

ILLINOIS COMMUNITY COLLEGE FUNDING STUDY TASK FORCE REPORT

July 2002

EXECUTIVE SUMMARY

In December 2001, the Illinois Community College Board (ICCB) formed a Community College Funding Study Task Force to review the funding formula and make recommendation for changes. The Task Force was widely representative of all stakeholders, including small and large colleges, rural and urban colleges, equalization and nonequalization colleges, ICCB staff, faculty, presidents, trustees, and senior administrators. IBHE staff also participated as observers in the meetings. The Task Force has met on six occasions and makes the following observations and recommendations.

< **The current funding formula and strategies have many good features.**

The funding strategies for Illinois community colleges have been used effectively for a number of years and have credibility with various constituencies; the base operating grant is mission-driven and takes into account differences in program offerings and costs; the base operating grant is productivity-based since it is sensitive to enrollment changes; credible information bases are used in allocating resources; funding strategies have been responsive to the state's workforce and educational needs; and all community colleges support the strategies and "speak with one voice."

< **The Task Force reached decisions by consensus and recommends the following modifications to improve the current funding strategies.**

Recommendation 1: Changes to Equalization Approach. This recommendation, which requires legislative action, would become effective in fiscal year 2005.

Since 1970, an overarching funding philosophy for Illinois community colleges has been – funding necessary to educate a student should not depend on where he or she happens to reside. A significant amount of each college's resources flow from the local community and there are vast differences in taxable wealth among local districts. For example, currently, local tax revenue per student varies significantly from a low of \$638 per FTE at one college to a high of \$5,938 at another college.

Because of these differences, the State of Illinois has sought to "equalize" revenues to community colleges. Equalization is designed to assure that colleges with limited local tax bases have access to funds necessary to support educational programs. Equalization funding provides a vital level of financial support for many community colleges, and without these funds colleges would not be able to provide high quality programs to local communities.

At the same time, the Task Force believes it essential that communities and students continue to demonstrate a good faith effort in providing resources to support academic programs and services. When voters have authorized tax rates to support community colleges through public referendum, those resources should be utilized. Therefore, it is recommended that colleges seeking equalization funds meet the following two criteria:

1. The college shall be taxing at 95 percent of the legal maximum operating tax rate for both the Education and the Operations and Maintenance funds, which includes the equity tax provision, if applicable. Colleges that do not tax at 95 percent of the legal maximum operating rate due to not utilizing the equity tax provision must make a public notification of their intent to levy the equity tax provision once every five years. The first effective date of this recommendation is 2005, and then this criterion would be reviewed again in 2010.

2. The college shall be charging tuition and universal fees at 85 percent of the state average based on an analysis of data two years prior to allocating the equalization funds. Currently, the criterion is 85 percent of the state average for tuition only.

When equalization has met its intended purpose so that each institution is funded at the appropriate equalization level, consideration should be given to distribution of any available dollars to base-operating funding.

Recommendation 2: Changes to Small College Grant Award. In recognition of the limited resources available to some colleges because of tax base limitations, it is recommended that colleges: (a) that qualify for equalization, (b) have an Equalized Assessed Evaluation (EAV) less than \$850 million, and (c) that have fewer than 2,000 noncorrectional FTE students shall receive an additional \$60,000 Small College Grant Award. Currently, the Small College Grant Award is \$60,000. Based on current year information, five small colleges would be affected by this recommendation.

Recommendation 3: Restricted Grants. In 1996, the principles adopted by the President's Council stated "An appropriate revenue mix between restricted and unrestricted state grants should be determined and maintained with a goal being that no more than 10 percent of state grants should be restricted." Currently 15 percent of state grants are restricted. The Task Force recommends that no specific percentage limit for restricted grants be sought. Further, the system should seek opportunities for these special initiatives consistent with meeting the educational needs of local communities and the state.

The Task Force recommends that colleges should have the flexibility of allocating 50 percent of funds among the various categories within a single restricted grant. Currently, colleges may allocate one-third of funds within a single restricted grant. More flexibility in expending these resources allows each district to target funds to areas of greatest need. The ICCB has implemented this recommendation for fiscal year 2003.

Recommendation 4: Funding Priorities. The ICCB has established five priorities for funding – Basic Operating Grants, Equalization, Advanced Technology Grants, P-16 Initiative Grants, and Workforce Development Grants. The Task Force endorsed the ICCB funding priorities and emphasized the importance of the P-16 Initiative Grants.

Recommendation 5: Data Recommendations. The Task Force recommends that:

- 1) Data submissions should be accurate, consistent, and timely with problems handled through the ICCB recognition process.
- 2) Requests for data should be limited to what are necessary to support information needs. Collecting data for collection's sake should not be the norm.
- 3) ICCB should work with colleges to expand pre-final submission data edit capabilities to help ensure accuracy, consistency, and timeliness.
- 4) Data must be collected in a consistent manner to provide fairness for all institutions.

Recommendation 6: Residual Funding. The Task Force recommends that in the fall 2002 all community colleges submit cost data that remove all restricted funds and associated enrollments, except flow-through funds to the Department of Corrections.

The ICCB has agreed that the work of the Task Force should continue, and the Task Force plans to meet again on January 10, 2003, to determine whether a modification to the formula to exclude restricted funds is appropriate. A primary rationale in considering this change is that restricted funds are provided as an incentive to motivate behavior and, in many instances, are not enrollment driven. Restricted funds are intended to be an addition to, rather than a subtraction from, funding allocations. In other words, they are intended to

supplement rather than supplant existing resources. The amount of restricted grants varies significantly among the various colleges. Consequently, when restricted funds and associated enrollments are included in the cost analysis, they may skew the allocation of funds among campuses.

< **Unfinished Business**

Four areas of discussion by the Task Force are not finished. First, the residual funding matter outlined in Recommendation 6 above. Second, at its May 2002 meeting, the ICCB established an Adult Education Finance Study Commission to address adult education funding. Third, community service and noncredit enrollments are growing areas that merit close attention and care in reporting. Although no funding changes are recommended at this time, such changes may be appropriate in future years. Fourth, tax caps and the evaluations of farmland values are impacting local revenues and the funding of community colleges. It is important to begin collecting information in these areas so that an assessment can be made to determine the long-term effect on funding for community colleges.

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The Illinois Community College System is viewed as one of the strongest community college systems in the country. One reason is the way the system has been structured with a strong foundation of financial support from three sources: (a) local communities, (b) the State of Illinois, and (c) students and their families. A generally accepted goal for funding community colleges in Illinois is that one-third of the total support should come from the state government, one-third from local governments, and one-third from students and their families. This structure recognizes that education serves an important public good for the state and the local communities, as well as an important private good to students and their families. For the system as a whole, but not each individual college, the current contributions are: state – 28 percent, local – 40 percent, and students – 27 percent.

Since 1965, state funds have been allocated to community colleges using a base operating grant (formula) approach, plus additional funds targeted for specific purposes; e.g., workforce training. Periodically, the funding approach has been reviewed and modified to address the environment, operational changes, funding realities, and educational and state needs. The latest review occurred in September 1996, the *Report of the System Funding Task Force* (Attachment A) which was based, to some extent, on a 1995 report of the Presidents' Council Funding Task Force, *Operational Funding of Community Colleges in Illinois: A New Look*. A brief description of the current funding methodology for community colleges in Illinois is outlined below.

Description and Rationale for the Community College Funding Strategies

There are ten parts to the community college operational funding as described below. Specific details are contained in Attachment B.

1. *Base Operating Grant*. Most funds (61 percent) are allocated by the base operating grant. Each district received a funding allocation for enrollments (student credit hours) in the areas of baccalaureate courses, business courses, technical courses, health courses, remedial courses, and Adult Basic Education courses. The allocation is based on calculations of per unit (student credit hour) average costs (for all districts) in each of these areas. Costs are highest in the health areas. As an example, the actual costs were \$286 per credit hour in health courses for last year; these credit hours are about 40 percent more expensive than credit hours in business. A small portion of the base operating grant (about 1 percent) is allocated based on gross square footage.

The philosophies that underpin the base operating grant are: (a) funding should be, in large part, a function of credit hour production, (b) funding levels should be based, in large part, on an existing statewide average unit cost for instruction, and (c) course costs differ and should be funded differentially, with higher cost courses funded at higher rates.

The base operating grant focuses on equity, productivity, and mission. By providing the same allocation for the same programs to each district, the formula provides for an equitable distribution of funds. Because enrollment growth and decline affect the allocation of funds, productivity is addressed. Because the funding strategy recognizes differences in programming; e.g., some districts have a greater concentration of technical programs than others, mission differences are recognized in the funding strategy.

The base operating grant has been criticized because it is residual in nature; that is, the amount of state funds is determined based on actual systemwide cost averages minus local, student, and other revenues. Funding is calculated on the basis of “what is”, rather than “what ought to be.” Consequently, the basic operating grant does not address what the state

should be investing in community colleges, and there is no minimum state commitment or foundation level. Similarly, there is a disincentive to exert more local “effort” or to become more cost efficient because these efforts result in fewer state dollars.

2. *Small College Grant.* Less than 0.3 percent of funds are allocated for the Small College Grant. A lump sum amount (\$60,000) is allocated to districts with less than 2,500 noncorrectional full-time equivalent students.

This strategy is designed to recognize that small colleges have fixed costs, particularly in administrative areas, and that these costs should be recognized to some extent in funding.

3. *Equalization Grant.* Approximately 24 percent of funds are allocated for equalization. A grant is made to colleges whose tax bases (Equalized Assessed Valuation) are below state averages.

This strategy focuses on funding equity and minimizes the effect of the variances in support resulting from tax base differences within Illinois.

4. *Performance-Based Incentive Grant.* Currently, funds are not allocated for the Performance-Based Incentive Grant.

This strategy focuses on providing incentives to districts to meeting or improving performance for defined goals such as student educational advancement.

5. *Workforce Development Grant.* Approximately 5 percent of funds are allocated for the Workforce Development Grant.

This strategy focuses on providing resources for districts to meet workforce training needs within their local communities.

6. *P-16 Initiative Grant.* Approximately 0.4 percent of funds are allocated for the P-16 Initiative Grant.

This strategy focuses on providing incentives to districts for accelerated college enrollment.

7. *Advanced Technology Grant.* Approximately 4 percent of funds are allocated for the Advanced Technology Grant.

This strategy focuses on providing resources to districts to support Illinois Community Colleges Online, Technology Equipment and Support, and Technical Skills Enhancement.

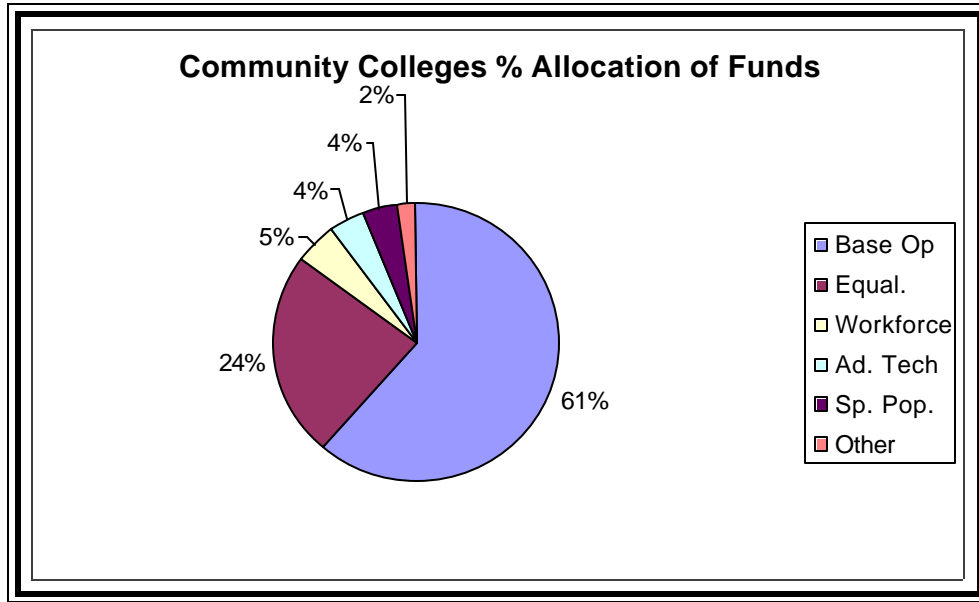
8. *Special Populations Grant.* Approximately 4 percent of funds are allocated for the Special Populations Grant.

This strategy focuses on providing resources to support adult basic education and remedial education programs.

9. *Deferred Maintenance Grant.* Approximately 1 percent of funds are allocated for the Deferred Maintenance Grant.

This strategy focuses on providing resources to districts to address deferred maintenance.

10. *Retirees Health Insurance Grant.* Approximately 0.2 percent of funds are allocated for the Retirees Health Insurance Grant, which is allocated exclusively to the City Colleges of Chicago.



Process

The ICCB formed a Community College Funding Study Task Force in fall 2001. The Task Force was widely representative of all stakeholders, including small and large colleges, rural and urban colleges, equalization and non-equalization colleges, ICCB staff, faculty, presidents, trustees, and senior administrators. IBHE staff also participated as observers in the meetings. The Task Force met on six occasions to review all aspects of the funding formula and strategies, and four committees were formed to address various issues in an in-depth manner. The members of the Task Force and committees are identified in Attachment D.

Task Force Recommendations

The funding strategies for Illinois have a number of strengths — they have been used effectively for a number of years and have credibility with various constituencies; they are mission-driven by taking into account differential programmatic offerings and costs at the colleges; they are productivity — based by being sensitive to enrollment changes; credible information is used in allocating resources; strategies have been responsive to state and educational needs; and all community colleges support the proposal and “speak with one voice.” For these reasons, at its first meeting the Task Force concluded that:

- P *The current funding formula has many good features*
- P *The Task Force will work to modify and improve the current formula*
- P *The Task Force will reach decisions by consensus.*

The Task Force also expressed strong support for the excellent principles adopted by the Presidents’ Council in 1995 (which were later summarized by the 1996 System Task Force), and these principles were followed in developing the Task Force’s recommendations. The principles are contained in Attachment C.

The Task Force makes the following six recommendations.

Equalization. Illinois community colleges receive a significant percentage of their revenues from local taxes. Each community college has two tax rates authorized through public referendum for: Education purposes and Operations and Maintenance purposes. Annually, each community college

board adopts a tax levy that cannot exceed the amount authorized by the voters. Some colleges levy the maximum authorized while other colleges do not. To increase the tax rate, the board of trustees of a community college must approve the increase in the tax levy, and the voters must authorize the rate increase through public referendum. Legislation limits the increase to not more than 12 ½ percent for Education purposes and 2 ½ percent for Maintenance purposes.

Since 1970, an overarching funding philosophy for Illinois community colleges has been — funding necessary to educate a student should not depend on where he or she happens to reside. A significant amount of each college's resources flow from the local community, and there are vast differences in taxable wealth among local districts. For example, currently, local tax revenue per student varies significantly from a low of \$638 per FTE at one college to a high of \$5,938 at another college.

Because of these differences, the State of Illinois has sought to “equalize” revenues to community colleges. Equalization is designed to assure that colleges with limited local tax bases have access to funds to support necessary educational programs. Equalization funding provides a vital level of financial support for many community colleges, and without these funds colleges would not be able to provide high quality programs to local communities. Currently, eight colleges receive more funds in equalization than in base operating grants. At the same time, it is important for colleges to seek needed resources from local funds and from students when appropriate.

Recommendation 1: Changes to Equalization Approach

The Task Force believes all colleges should demonstrate “good effort” in garnering needed resources for academic programming and services. Therefore, it is recommended that colleges seeking equalization funds meet the following two criteria:

1. The college shall be taxing at 95 percent of the legal maximum operating tax rate for both the Education and the Operations and Maintenance funds which includes the equity tax provision if applicable. Colleges not taxing at 95% of the legal maximum operating rate due to not utilizing the equity tax provision must make a public notification of their intent to levy the equity tax provision once every five years.
2. The college shall be charging tuition and universal fees at 85 percent of the state average based on an analysis of data two years prior to allocating the equalization funds. Currently, the criterion is 85 percent of the state average for tuition only.

This recommendation, which requires legislative action, would become effective in fiscal year 2005.

When equalization has met its intended purpose so that each institution is funded at the appropriate equalization level, consideration should be given to distribution of any available dollars to base operating funding.

Small College Grant Award. A lump sum amount (\$60,000) is allocated to districts with less than 2,500 noncorrectional full-time equivalent students. This award is designed to recognize that small colleges have fixed costs, particularly in administrative areas, and that these costs should be recognized to some extent in funding. Although it is a relatively small amount of money affecting only 15 colleges, it makes a significant difference to these colleges.

Recommendation 2: Changes to Small College Grant Award

In recognition of the limited resources available to some colleges because of tax base limitations, it is recommended that colleges: (a) with an EAV less than \$850 million, (b) that qualify for equalization, and (c) that have less than 2,000 noncorrectional FTE students shall receive an additional \$60,000 Small College Grant Award. Currently, the Small College Grant Award is \$60,000. Based on current data, five colleges would be affected by this recommendation.

Restricted Grants. Illinois, like many states, has moved toward targeting resources to specific programs such as technology. In Illinois, these restricted grants are allocated to Workforce Development, P-16 Initiative, Special Populations Grants, Deferred Maintenance, and Advanced Technology grants.

In 1996, the principles adopted by the President’s Council stated “An appropriate revenue mix between restricted and unrestricted state grants should be determined and maintained with a goal being that no more than 10 percent of state grants should be restricted.” Currently, 15 percent of state grants are restricted. The Task Force recommends that a specific percentage limit should **not** be set for restricted grants. Further, the system should seek opportunities for these special initiatives consistent with meeting the educational needs of communities and the state.

Recommendation 3: Restricted Grants

The Task Force determined that the current mechanisms and “drivers” for allocating the restricted grants are appropriate and should continue to be used.

The Task Force recommends that colleges should have flexibility of allocating 50 percent of funds among the various categories within a single restricted grant. Currently, colleges may allocate one-third of funds within a single restricted grant. As an example, in the Advanced Technology Grant program, colleges are able to reallocate one-third of the resources from one component; e.g., equipment to staff training. More flexibility in expending these resources allows each district to place funds to areas of greatest need.

The ICCB has implemented this recommendation for fiscal year 2003.

Funding Priorities. The ICCB has established five priorities for funding — Basic Operating Grants, Equalization, Advanced Technology Grants, P-16 Initiative Grants, and Workforce Development Grants.

Recommendation 4: Funding Priorities

The Task Force endorsed the ICCB funding priorities, and emphasized the importance of the P-16 Initiative Grants.

Data. The Illinois community colleges are known for having some of the best data systems in the country. The Task Force discussed the importance of having data systems that are responsive to the needs of students and, at the same time, not create an undue burden on the part of the colleges.

Recommendation 5: Data Recommendations

The Task Force recommends that:

1. Data submissions should be accurate, consistent, and timely with problems handled through the ICCB recognition process.
2. Requests for data should be limited to what are necessary to support information needs. Collecting data for collection's sake should not be the norm.
3. The ICCB should work with colleges to expand pre-final submission data edit capabilities to help ensure accuracy, consistency, and timeliness.
4. Data must be collected in a consistent manner to provide fairness for all institutions.

Residual Funding. Residual funding has been an area of concern for a number of years. Some specific issues that have been identified are:

1. There is no minimal state commitment or foundation level funding for community colleges. Rather, the state commitment is a function only of the financial need remaining after other sources of revenue are deducted. When colleges raise tuition or when voters approve a tax increase to support community colleges, these additional revenues are subtracted from the amount that the state provides.
2. If colleges exert more effort to become more cost efficient, it could result in fewer state dollars.
3. Funding is based on "what is" rather than "what should be" because costs are calculated on an actual basis.
4. Although restricted funds are usually provided as an addition to existing resources and, frequently, are not tied to enrollment levels, they have been deducted from the base operating formula because of the residual nature of the formula.

During the Task Force's deliberations, six districts (City Colleges of Chicago, DuPage, Lincoln Land, Elgin, Lake Land, and Waubensee) participated in a pilot cost study that removed all restricted funds from the unit cost calculations.

Recommendation 6: Residual Funding

The Task Force recommends that, in fall 2002, all community colleges submit cost data to the ICCB removing all restricted funds and associated enrollments except flow-through funds to the Department of Corrections.

The ICCB has agreed that the work of the Task Force should continue, and the Task Force plans to meet again on January 10, 2003, to determine whether a modification to the formula to exclude restricted funds is appropriate. A primary rationale in considering this change is that restricted funds are provided as an incentive to motivate behavior and, in many instances, are not enrollment driven. Restricted funds are intended to be an addition to, rather than a subtraction from, funding allocations. In other words, they are intended to supplement rather than supplant existing resources. The amount of restricted grants varies significantly among the various colleges. Consequently, when restricted funds and associated enrollments are included in the cost analysis, they may skew the allocation of funds among campuses.

Unfinished Business. Four areas of discussion by the Task Force are not finished:

1. The residual funding matter outlined in Recommendation 6 above.
2. The financing of adult education programs. The Adult Education Advisory Council was established in statute by the state Legislature. The Council has a Finance Subcommittee that is addressing funding for Adult Basic Education. Marilyn Schmidt, Kaskaskia College, Chair of the Adult Education and Family Literacy Advisory Council, and Phoebe Helm, Truman College, Chair of the Adult Basic Education Finance Subcommittee, provided an overview of the Committee's activities to the Task Force. The Finance Subcommittee Advisory Council has developed five basic assumptions as a foundation for its work:
 - a. The state needs multiple types of providers to serve Adult Education students.
 - b. It is not the intent of the Committee to "drive any provider out of business."
 - c. The dollars (funding) should "follow" the student.
 - d. Increased revenues (resources) are needed for Adult Education across the state.
 - e. Duplication of records (student data, performance, etc.) should be diminished as one method of reallocating existing funds to increase services to students.

The Council plans to submit its recommendations to the Adult Education Advisory Committee and the Presidents' Council in October 2002. The Task Force recognizes the need for additional study in this area. At its May 2002 meeting, the ICCB established an Adult Education Finance Study Commission to address adult education funding.

3. Community service and noncredit enrollments are growing areas that merit close attention and care in reporting. Although no funding changes are recommended at this time, such changes may be appropriate in future years. The Task Force also observed that the system has made substantial progress in collecting good data on community service and noncredit enrollment activities, and that this information could be of substantial value in communicating the scope and breadth of services provided by Illinois community colleges.
4. Tax caps and the evaluations of farmland values are impacting local revenues and the funding of community colleges. It is important to begin collecting information regarding changes so that an assessment can be made to determine the long-term effect of these factors on funding for community colleges.

Summary

While no funding strategies are perfect, the Task Force believes that the current funding system has served the community colleges of Illinois well. The funding formula has credibility, it focuses on productivity and mission, it is based on credible information, and it has been responsive to state and educational needs. Of particular importance is the support of all community colleges in speaking with one voice. The modifications that are recommended in this study are designed to make additional improvements to these overarching goals.

**REPORT OF THE
SYSTEM FUNDING TASK FORCE
September 1996**

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ACKNOWLEDGEMENTS

The members of the System Funding Task Force, with broad representation from all constituencies of the system, have worked diligently and objectively over the past five months to review, analyze, and assess the impact of the funding concepts included in the Presidents Council's 1995 report entitled *Operational Funding of Community Colleges in Illinois: A New Look*. Additionally, the System Funding Task Force utilized the report as a basis for analysis and discussion regarding future funding concepts. The time and effort put forth by the group are greatly appreciated and will help shape the future of funding for the community college system in Illinois.

The work of the System Funding Task Force could not have been accomplished without the additional insight and assistance of the following individuals: Dick Fonte of the Governor's Office, Mark Wilcockson of the Illinois Board of Higher Education, Gary Davis and Mike Monaghan of the Illinois Community College Trustees Association, and Geraldine Evans, Ivan Lach, Mike Srbljan, Darice Yonker, Ed Smith, and Cherie VanMeter of the Illinois Community College Board.

Toussaint L. Hale, Jr.
Chair of the Task Force

Report of the System
Funding Task Force

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Chapter One

Introduction

The Purpose of the Task Force

In December 1995, the Presidents Council completed a study of the operational funding of the community college system in Illinois. Its report, entitled *Operational Funding of Community Colleges in Illinois: A New Look*, was comprehensive in nature and included an evolutionary history of the current funding plan used in Illinois, a review of other states' funding plans, principles to guide future funding plan development, a conceptual framework for modifying the current funding plan used in Illinois, and recommendations of the Presidents Council Task Force to the Illinois Community College Board.

At its meeting on January 19, 1996, the Illinois Community College Board received the report of the Presidents Council and adopted the following motion:

The Illinois Community College Board hereby authorizes its Executive Director to establish a System Funding Task Force **to review, analyze, and assess the impact of concepts** (*emphasis added*) included in the Presidents Council's report entitled, *Operational Funding of Community Colleges in Illinois: A New Look*, along with other concepts that the task force may wish to consider, such task force to complete its work no later than September 1, 1996, and to consist of the following representation:

Presidents Council
Illinois Community College Trustees Association
Illinois Community College Chief Financial Officers
Illinois Community College Faculty Association
Illinois Council of Community College Administrators
Student Advisory Committee
Illinois Community College Board
Illinois Board of Higher Education

The System Funding Task Force was formed on March 13, 1996, and met five times between April 2 and August 13, 1996, to complete the task that it had been assigned by the Illinois Community College Board.

The remaining chapters of this report will detail the activities of the system task force and are broken down into the following major areas: a review of the Presidents Council report including objectives and principles adopted by the Council, a review of the funding objectives tested, and recommendations of the task force.

Chapter Two

Review of the Presidents Council Report

Prior to their initial meeting, the System Funding Task Force members received copies of the Presidents Council report in order to acquaint themselves with the issues and the recommendations in the report. The Presidents Council report, which was published in December 1995, was a comprehensive study of the funding formula in Illinois and took almost two years to complete. Dr. James M. Howard has been acknowledged by the Presidents Council for his extensive work in research, data analysis, and preparation of the report.

The report was broken down into six major areas; an explanation and history of the current funding plan in Illinois, a review of literature regarding the evolution of funding plans, a review of other states' funding plans, principles to guide future funding plan development, a conceptual framework for modifying the current funding plan in Illinois, and recommendations of the Presidents Council Task Force.

The System Funding Task Force, at its first meeting on April 2, 1996, reviewed the report and focused on the recommendations of the Presidents Council Task Force. The three recommendations contained in the report were (1) to adopt, in principle, the conceptual framework presented in Chapter VI of its report; (2) prior to implementation to form a task force with broad system representation to review its work and to research, develop, and test the concepts and to involve the Illinois Board of Higher Education (IBHE), presidents, and trustees to present and explain the report to appropriate governmental entities; and (3) to begin implementation with the fiscal year 1998 budget request.

The first recommendation provided the basis for much of the System Funding Task Force's work. Chapter VI of the report provided the conceptual framework for modifying the current funding plan for community colleges in Illinois. It included six funding objectives which were the hypotheses to be tested as follows:

Objective 1: To obtain a fair share of state-appropriated funds for community colleges.

Included in the Presidents Council report were alternatives to using the residual concept and increasing categorical and bloc grant funding.

Objective 2: To refine/improve unit cost calculations.

Discussion points in the Presidents Council report under this objective included reviewing current cost centers to determine their homogeneity and the feasibility of establishing a base year for unit costs then applying a cost index, such as the Higher Education Price Index, to future unit costs.

Objective 3: To redefine productivity by reducing the dependence for funding of the production of credit hours.

In the Presidents Council report, consideration was given to the use of square footages as a basis for funding operations and maintenance costs, and to identify measures of productivity other than credit hours as a way to qualify for state funds.

Objective 4: To encourage and recognize quality, efficiency, and productivity at the college level and to raise the level of accountability.

The realization under this objective in the Presidents Council report is that it will take some time to identify and gain consensus of valid performance and accountability measures. However, the importance of beginning the process to address this issue is stressed in its report.

Objective 5: To continue making provision in state funding for inequitable amounts of local tax revenue per student, but to initiate efforts that recognize the cost of programs and local taxing and tuition assessment efforts.

Under this objective, the Presidents Council report included discussions considering the use of the program mix of districts receiving equalization grants in comparison to statewide program mix averages, and recognition of the amount of local taxing and tuition assessment levels as the bases for receiving equalization funding.

Objective 6: To continue those funding principles that are consistent with Presidents Council and other widely accepted principles.

This objective in the Presidents Council report recognizes that the current funding plan has many concepts that need to be retained. These include the concepts of (a) buffering, (b) utilizing fixed and variable cost calculations, (c) maintaining categorical (restricted) grants that provide funding for local, statewide, individual, and corporate needs, (d) maintaining the equalization concept, (e) utilizing verifiable costs of instruction as a basis for funding, (f) utilizing verifiable or audited data but providing new program startup costs, and (g) not counting competitive grants received by colleges as a source of local revenue when state funding needs are calculated.

The results of the analysis completed to test these objectives are contained in chapter four of this report.

The second recommendation of the Presidents Council report was prior to implementation to form a task force with broad system representation to review its work and to research, develop, and test the concepts and to involve the Illinois Board of Higher Education (IBHE), presidents, and trustees to present and explain the report to appropriate governmental entities. This recommendation was implemented by the ICCB's formation of the System Funding Task Force. However, to fully implement this recommendation, work will need to continue through the involvement of the IBHE, presidents, and

trustees to explain the recommendations of this report and the Presidents Council report to governmental representatives at the state, federal, and local levels.

The third recommendation of beginning the implementation with fiscal year 1998 is included in chapter four of this report.

Chapter Three

Review of Funding Principles

Chapter V of the Presidents Council report provided for the discussion of principles to guide future funding plan development. Funding principles translate philosophy and concepts into practical guidelines and directions.

As noted in the Presidents Council report, it is important that funding principles receive extensive debate and consensus. This had occurred during the development of the Presidents Council report with input from community college presidents, trustees, and staff of the Illinois Community College Board. The principles adopted by the Presidents Council were as follows:

1. Full budgetary authority for the distribution of state funds should be vested in the ICCB.
2. ICCB reserves the right to seek funds from the Legislature based upon its own independent analysis of need.
3. As long as there is an expectation in the formula that certain local tax revenue levels are available, local districts should have statutory authority to generate those levels.
4. An appropriate revenue mix among local taxes, student tuition, and state grants should be developed and maintained with a goal being no less than one-third of total revenues being derived from state grants.
5. The residual funding concept should be disbanded and a model with minimal (foundation level) state support established in its place.
6. An appropriate revenue mix between restricted and unrestricted state grants should be determined and maintained with a goal being that no more than 10 percent of state grants should be restricted.
7. Equalizing local tax revenue availability through state grants should continue as a principle, provided that participating institutions meet a minimum tuition/fee threshold.
8. Local districts should be able to generate funds through federal and private grants without being penalized in the formula.

9. While the primary focus of the formula should be cost-based and allow for cost variations among courses and programs, the cost centers and variations should be reexamined periodically to determine their validity.
10. There should be an appropriate distribution of state and other grants to community colleges other than those appropriated to the Illinois Community College Board.
11. The extent to which state grants depend on enrollments should be diminished; other methods of generating state revenues should be incorporated into the funding mechanism.
12. Because the formula includes a two-year lag in terms of funding enrollments, further attention needs to be given to new program initiation and its associated costs.
13. Colleges must retain the right to set their own tuition levels.

The Presidents Council report also included the following principles which were considered to be worthy of consideration as funding plans are developed. While not formally adopted by the Presidents Council, these principles enjoy a broad consensus among community college funding experts. They are as follows:

1. Funding should be tied to, or consistent with, system goals and priorities.
2. Funding plans should encourage and reward quality, efficiency, and productivity.
3. Funding plans should promote accountability.
4. Funding plans should encourage innovation.
5. The impact of substantial enrollment changes should be minimized through "decoupling"; e.g., by not basing all funding on student enrollments.
6. The impact of substantial enrollment changes should be minimized through "buffering"; e.g., by altering the enrollment measure through use of enrollment averaging.
7. Cost calculations should be more reflective of need rather than past experience.
8. Fixed and variable costs should be a factor in determining state funding.

The System Funding Task Force reviewed the principles enumerated in the Presidents Council report. These principles were then tied to the results of the objectives tested in the conceptual framework contained in the Presidents Council report as a method of providing refinements to the funding principles. These funding principle refinements are recommended in chapter four of this report.

Chapter Four

Discussion and Recommendations of the System Funding Task Force

The one recurring theme throughout the deliberations of the System Funding Task Force was the need for continuous review and change to the operational funding formula of the community college system in Illinois. As society's needs constantly change, so must the community college system change. The system's funding formula must remain aligned with its environment and must be able to recognize changing priorities and have the flexibility and adaptability to move in the direction needed.

The recommendations of the System Funding Task Force are based upon the review of the funding principles and objectives previously discussed. Some of the recommendations can be implemented with the fiscal year 1998 budget request. Others need additional time for study and analysis which will require implementation dates of fiscal year 1999 and beyond.

The recommendations of the System Funding Task Force are as follows:

Funding Principles

Discussion: As noted in the previous chapter, the funding principles enumerated in the Presidents Council report were reviewed by the System Funding Task Force. It was suggested that the principles recommended for adoption should be very broad in focus to enable their use to continue for a substantial period of time. As a result, the funding principles were refined to include the philosophies of the broader consensus based principles contained in the Presidents Council report.

Recommendation: It is recommended that the following seven funding principles be adopted:

1. Funding should be tied to, or consistent with, system goals and priorities.
2. Funding should not solely be based on student enrollments; decoupling from credit hour funding should be used, where appropriate, to properly align the funding formula with community college activities.
3. Equalizing local tax revenue availability through state grants should continue.
4. Funding from state sources should not be based solely upon the residual concept.
5. Funding should be cost based, with periodic reviews to ensure that the costs accumulated provide the proper level of accountability to accurately reflect the activities of the system.

6. Funding should encourage and reward quality, efficiency, productivity, and innovation through performance-based components.
7. The impact of substantial changes in funding should be minimized through the use of buffering.

Funding Objectives

The System Funding Task Force specifically identified and tested the following funding issues based upon the objectives in the Presidents Council report.

1. Operations and Maintenance Funding

Discussion: Currently, the funding of operations and maintenance expenses is included in credit hour grant funding and is enrollment-based. Several other states have broken out these costs and have begun funding these expenditures in a separate funding category based on factors other than enrollment. The rationale for considering this concept is that each college has a certain level of operating and maintenance expenses that must be covered, regardless of the number of students or credit hours generated. Also, with the increasing use of college facilities for noncredit hour generating activities, there is less justification for continuing to fund this category of costs through the present allocation system.

The System Funding Task Force reviewed several scenarios for distributing operations and maintenance funds based upon state-funded square footage versus total funded square footage in lieu of credit hour grants. The use of leased space in the calculations was considered, and methodologies of how to account for age, type, and utilization of facilities were discussed. While it was determined that justification existed for funding operations and maintenance costs in a separate funding category, sufficient data are not available to provide an equitable distribution method at this time. With additional research, this category could be established for future funding.

Recommendation: The task force recommends that the Illinois Community College Board create a separate funding category for Operations and Maintenance funding. In order to implement this recommendation, additional data collection and analysis are needed. The task force also recommends that a Capital Task Force be established to:

- (a) Revise the current capital budgeting process to capture more accurate data concerning capital needs and uses which will allow for the identification of other funding measures.
- (b) Revamp the facilities file (consider age, type, and utilization of facilities).

- (c) Consider including leased space for which colleges are responsible in Operations & Maintenance calculations.
- (d) Review other states' literature.
- (e) Include analysis of state-funded versus total funded space.
- (f) Target the fiscal year 1999 budget request for implementation.

2. Equalization Reform

Discussion: Equalization, in concept, makes provisions for allowing all students equal educational opportunities regardless of where they reside. This concept is widely accepted in Illinois. The current equalization formula is designed to compensate districts that have a below average tax base per in-district student. The formula assumes a statewide average tax rate, but does not prescribe a qualifying tax rate or a qualifying tuition rate to ensure that each district is making a strong effort in obtaining adequate revenues for the college from local sources.

The System Funding Task Force spent much time and effort in discussions concerning how to more equitably distribute equalization grants. The discussions included policies regarding tuition that have been adopted by the Illinois Community College Board and the Illinois Board of Higher Education. Agreement was reached on three issues regarding future equalization funding. First, the concept of using 85 percent of the statewide average tuition rate as a qualifier to receive equalization was accepted. The buffering principle was used through the establishment of a transition period, whereby districts below the 85 percent level would have four years to reach that level.

Second, a program mix basis for equalization funding based upon program mix and unit cost was also accepted. This basis aligns the funding formula with the principle of cost-based calculations. As with the tuition qualifier, it was suggested that the buffering principle be used to minimize the impact that a change to a program mix basis for funding equalization might create. In concept, colleges would receive equalization funding based upon the larger of the program mix calculation or the current formula calculation for a certain transition period. Over time, it is anticipated that all districts will move to a program mix calculation for equalization funding in the future.

Finally, each year there are a few districts who qualify for equalization, but do not receive equalization funding. This is due to limited state funding which requires a proration of the annual average threshold amount. Because of this proration, a district that is close to the statewide average could drop out of equalization funding. The System Funding Task Force agreed that a minimum grant should be included in the equalization funding formula to compensate those districts who qualify for equalization prior to the reduction of the

threshold. This procedure will also eliminate confusion regarding districts qualifying for the equity tax.

Recommendation: The following recommendations are made concerning equalization.

1. The use of 85 percent of the statewide average tuition rate as a qualifier to receive equalization funding subject to the following rules:
 - (a) A one-year transition (fiscal year 1998) with a subsequent three-year phase-in period beginning with fiscal year 1999 exist to allow the districts below the 85 percent threshold time to develop a plan to reach the required tuition level. This four-year plan for tuition rates is consistent with the Illinois Board of Higher Education's goal concerning planned tuition increases.
 - (b) A percentage reduction in equalization funding for those districts not meeting the 85 percent qualifier beginning in fiscal year 1999. The reductions will consist of a 75 percent funding level for those districts between 80-84 percent of the statewide average tuition rate, a 50 percent funding level for those districts between 75-79 percent of the statewide average tuition rate, and 0 percent funding for districts under 75 percent of the statewide average tuition rate (see Table A for an example). Any residual equalization funds after reductions for those districts below the 85 percent statewide average tuition rate will be redistributed to the rest of the equalization districts.
 - (c) A dollar amount limitation per year in the tuition increase expected of districts below the average to avoid funding reductions. The amount of the limit will be calculated as the prior year's known increase plus \$1. For example, the planned fiscal year 1999 minimum tuition rate will be calculated based upon the fiscal year 1997 average tuition rate increase over fiscal year 1996 plus \$1. The base year statewide average tuition rate will be fiscal year 1996. The tuition rates to be used each year in determining the statewide average will be those rates effective for each district on July 1 of each year.
 - (d) By August 1 of each year, the Illinois Community College Board will notify those districts whose tuition rates will not meet the 85 percent qualification in the upcoming budget year. This will enable those districts under the 85 percent level to make an informed decision concerning their tuition policies that are to be effective for the following year.

2. The use of a program mix basis for equalization funding should be reviewed by the Illinois Community College Board's Finance Advisory Committee with a recommended plan of action prepared by no later than August 1, 1997. The program mix basis would align the funding formula with the principle of cost-based calculations. The use of the buffering principle is also recommended as a means of moving toward a program mix basis without creating undue hardship on districts. The recommended plan should be reviewed by the Presidents Council Finance Committee, the trustees, and the Illinois Community College Board at its September 1997 meeting.
3. The establishment of a minimum grant of \$50,000 per district for those districts who qualify for equalization based upon 100 percent of the threshold beginning in fiscal year 1998. This minimum grant will eliminate confusion regarding qualification for the equity tax.

3. Movement From the Residual Concept

Discussion: The current funding formula is residual in nature. This means that the calculation of the state credit hour grants to community colleges is based upon the amount that is remaining after total system needs are reduced by other forms of revenue (primarily local taxes and tuition). It has been necessary in the past to introduce program improvement funding in addition to the amount needed to fund credit hour grants in order to support those programs identified as system priorities.

The Presidents Council report discussed two alternatives for consideration. The first was to seek a minimum or foundation funding level, such as one-third of net instructional costs. The other alternative was to seek to increase Illinois Community College Board categorical or bloc grant funding in areas of system priority, such as workforce preparation and adult education.

The System Funding Task Force spent a considerable amount of time reviewing the alternatives prescribed in the Presidents Council report, as well as considering other strategies as alternatives to the residual concept. Based upon an analysis of the comparison of total state funds (including non-ICCB grants) to net instructional costs for the six credit hour funding categories, it was determined that some categories were adequately funded while others fell short of the suggested minimum foundation level of one third. It was also determined that the probability of obtaining a minimum foundation funding level for each of the funding categories was not very high at this time. However, it was suggested that this analysis be used to identify areas of priority for program improvement funding.

As a result of these discussions, clarification of a "modified residual concept" for credit hour grant funding began to emerge. This methodology improves the technical quality of the residual formula by adding program improvement funding categories that are directly related to system priorities. Greater flexibility is maintained through the ability to realign program improvements with system priorities. Also, it was the consensus opinion of the task force that increases in bloc grant funding should continue to support noncredit hour based program needs.

Recommendation: The following recommendations are made regarding movement from the residual concept.

1. The task force recommends that the Illinois Community College Board continue to seek increased funding for system priorities.
2. It is recommended that the Illinois Community College Board endorse the use of the "modified residual concept" for credit hour grants through the continued use of program improvement funding categories that are aligned with system priorities. Also, continue to seek additional funding for bloc grant initiatives as was done in fiscal year 1997.

4. Bloc Grants

Discussion: The work of the System Funding Task Force focused on the following bloc grants: special populations, workforce preparation, and advanced technology. Each of these grants is considered to be a high priority for the future. However, concerns were raised by task force members as to whether the current distribution methods for these grants were properly aligned with the system's activities related to these grants and whether consideration should be given toward moving away from credit hour and enrollment-based distribution methods.

< