
- e. Additional proportional share of total FTEE. If the increase in the total state general aid exceeds the funds needed to meet the allocation requirements in paragraphs "a" through "d" above, the remaining amount shall be distributed based on each college's most recent proportional share of total FTEE.

If the total increase in total state general aid is equal to or less than 2 percent, the increase shall be distributed as inflation.

Attachment C

FY 2005 Community College General Aid Allocations

	Adjusted FY 2004	FY 2005 Initial LSA Allocation	FY 2005 Final Allocation	FY 2005 Final v. Initial
1 - NORTHEAST IOWA	\$ 6,516,128	\$ 6,708,090	\$ 6,717,353	\$ 9,263
2 - NORTH IOWA	7,654,068	7,879,554	7,859,918	-19,636
3 - IOWA LAKES	7,110,457	7,319,928	7,295,985	-23,943
4 - NORTHWEST IOWA	3,475,440	3,577,825	3,569,332	-8,493
5 - IOWA CENTRAL	7,271,050	7,485,252	7,499,288	14,036
6 - IOWA VALLEY	6,736,489	6,934,943	6,918,908	-16,035
7 - HAWKEYE	9,719,859	10,006,202	10,008,601	2,399
9 - EASTERN IOWA	11,954,722	12,306,903	12,311,410	4,507
10 - KIRKWOOD	18,761,435	19,314,139	19,369,286	55,147
11 - DMACC	19,912,628	20,499,246	20,524,505	25,259
12 - WESTERN IOWA	7,844,996	8,076,106	8,084,395	8,289
13 - IOWA WESTERN	8,067,023	8,304,674	8,298,920	-5,755
14 - SOUTHWEST IOWA	3,516,881	3,620,487	3,612,935	-7,552
15 - INDIAN HILLS	11,066,386	11,392,397	11,362,217	-30,180
16 - SOUTHEAST	6,171,682	6,353,497	6,346,191	-7,307
	<u>\$ 135,779,244</u>	<u>\$ 139,779,244</u>	<u>\$ 139,779,244</u>	

Attachment D

**Comments by Michael C. Morrison
to the Community College Council**

January 2004

Equity in Distributing State Funds

The issues surrounding "equity in distributing state funds" are complex. I believe how we deal with this complex issue may have a long-term impact on our total system. Given the importance of the issues, I offer the following as one way to frame the questions and create a dialogue to make progress toward consensus.

There are many ways to examine and analyze equity. How we approach and frame the issue and the values that we bring to the analysis have important effects on the resolution of the issue. Equity can be analyzed and determined in many ways:

I. Equity via FTE Enrollments

Under this value consideration funds would be distributed to the Colleges proportionate to their share of FTE enrollments. Under this value consideration "funds follow students."

II. Equity via Marginal Cost Analysis

Most experienced higher education leaders would concede that there are "economies of scale" in educating larger student populations. Economists could be hired to calculate the marginal costs and formulas could be created to distribute funds based on both fixed costs and economies of scale (marginal cost analysis).

III. Equity via Redistribution of Wealth

Arguments can be made that during the past several years a redistribution of wealth has occurred as result of policies that favor larger, urban districts at the expense of small, rural districts. Our 260 E, F&G programs represent cases in point. Many may argue that these policies give credence to the "rich getting richer" arguments. Under this value consideration corrective action would need to be taken which favors small, rural districts.

IV. Equity via Social and Economic Justice Considerations

A. Community Colleges have always held strong value considerations for equal opportunity and equal access. An objective analysis of student access to a broad range of quality programs might reveal that students from large, urban districts have considerable advantages that their counterparts in small, rural districts do not enjoy.

B. Within the last decade many of us had the opportunity to test our commitment to equal opportunity and equal access, at the expense of losing enrollment, by not joining the private colleges in their attempt to stop the "technical colleges" from becoming comprehensive community colleges. By taking the high road for favoring the expansion of the comprehensive community college system we have made tremendous gains in opening doors for thousands of students who previously were not served. Under this value consideration our "social and economic justice" history should not be forgotten, especially for those who lost, rightly so, considerable enrollments to the new comprehensive community colleges.

C. Many might argue that Iowa is best served by adopting policies and implementing policies that mitigate against creating two Iowas – one Iowa that does well and has a

avored future and another Iowa, which spirals down the economic and social ladder. We would probably all agree that community colleges represent the true hope for economic revitalization. One perspective is that any change in the distribution of scarce resources to community colleges may have deleterious effects on their region's economic development.

Under these value considerations, a certain proportion of funds would need to be distributed to small, rural districts to provide for social and economic justice and mitigate inequalities in Iowa.

V. Equity via Political and System Considerations

The calculus of deciding equity in funding allocations undoubtedly may give rise to political and system considerations. Many might rightly argue that the Iowa Association of Community College Presidents and the Iowa Association of Community College Trustees enjoy the benefits of collegial and harmonious relationships and the resulting benefits of a common legislative and many other system-wide agendas. All would probably agree that "working together is working smarter" or "winning is better than losing." Some might take exception to the call to work together as a system while simultaneous efforts are made to restrict their access to scarce resources through changes in the distribution of state resources. When the votes in the House and Senate are as close as they are, can we afford to lose even one district's support? Equity decisions need to rightly take into account the calculus of political and system considerations as well as the law of unintended consequences.

Conclusion

The above methods of analyzing equity are not intended to be exhaustive. There are probably other perspectives that I have not identified and I encourage your input for framing and resolving the issues.

Some members of the IACCP and the IACCT will undoubtedly favor one or more of the perspectives over the others. In the end I suspect that if a decision is made to change or not to change the existing distribution formula, it will be based on a complex integration of the values associated with many of the perspectives. The task is to reach the best decision that's possible in a complex environment with many complex variables. Our values and our mission, along with our ability to continue to work together and enhance political support, are important considerations in resolving the issues. I am confident that if any system can do it we can. There is enough talent, integrity and wisdom around our table to resolve these issues.

Michael C. Morrison
President
North Iowa Area Community College