THE FUNDING PLAN FOR THE ILLINOIS PUBLIC COMMUNITY COLLEGE SYSTEM

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INTRODUCTION

Upon the request in 1977 of the President of AACJC to The Brookings Institution to conduct an economic study of the financing of public community colleges, David W. Breneman, Senior Fellow, and Susan C. Nelson, former Research Associate, of The Brookings Institution undertook a national study of community college financing. Their study applied an economic perspective to the policy issues facing community colleges at the federal, state and local levels, using criteria of efficiency and equity to evaluate various financing methods. The analysis was supplemented with field work done in nine states, including California, Florida, Illinois, Indiana, Maryland, Massachusetts, North Carolina, Texas, and Virginia, and included visits to campuses and state capitals for extensive interviews with community college leaders and state officials. The findings will be published by Brookings later this year.

Breneman and Nelson have concluded that, "no 'single best plan' for financing community colleges exists and we do not propose one. The unique history and the different functions served by community colleges in the various states militate against a single method of finance being ideal in all cases. The criteria of equity and efficiency, combined with practical operating considerations, do provide guidance, however, in judging some approaches as clearly better than others...."[1]

They go on to state, "Although we do not advance a model finance formula, the approach followed in Illinois comes closer to an ideal meeting our criteria--efficiency and equity--than any other state we visited."[2]

In 1979 the Illinois Board of Higher Education (IBHE) appointed a committee to study the Illinois community college financing plan then in place. A new plan, which retained the basic concepts embodied in the former plan but did make some significant improvements both in policies and technical adjustments, was recommended by this committee and subsequently adopted by both the IBHE and the Illinois Community College Board to be implemented in the FY 1981 budget process.

This paper describes the major components of this new plan for the funding of Illinois' public community colleges. In addition, advantages and disadvantages are offered which are not intended to be all-inclusive but do point out the set of policy decisions which are inherent in the plan. A brief overview of the number and types of citizens who are served by the Illinois Public Community College System is also provided.

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[1]David W. Breneman and Susan C. Nelson, "The Community College Mission and Patterns of Funding," New Directions for Community Colleges, 32, 1980, p. 76.

[2]Ibid., p. 79.

CHARACTERISTICS OF THE ILLINOIS PUBLIC COMMUNITY COLLEGE SYSTEM

GENERAL:

- There are 39 locally-governed public community college districts with 52 campuses.
- 38 districts receive support from local property taxes; 1 district is fully state-funded.
- The districts include 95% of the State's 11 million population and cover over 90% of the State's land area.

FALL 1980 TERM ENROLLMENTS:

Instructional Credit Programs

- 10th day headcount was 359,047 (11% increase over Fall 1979).
- 10th day FTE was 173,745 (11% increase over Fall 1979).
- Career/Occupational headcount was 34% of total.
- Baccalaureate/Transfer headcount was 29% of total.
- Remedial/Developmental headcount was 12% of total.
- General Studies headcount was 11% of total.
- Undeclared or undecided headcount was 14% of total.
- Full-time headcount was 29%; part-time headcount was 71%.
- Male headcount was 43%; female headcount was 57%.
- Ethnic Origin -- White 73% Hispanic 6%
  Black 17% Asian/Other 4%
- Median age was 24.9 years.
- 3.3% of total population were enrolled in a community college.

Community Education & Pub. Service Activities

-Non-credit enrollment was 329,900 people served.

FUNDING OF THE SYSTEM:

- Over the past six fiscal years, the average percentages for audited operating revenues have been: State - 39%, Local Taxes - 37%, Tuition & Fees - 20%, and Miscellaneous Revenues - 4%.
- In FY 1980, total net instructional costs for the system amounted to $346.8 million. Public Service expenditures were $19.7 million.
- In FY 1981, State funding of $139.2 million was appropriated for the community college system.

SUMMARY OF THE FUNDING PLAN FOR THE ILLINOIS
PUBLIC COMMUNITY COLLEGE SYSTEM

A. COST BASED

1. The plan utilizes the latest known statewide weighted average unit costs, which are based on enrollments and expenditures realized two years prior to the budget year, in order to calculate both the resource requirements and the distribution of State funding for the budget year.

