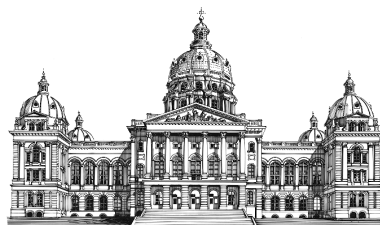

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Des Moines, IA 50319
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Community Colleges - An Overview of Funding

ISSUE

A review of community college funding.

AFFECTED AGENCIES

Department of Education

CODE AUTHORITY

Chapters 256, 260C, and 260D, Code of Iowa

BACKGROUND

The funding for community colleges is established and defined in Chapter 260D, Code of Iowa, and is referred to as the community college funding formula. The formula was established in 1986 and significantly modified in 1990. The formula was established after the Legislature charged the Department of Education, in 1985, with establishing a task force to study community college funding and make recommendations for future appropriations that would eliminate inequities by FY 1990. The formula is similar to the school foundation aid formula since it is pupil driven, measured by contact hours, and has a unit cost which grows by allowable growth. It is different than the school foundation aid formula since it is not funded by a standing unlimited appropriation. The amount generated by the community college formula is not automatically appropriated. The background of the formula will be described in the following areas:

- Explanation of the community college funding formula and how the formula is calculated.
- Historical comparison of actual appropriations to the formula's calculated amount.
- Explanation of the distribution of the community college appropriation when the formula is not used.
- Review of the results of a required report prepared by the Department of Education.

Explanation of the Community College Formula

Overview of the Formula

The funding formula provides a mechanism for quantifying the funding needs of the community college system. Base funding levels for five instructional cost centers and five noninstructional cost functions were defined and established. Cost centers are an accounting device used to gather and record all expenses and contact hours within specific, defined categories. The noninstructional (indirect) costs are calculated as a percentage of the other cost centers.

Instructional Cost Centers	Noninstructional Functions
1. Arts and Sciences	1. General Institutional (Administration)
2. Vocational-Technical Preparatory	2. Student Services
3. Vocational-Technical Supplementary	3. Physical Plant (maintenance and utility costs)
4. Adult Basic Education and High School Completion	4. Library Services
5. Continuing and General Education	5. Equipment Purchases

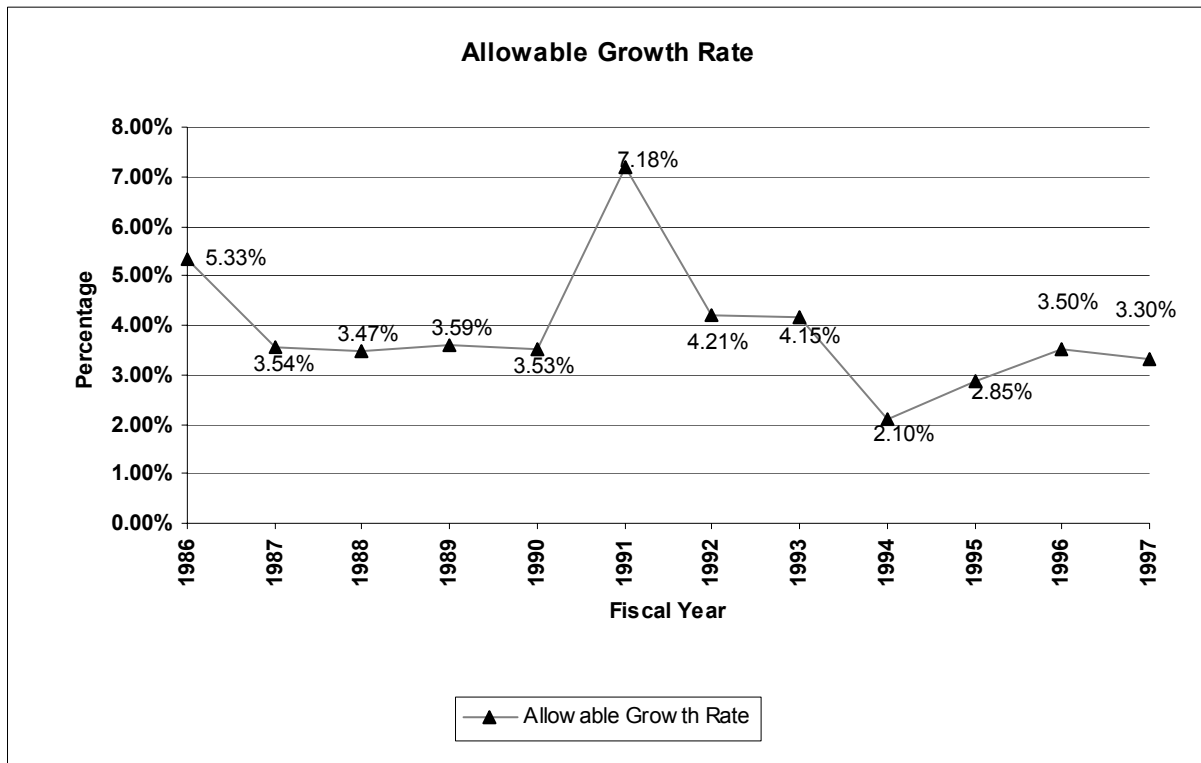
In FY 1986 the sum of the expenses captured in these five instructional cost centers and five noninstructional cost functions provided an approximation of the annual general fund cost of operating the community colleges. The costs for each instructional cost center were divided by the total contact hours reported in each cost center to get the State average cost per contact hour for each cost center. The costs per contact hour became the base upon which all future funding was to be derived. Except the Arts and Sciences and the Vocational-Technical Preparatory base is to be increased by a salary improvement appropriation, if an appropriation is approved by the General Assembly.

Cost per Contact Hour

Cost Center	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995
Arts & Sciences	\$ 2.34	\$ 2.48	\$ 2.56	\$ 2.65	\$ 2.96	\$ 3.27	\$ 3.53	\$ 3.68	\$ 3.86	\$ 3.97
Voc-Tech Prep.	\$ 2.67	\$ 2.82	\$ 2.92	\$ 3.02	\$ 3.34	\$ 3.68	\$ 3.95	\$ 4.12	\$ 4.31	\$ 4.43
Voc-Tech Supp.	\$ 3.10	\$ 3.22	\$ 3.33	\$ 3.45	\$ 3.45	\$ 3.83	\$ 3.99	\$ 4.16	\$ 4.24	\$ 4.37
Adult Basic Education	\$ 1.21	\$ 1.25	\$ 1.30	\$ 1.34	\$ 1.39	\$ 1.49	\$ 1.55	\$ 1.62	\$ 1.65	\$ 1.70
Continuing & General	\$ 2.02	\$ 2.09	\$ 2.17	\$ 2.25	\$ 2.33	\$ 2.49	\$ 2.60	\$ 2.71	\$ 2.76	\$ 2.84

Instructional Cost Centers

The FY 1986 State average cost per contact hour for each instructional cost center grows each year by an allowable growth percentage. The allowable growth is the same as used in the K-12 school foundation aid formula.



Each year the State average cost per contact hour is multiplied by a foundation level. The foundation level is the percentage of the cost per contact hour that the State will support. By law, the foundation level is growing from 65.0% to 70.0%. The foundation level is 69.0% for FY 1996 and 70.0% for FY 1997. State support is based on the State average and not the individual college cost per contact hour.

A contact hour is 50 minutes of contact between an instructor and student in a scheduled course offering for which the student is registered. A contact hour is classified as either eligible or noneligible. An example of a noneligible contact hour is one for an out-of-state student. The contact hours are counted in each of the five instructional cost centers. A two-year rolling average of the contact hours is used for the formula. For example, the FY 1996 calculation used the average of the FY 1993 and FY 1994 contact hours. For each instructional cost center, the cost per contact hour is multiplied by the foundation level and then multiplied by the rolling average contact hours. All five instructional cost centers are calculated in this manner and summed together.

$$(\text{Cost per Contact Hour} \times \text{Foundation Level}) \times \text{Rolling Average Contact Hours}$$

Noninstructional Costs

The five noninstructional costs are each calculated differently. A brief description of the calculations for each cost is given below.

- General Institutional: In FY 1986, an administrative overhead rate of 13.96% was calculated. This rate is multiplied by total general institutional expenses as determined in FY 1986. These expenses are increased by allowable growth and multiplied by the foundation level. The administrative overhead rate is to be recalculated every four years beginning in FY 1986.

- Student Services: In FY 1986 a cost per contact hour for student services was determined by taking student services cost and dividing by all eligible contact hours. The student services cost per contact hour is to be increased by allowable growth and multiplied by the foundation level. In FY 1992, 25.0% of noneligible student contact hours became reimbursable by the formula due to a change in the law.
- Physical plant: The physical plant cost includes physical plant maintenance and utilities. Instead of contact hours the physical plant uses square footage for maintenance expenses and cubic footage for utility expenses. A cost per square foot and cubic foot was developed in FY 1986 and is to be increased by allowable growth and multiplied by the foundation level.
- Library: The library services cost is a percentage of the instructional cost centers and noninstructional cost functions. This percentage is currently 5.0%.
- Equipment: The equipment purchases cost is also a percentage of the instructional cost centers and noninstructional cost functions. Arts and sciences equipment is supported at 0.194% and vocational-technical preparatory is supported at 0.776%.

Miscellaneous Additions to the Formula

Other miscellaneous items are added to the formula as follows:

- An amount for the operation of a public radio station.
- Colleges with less than 1,000,000 contact hours receive \$50,000 beyond the above formula calculations, or 5.0% more in the State foundation level support, whichever is greater. This includes Northwest Iowa Community College and Southwestern Community College.
- Personal property tax replacement funds.
- Northwest Iowa Technical College is to receive \$38,000 for its heavy equipment program.

State Aid Calculation

The formula calls for State general aid to equal the difference between the sum of the foundation support levels of the five cost centers, five cost functions, and the miscellaneous additions and the amount raised by the \$0.2025 general levy.

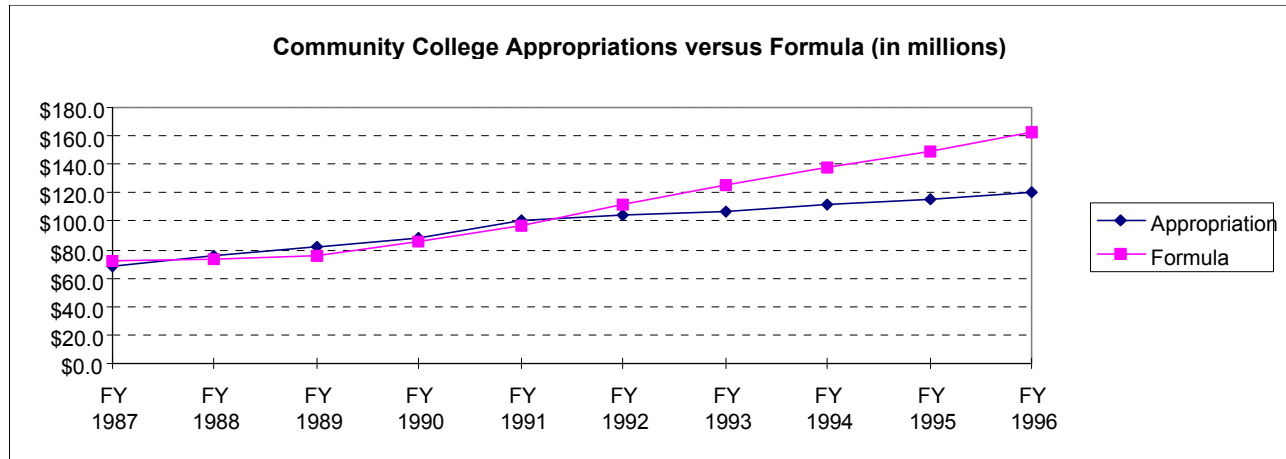
Property Tax Funding

In addition to the State general aid, community colleges are authorized to utilize various board and voter-approved property tax levies. These include:

- A general \$0.2025 levy.
- A plant levy up to \$0.2025 for up to 10 years.
- An equipment levy up to \$0.03 which can be increased to \$0.09 for program sharing between community colleges or for the purchase of instructional equipment.
- A bond levy to pay for the acquisition of sites and buildings.
- Miscellaneous levies for unemployment insurance, tort liabilities, insurance, and early retirement.

Historical Comparison of Actual Appropriations to the Formula's Calculated Amount

As noted before, the community college appropriation does not automatically match the formula's calculated amount. The graph below shows the historic appropriations versus the formula's calculated amount. In FY 1996, the appropriation was \$41.3 million less than the formula. Over the nine years the formula has been in effect, the appropriation was \$117.8 million less than the formula.



The reason past appropriations have been less than the formula can be attributed to three major factors. These include:

1. The across-the-board cuts and budget reduction in FY 1992 and FY 1993 were never reflected in the formula's calculations.
2. The community colleges had large increases in enrollment.
3. During the 1990 Legislative Session the formula was significantly modified. The majority of the modification increased the amount the formula generated starting in FY 1992. The major changes include:
 - The foundation level was gradually increased from 65.0% to 70.0%.
 - The contact hour rolling average changed from a three-year rolling average to a two-year rolling average.
 - The library services rate was increased gradually from 3.33% to 5.0%.
 - The equipment purchase cost function was created.
 - A weighting for vocational-technical contact hours was created.
 - Student services received reimbursement for 25.0% of noneligible contact hours.

Distribution of the Community College Appropriation

Chapter 260D, Code of Iowa, states that if the funds appropriated are insufficient to make the allocations required, the Department of Management shall prorate the allocations. A community college shall be allocated an amount at least equal to the prior year's allocation. However the Legislature has been notwithstanding Chapter 260 and distributing the appropriation. The distribution is basically the amount received the prior year plus inflation and growth. A formula is used to determine how much of the new money is for inflation and how much is for growth.

Department of Education Required Report

The Department of Education was required to conduct a study of the current community college funding formula and submit findings and recommendations to the General Assembly by January 1995. The report was completed but did not include specific recommendations. The report listed principles that should be taken into consideration when developing the State aid appropriation.

CURRENT SITUATION

For FY 1996 the distribution of the community college appropriation was similar to past distributions, last year's appropriation plus inflation and growth. However for FY 1996, a special allocation of \$540,000 was made to four colleges that have experienced increased enrollment growth due to the addition of arts and sciences curriculum. The four colleges include Hawkeye Community College, Northwest Iowa Community College, Western Iowa Technical Community College, and Northeast Iowa Community College. The following chart details how each community college ranks in the FY 1996 appropriation distribution versus the formula distribution. For example, Kirkwood Community College would have received the most funding under the formula's calculation but was second under the actual appropriation distribution.

FY 1996 Appropriation Distribution versus Formula Distribution

Community College	Area	(In Millions)			(In Millions)		
		FY 1996 Appropriation	Percent of Total	Rank	FY 1996 Formula	Percent of Total	Rank
Northeast Iowa	I	\$ 5.8	4.8%	12	\$ 8.0	4.9%	10
North Iowa	II	6.8	5.6%	8	9.1	5.6%	7
Iowa Lakes	III	6.4	5.3%	10	7.6	4.7%	11
Northwest Iowa	IV	3.1	2.6%	15	3.7	2.3%	15
Iowa Central	V	6.6	5.4%	9	8.8	5.4%	8
Iowa Valley	VI	6.1	5.0%	11	7.5	4.6%	13
Hawkeye Institute	VII	8.7	7.2%	5	12.9	8.0%	5
Eastern Iowa	IX	10.6	8.8%	3	14.6	9.0%	3
Kirkwood	X	16.5	13.6%	2	22.9	14.1%	1
Des Moines Area	XI	17.6	14.6%	1	22.6	13.9%	2
Western Iowa Tech	XII	7.0	5.8%	7	8.8	5.4%	9
Iowa Western	XIII	7.2	5.9%	6	9.7	6.0%	6
Southwestern	XIV	3.2	2.6%	14	4.5	2.8%	14
Indian Hills	XV	9.9	8.2%	4	14.0	8.6%	4
Southeastern	XVI	5.5	4.6%	13	7.5	4.6%	12
Total		<u>\$ 120.9</u>	<u>100.0%</u>		<u>\$ 162.2</u>	<u>100.0%</u>	

During the 1995 Legislative Session, the Legislature required the Department of Education to conduct another study of the community college formula. The report is required to include specific recommendations regarding revision of the formula.

ALTERNATIVES

The possible alternatives include:

- Do nothing, continue past years' practice of setting the appropriation level and distribution method each year. If this alternative is chosen, the General Assembly should also consider deleting the formula from the Code of Iowa.
- Evaluate the formula with the following possibilities:
 - Create a new formula based on need and fund the amount determined by the new formula.
 - Modify the current formula to match the appropriate amount of funding.
 - Set the appropriation level each year and create a new formula that distributes this level of funding.

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