Funding for North Carolina’s Community Colleges: A Description of the Current Formula and Potential Methods to Improve Efficiency and Effectiveness

A presentation to the Joint Legislative Program Evaluation Oversight Committee

October 10, 2016

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Handouts

The Full Report

Funding for North Carolina’s Community Colleges: A Description of the Current Formula and Potential Methods to Improve Efficiency and Effectiveness

Final Report to the Joint Legislative Program Evaluation Oversight Committee

Report Number 2016-09

October 10, 2016

Today’s Slides
Our Charge

• Examine the funding formula and timing for allocating state appropriations to community colleges

• Team: Sara Nienow, Kiernan McGorty, Janice Hillanbrand
Overview

- North Carolina’s community college funding formula is functional and generally acceptable to State Board and colleges
- Leaders expressed concerns about funding adequacy
- There may be cost-effective ways to improve effectiveness and efficiency
Overview: Ideas for Consideration

- Increase equitable distribution of institutional and academic support
- Provide greater funding stability with stop-loss provision and funding for the Enrollment Growth Reserve
- Align tier funding with course costs
- Refine performance-based funding
- Consider needs-based student funding
Background

Isothermal Community College Surgical Technician Graduates
North Carolina Community College System

• NCCCS is the lead state agency for delivering workforce development training, adult literacy training, and adult education

• 58 colleges ≈ 160 locations

• 7% of state’s population attended at least one class in FY 2014–15
In FY 2015-16, NCCCS generated $1.9 billion in revenue from state, local, student, and other sources.

Community colleges receive 8.6% of NC’s total appropriations for education.

**Funding Composition**

- **State**: $1,069 million (57%)
- **Local**: $245 million (13%)
- **Students**: $350 million (19%)
- **Other**: $210 million (11%)

FY 2015–16 in Millions of Dollars

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State Investment in Community Colleges

• During the recession (2008–2011), funding for community colleges fell; stabilized and increased from 2012–2016
  — Still below pre-recession levels (-16%)

• Tuition has increased 60% since FY 2007–08
  — Still one of the lowest tuition levels in the country

• Taxpayer return on investment in community colleges ≈ $2.50-$4.10 per $1 invested

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How Funding Works

Halifax Community College
How Do States Fund Community Colleges?

Three Major Funding Methods:

1. Base +/-
2. Legislative Priorities
3. Funding Formulas
Method for Determining Allotments (Handout)

- Step 1: Calculate each college’s budget FTE
- Step 2: Calculate base allocation for each college
- Step 3: Calculate enrollment allocation for each college
- Step 4: Calculate performance-based funding for each college
Formula Funding is Distributed According to Three Allocations

- Enrollment-Based: 83%
- Base: 15%
- Performance-Based Funding: 2%

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Average Formula Allocation Per Budget FTE by School Size

- Small Institutions: $6,496
- Medium Institutions: $5,997
- Large Institutions: $5,691
Enrollment Drives Community College Funding


2. Funding in Arrears with Stabilization: 1989 to Present
   • Growth and Decline Rule: 1994–1998
   • Rolling Average Rule: 1989–1993 and 1999–present

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Funding Stability as a Policy Objective
2013 Change from 3-Year to 2-Year Rolling Average

- Resulted in $21.1 million less funding for community colleges
  - General Assembly provided $4 million in adjustment funds
  - NC’s new two-year average is in line with other southeastern states

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Enrollment Projections

• 86% of community college presidents were against change from three-year to two-year rolling average; 1/3 suggested return to using enrollment projections

• Just two states, Montana and Pennsylvania, use enrollment projections

• Projection is difficult due to open enrollment policy
Tiered Funding Model

• Since 2011, NCCCS has used tiers to fund specific courses at different levels

• Tier 1A added in 2013 to encourage colleges to offer programs leading to direct employment
Current Tier Structure

Tier 1A gets 15% less funding than Tier 1A

Tier 1B gets 15% less funding than Tier 1A

Tier 2 gets 15% less funding than Tier 1B

Tier 3 gets 15% less funding than Tier 2

Tier 1A = $4,270 per FTE

Tier 1B = $3,777 per FTE

Tier 2 = $3,284 per FTE

Tier 3 = $2,792 per FTE
# Actions in Response to Tier 1A

<table>
<thead>
<tr>
<th>Actions Colleges Have Taken Since Implementation of Tier 1A</th>
<th>Percentage of Colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased number of Tier 1A classes offered</td>
<td>49%</td>
</tr>
<tr>
<td>Taken steps to establish a priority instructional program in order to offer Tier 1A classes</td>
<td>35%</td>
</tr>
<tr>
<td>No action has been taken</td>
<td>29%</td>
</tr>
</tbody>
</table>

- 80% support change to tiered funding
- 82% think Tier 1A correctly identifies regional workforce needs
Performance-Based Funding

• As of 2015, 26 states used performance-based funding to allocate a portion or all of their community college funding

• States distribute appropriations based on outcomes such as course completion, graduation, or passing licensure exams

• Performance-based funding can supplement or entirely replace other community college funding methods

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North Carolina’s Current Performance-Based Funding Measures

- Success of students in college-level English and math courses
- First year progression
- Licensure and certification passing rate
- College transfer performance
- Curriculum completion
- Basic skills student progress
- High school equivalency attainment

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Performance-Based Funding Allocations

• Quality component
  – College’s performance as compared to a baseline and a goal for each measure

• Impact component
  – Based on the number of students succeeding on each measure

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Performance-Based Funding

• College presidents think the system has made colleges more accountable

• Little evidence to suggest states using performance-based funding achieve better outcomes
  – May be too early to know outcomes of more recent programs

• Proponents believe past problems can be avoided with good program design, better student data systems, and policy refinements
What options could the General Assembly pursue if it wishes to make changes to the current funding formula to improve efficiency and effectiveness?
1. Institutional and Academic Support

- Currently based on FTE
- Marked increase in part-time students
  - Part-time students utilize student services
  - Fewer resources per student allocated to colleges with more part-time students
- Could use average of unduplicated headcount and FTE as the basis for institutional and academic support

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2. Provide Greater Funding Stability

• Stability allows colleges to develop long-term plans, keep and attract faculty, and provide student continuity

• Stop-Loss Provision
  – A stop-loss of 5% would provide limited stability

• Enrollment Growth Reserve
  – Exists but has no funds
3. Align Course Tiers with Cost

• Current tier formula is based on cost of a Tier 2 course and then scaled up or down 15%

• Smaller classes, higher faculty salaries, and specialized equipment make technical classes more expensive

• Direct NCCCS to align tier levels with actual costs
4. Refine Performance-Based Funding

1. Have colleges compete against historic performance and other colleges

2. Incent the achievement of state goals
   – Currently no measure for priority instructional areas

3. Improve institutional capacity
   – One additional statistician position

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5. Adding Needs-Based Funding to Formula

- Provides weighted funding for students with higher needs (at-risk students)
  - Older students, Pell Grant-eligible, other criteria
- Used in public K-12 system to improve outcomes
- Not currently used by any community college systems across country

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Summary

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Summary: Ideas for Consideration

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• Refine performance-based funding
• Add needs-based student funding
Summary: Response

• The North Carolina Community College System Office reported general agreement with the report
Legislative Options

• Refer report to any appropriate committees
Report available online at
www.ncleg.net/PED/Reports/reports.html