Advantages:

a) The method for determining State funding is based on accountable measures of output rather than a theoretical assumption of "adequate" support for a minimal education.

b) Recognition of variable unit costs provides incentives for colleges to offer high cost programs.

c) Incentives are also offered for individual colleges to maintain costs below the statewide average, because they will receive a larger percentage of their own unit cost from the State than do colleges with high unit costs.

d) As enrollments increase, unit costs decrease and, conversely, as enrollments decrease, unit costs increase. Since the unit costs are subsequently built into a future year's formula, this inverse relationship provides a self-balancing and self-correcting feature over the years that precludes the necessity for marginal cost adjustments for enrollment shifts.

e) By utilizing the weighted mean, all statewide costs are reflected; in contrast, utilizing a median statistic, which is insensitive to the dispersion of unit costs across districts and therefore excludes outlyers (i.e., very high and very low costs) within any given category from consideration, would result in wide fluctuations yearly because the median is controlled by two or three colleges which have unit costs that lie close to this measure of central tendency.

Disadvantages:

a) Large institutions, which have the ability to realize lower unit costs through economies of scale, can distort the statewide weighted average unit cost in those categories in which they generate the majority of credit hours which are produced. The effect will be a significantly lower average unit cost on a statewide basis than is actually experienced by most of the other colleges.

b) An extensive MIS system must be in place in order to be able to retrieve the appropriate data.

c) Although incentives are provided for individual colleges to maintain costs below the statewide average, the system as a whole is encouraged to increase the unit costs because this will result in higher funding rates in future years.

d) Disincentives for colleges with high unit costs are not provided.

B. ENROLLMENT DRIVEN

1. The plan utilizes the latest known actual FTE enrollment, which was realized two years prior to the budget year, in order to calculate both the resource requirements and the distribution of State funding for the budget year. (An FTE is defined as 30 semester hours and is counted at mid-term of each semester).

Advantages:

a) Credibility is enhanced throughout the legislative process.

b) End-of-year lapses and/or proration of funding are eliminated.

c) The colleges know the amount of State funding they will receive at the begining of the budget year.

d) During periods of declining enrollment, colleges are funded at higher levels and consequently have lag time to prepare for decreased State funding.

e) Any under or over payments will self-correct within two years.

f) Utilizing credit hours instead of contact hours moves away from the concept of a "daily attendance unit" and consequently simplifies auditing procedures.

Disadvantages:

a) During periods of increased enrollments, colleges are required to absorb the increased costs of serving additional students for a two-year period before these enrollments will be utilized in the formula.

b) The Governor and Legislature may be inclined to reduce enrollment figures if the economy indicates that enrollments during the budget year will significantly decline.

c) Contact hours may provide a better measure of actual resource use (i.e., faculty workload, room utilization) than do credit hours, which are dependent upon a subjective judgment of the credit hour value of an instructional activity.

C. DETERMINATION OF STATE FUNDING

1. Shared Responsibility Among State and Local Taxes, Tuition and Miscellaneous Revenues

State funding is intended to provide the difference between the projected resource requirements (needs) for the budget year for the community college system and the estimated resources available from local taxes, tuition and fees, and other miscellaneous federal, state and local revenue.

Philosophy:

The State funding of the community college system in Illinois is based on the concept of shared responsibility among the State, the local district residents, and the students. Options are provided to the locally-elected community college boards of trustees to set their own student tuition rates (up to one-third of per capita cost), to set their own tax rates (with approval of the citizens of the district), and to determine specific levels of expenditures for each of their colleges with no direct State involvement in determining these local options. The determination of State funding is based primarily on standards of expectation of local revenues, which are determined by utilizing the weighted average tuition and tax rates and expenditure levels of all the community college districts on a statewide basis.

2. Inflationary Factors

Provision for applying inflationary factors for staff compensation, utility and other general cost increases to the latest known systemwide weighted average unit cost is incorporated in the determination of resource requirements for the budget year in order to project the unit cost for the budget year.

Advantages:

a) Projections of inflationary increases can be based on reliable economic indicators.

b) Faculty groups are made aware of the salary increases provided in the formula for the State share of funding.

Disadvantages:

a) Inflationary factors are the most susceptible to manipulation when the formula cannot be fully funded.

3. Special Needs

Provision is made for the funding of special needs, for example, disadvantaged student programs, new program "start-up" costs, energy conservation grants, economic development grants, equipment replacement funds, etc., which are added to the resource requirements for the budget year.

Advantages:

a) As needs and priorities change from year to year, requests for additional funding to meet specified needs can be incorporated in the budget request.

4. Flexibility for Adjustments

Unit costs can be analyzed each year to determine whether there is an over or under commitment of resources to a funding category. These adjustments would be reflected in the resource requirements and in the weighted average unit costs utilized in each funding category as a basis for distributing credit hour grants.

Advantages:

a) This provision allows for the determination of funding based on fixed and variable costs.

b) This provision also allows for differentiated funding based on district size, which would directly address distortions created by large institutions which have the ability to realize lower unit costs through economies of scale.

Disadvantages:

a) This feature allows for the possibility of manipulation of data in order to reflect State priorities explicitly, especially when State resources are scarce and a bottom line amount of funding has been established politically, which is less than the formula has determined is necessary.

5. Standard Tuition Contribution

A standard tuition/fee rate, which cannot exceed 20% of the projected systemwide weighted average unit cost for non-ABE/ASE* instruction, is applied to the latest known actual non-ABE/ASE FTE enrollment in order to determine the projected revenue which will be available from student tuition and fees for the community college system in the budget year.

Advantages:

a) The State is able to establish a policy of expectation for the tuition and fees rate, while local colleges retain the right to determine their own student tuition and fees rates. This policy can be based on a measure of central tendency, a comparative study of tuition levels in other states, or historical trends in tuition increases.

b) In the past, the calculation of the standard local tuition contribution assumed that tuition was available from all students which were projected for the budget year. This provision excludes those students in the ABE/ASE category because by State law tuition cannot be charged for this instruction. This exclusion provides a more realistic expectation of tuition and fees revenue.

*Includes Adult Basic Education, Adult Secondary Education, General Education Development and English As A Second Language instructional courses.

6. Standard Local Tax Contribution

The projected total tax revenue which will be available in the budget year is determined based on a projection of EAV's, which utilizes the growth rate of the preceding three years, multiplied by the most recent available statewide weighted mean tax rate. Adjustments for collection losses, non-district chargebacks, and State equalization funding are made to this amount.

Advantages:

a) State equalization funding is considered as revenue towards meeting the standard local tax contribution.

b) The reduction of State equalization funding from the projected local tax revenue for the community college system as a whole enables those districts which exceed the standard expectation of local revenue to retain their additional revenue without being penalized by lower State funding support. In effect, the recapture concept is avoided.

c) The procedure of utilizing a historically established trend for projections of EAV's provides a self-correcting reasonably accurate estimate of the future tax base for the system.

d) The use of the weighted mean tax rate rather than a mean or median tax rate precludes one or two districts significantly affecting this statistic by changes over time. Its use also approximates more accurately as realistically a measure as is possible of the revenues actually generated at the local level.

7. Standard Miscellaneous Revenue Contribution

The projection of other miscellaneous federal, state and local revenues which will be available in the budget year is based on the most recent known percentage of total expenditures financed from these sources applied to the projected resource requirements for the budget year. Categorical support from DAVTE* and ABE/ASE grants is not included in this percentage, but is considered as an additional source of revenue to meet the projected resource requirements for the budget year.

Advantages:

a) The establishment of a standard percentage of resource requirements to be funded from miscellaneous federal, state and local revenues based upon past experience eliminates the possibility that a projection of unusual growth in these revenues for any one budget year will substitute for other sources of funds.

*Division of Adult, Vocational, and Technical Education of the Illinois State Board of Education

8. State Funding of Public Service Activities

Provision for an allowance equivalent to one cent of the most recent available statewide weighted mean tax rate is applied to the projected local tax revenue to be designated for public service activities. In effect, this allowance increases the State funding amount but does not distribute State funds directly for public service activities.

Advantages:

a) The State contributes toward the mission of comprehensiveness in the Illinois community college system indirectly, which enables the local districts to maintain flexibility and control over the expenditures for public service activities without having to adhere to strict State accountability procedures.

D. DISTRIBUTION OF STATE FUNDING

1. Credit Hour Grants

State funding to support instruction is distributed on the basis of unit costs and credit hours generated in seven instructional categories, including Baccalaureate/Transfer, Business Occupational, Technical Occupational, Health Occupational, Remedial/Developmental, Adult Basic Education/Adult Secondary Education, and General Studies.

The State credit hour grant rate for each category of instruction is the difference between the projected unit cost per credit hour for the budget year and the estimated resources available from local taxes, tuition and fees, other state categorical aid, and other miscellaneous federal, state and local revenues on a per credit hour basis. Categorical support from DAVTE is deducted only from occupational categories and ABE/ASE grants are deducted from the ABE/ASE category only.

Philosophy:

This type of funding method follows the concept that the local share of the cost for each instructional category should be independent of variable instructional costs and the State should provide the difference in the costs, i.e., the State should be responsive to shifts in program costs that occur across funding categories. The underlying State policy is that State level incentives should not be imposed on program mix decisions at the local level.

Advantages:

a) The State funding mechanism for determining credit hour grant rates is designed for the purpose of distributing funds to all colleges on an equitable basis, regardless of any individual college's actual costs in any specific category of instruction. Once colleges receive their State funding, they have the freedom to determine their own expenditure levels in all instructional categories.

b) A larger number of credit hour grant categories makes the State funding plan more sensitive to the different costs involved in offering a different mix of programs.

c) The separation of the Remedial/Developmental and ABE/ASE instruction from the General Studies category allows the State to focus on the actual costs of these programs so that policy decisions related to these areas can be more readily reflected in budgetary considerations in the future.

d) Implicit State policies are established, based upon accountable measures of output, which are relative to priorities for different programs. In effect, a differential portion of State support is provided to different program categories.

e) A district-by-district analysis of program costs is unnecessary in order to determine credit hour grant rates.

f) Variable-rate funding precludes the possibility that any large college which generates a majority of its credit hours in lower cost categories and consequently can realize lower unit costs because of economies of scale will receive significantly higher reimbursement from the State (to the detriment of all other colleges in the system) than it actually requires for its operations.

Disadvantages:

a) Variable funding categories increase the complexity of the financing plan and the workload involved in auditing and monitoring the plan.

2. Equalization Grants:

A minimum foundation level of local tax revenue per FTE is determined based on the most recent available statewide average equalized assessed valuation (EAV) per in-district FTE multiplied by the most recent available statewide weighted mean tax rate. Districts whose own EAV/FTE multiplied by this standard statewide weighted mean tax rate fall below the theoretical minimum foundation level are provided State grants equal to the shortfall.

Philosophy:

The general concept of equalization recognizes that not all districts have the same relative ability to obtain revenue from local tax sources. It further recognizes that some districts are sufficiently less capable of obtaining local revenue so that students in such districts are denied equal access to educational opportunity. It is therefore perceived to be the duty of the State to at least partially "equalize" this access through higher per-student funding to low-access districts.

Advantages:

a) Equalization funding increases the statewide unit cost for any given year in which it is expended. Consequently, this funding is built in to the base of a future year's formula, which ultimately increases State funding in future years.

b) Districts which exceed the foundation level are not penalized; neither are districts which fall below the foundation level by utilizing the standard tax rate when their own tax rate exceeds the standard.

Disadvantages:

a) Equalization grants have been one of the most controversial issues among the Illinois community colleges. Equalization funding has increased significantly over the past six years while credit hour grant funding has realized only a modest increase from year to year. The colleges which do not receive equalization grants believe that the Legislature determines funding based on bottom line increases; equalization funding distorts the bottom line increase so that they feel they are being penalized through lower credit hour grant funding. In reality, equalization funding directly reduces the projected local tax revenues for the budget year. If equalization funding were not provided at all, the amount of credit hour grant funding would remain the same as it is with equalization funding included.

3. Disadvantaged Student Grants

Basic grants are provided to each college and any remaining funds are distributed based on the latest known actual credit hours generated in the Remedial/Developmental and ABE/ASE categories for the purpose of providing courses and support activities, such as special counseling, tutoring, and testing, which are related to programs for educationally and economically disadvantaged students.

Advantages:

a) This type of special funding has been popular politically in recent years and has enjoyed substantial increases in funding yearly without any controversy.

b) These grants must be placed in a restricted fund for accounting purposes; therefore, they do not reflect resources available in the operating funds.

Disadvantages:

a) Generation of credit hours in the remedial/developmental and ABE/ASE courses is not necessarily a true measure of the remedial services needed by disadvantaged students. For example, many colleges attempt to mainstream their disadvantaged students into regular courses and then provide tutorial services to help them achieve the course content.

4. Special Funding Grants

Any special funding grants which are appropriated are distributed either on a per credit hour basis or as categorical support, which requires adherence to application and approval procedures.

Advantages:

a) This provision allows for the flexibility of support to be distributed through a variety of mechanisms in addition to on a per credit hour basis.

Disadvantages:

a) Any form of categorical support implies greater State level scrutiny and involvement in local level priority considerations.

The following Table 1 provides an illustration of the formula used for the calculation of the FY 1981 total State appropriations for the Illinois Community College System.

Table 1

METHOD BY WHICH THE ILLINOIS COMMUNITY COLLEGE CREDIT HOUR FUNDING FORMULA FOR INSTRUCTIONAL REVENUE IS CALCULATED FOR FY1981

Credit Hour Grants:

(1) Determine the Projected FY1981 Unit Cost as Follows:	Per Credit Hour	Per FTE Student
Actual FY1979 Statewide Average Net Instructional Unit Cost	$61.86	$1,855.80
ADD: Inflation for Two Years (17.24%)	10.66	319.80
ADD: Energy Programs Funding	.08	2.40
TOTAL PROJECTED FY1981 AVERAGE NET INSTRUCTIONAL UNIT COST	$72.60	$2,178.00

(2) Determine the Projected Total Instructional Revenue Required for FY1981 as Follows:	
Projected FY1981 Statewide Net Instructional Unit Cost Per Credit Hour	$ 72.60
MULTIPLY: Actual FY1979 Enrollment of 161,800 FTE x 30 Credit Hours	x 4,854,000
TOTAL PROJECTED INSTRUCTIONAL REVENUE REQUIRED FOR FY1981	$352,397,400

(3) Determine the Revenue Required from Credit Hour Grants as Follows:	
Total Projected Instructional Revenue Required for FY1981	$352,397,400
LESS: Est. Local, Federal, and State Revenues Other Than Cred. Hr. Grants	-241,257,400
TOTAL PROJECTED INSTRUCTIONAL REVENUE REQUIRED FROM CREDIT HOUR GRANTS FOR FY1981	$111,140,000

Equalization Grants:

Each eligible district is entitled to the difference between the local tax revenue per FTE it has available and the statewide standard of $727.04 per FTE.

TOTAL FY1981 EQUALIZATION FUNDING	$ 19,839,500
Disadvantaged Student Grants:	$ 5,100,000
FY1981 Appropriation for Total Grants to the Illinois Community College System	$136,087,800*
FY 1981 Appropriation for State Community College of East St. Louis	+ 3,085,800
TOTAL FY1981 APPROPRIATION FOR ILLINOIS COMMUNITY COLLEGES	$139,173,600

*Includes rounding adjustment of $8,300.

Figure 1 on the following page illustrates the projected FY1981 unit cost and the various sources of revenue which make up that projected unit cost for each of the seven instructional course categories (Baccalaureate, Business Occupational, Technical Occupational, Health Occupational, Remedial/Developmental, Adult Basic Education/General Education Development/English as a Second Languate [ABE/GED/ESL], and General Studies). Table 2 shows a comparison of the rates, number of FTE students, and total State aid payments for each of the seven instructional course funding categories.

Figure 1
FY1981 PROJECTED UNIT COST AND SOURCE OF REVENUE PER CREDIT HOUR BY THE SEVEN INSTRUCTIONAL FUNDING CATEGORIES

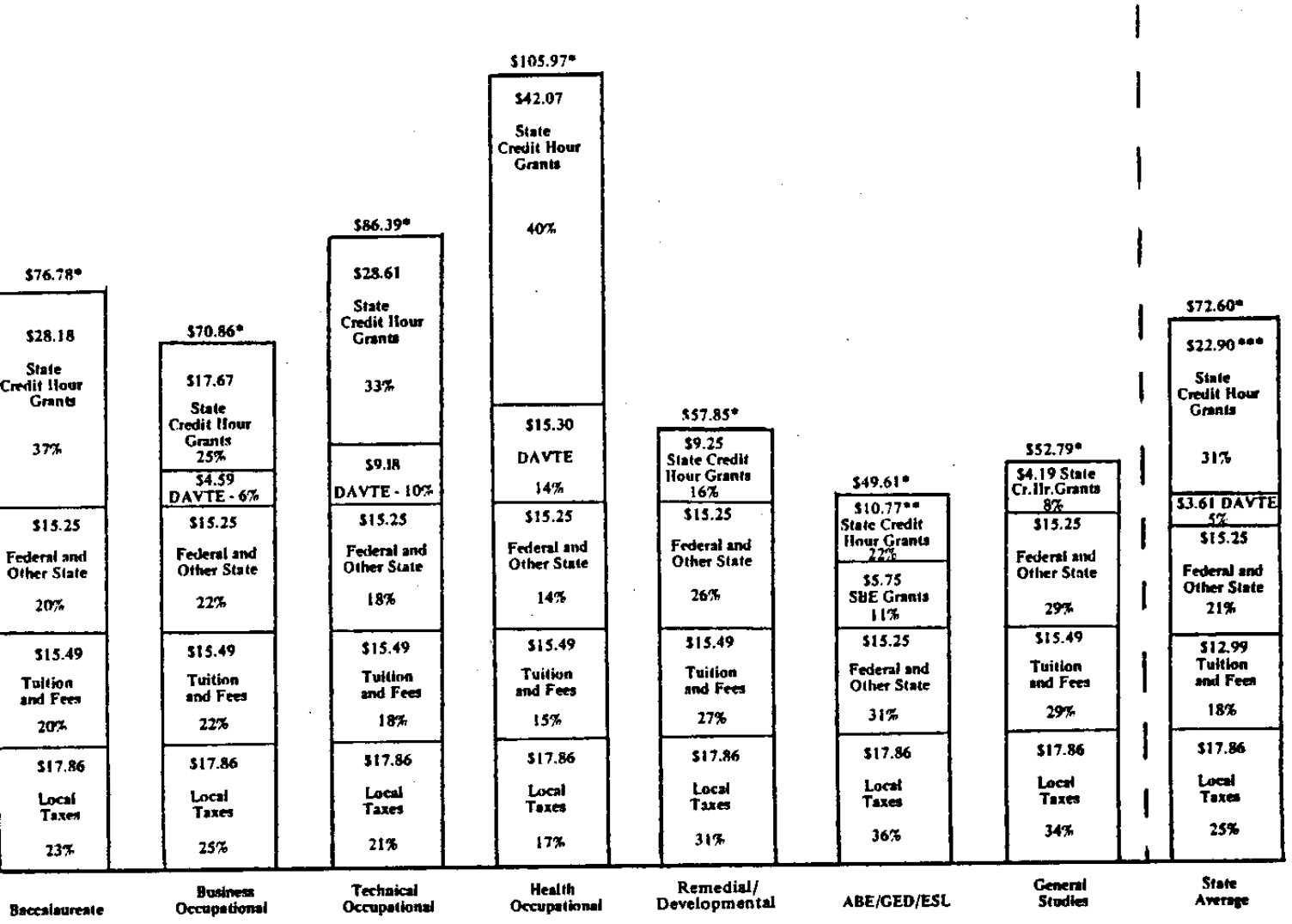

Table 2
COMPARISON OF FY1981 FTE ENROLLMENTS AND CREDIT HOUR GRANT PAYMENTS BY THE SEVEN INSTRUCTIONAL FUNDING CATEGORIES

Type Of Course	FY1981 Credit Hour Rate	FY1979**** Actual FTE	Percent Of FY1979 FTE To Total FTE	FY1981 Actual Payments	Percent Of FY1981 Payments To Total Payments
Baccalaureate	$28.18	69,650	43.0 %	$ 58,882,800	53.0 %
Business Occupational	$17.67	23,803	14.7 %	12,617,700	11.3 %
Technical Occupational	$28.61	21,369	13.2 %	18,341,000	16.5 %
Health Occupational	$42.07	8,370	5.2 %	10,563,500	9.5 %
Remedial/Developmental	$ 9.25	4,827	3.0 %	1,339,500	1.2 %
ABE/GED/ESL	$10.77**	26,084	16.1 %	8,427,900	7.6 %
General Studies	$ 4.19	7,697	4.8 %	967,600	0.9 %
STATE AVERAGE TOTALS	$22.90***	161,800	100.0 %	$111,140,000	100.0 %

* Total projected net instructional unit cost for FY1981.
** Includes $8.28/credit hour for regular credit hour grants plus an additional $3.54/credit hour supplemental grant for downstate districts and $2.22/credit hour for Chicago.
*** Includes $0.40/credit hour for ABE/GED/ESL supplemental funding.
**** The FY1981 Funding Formula utilizes FY1979 actual FTE.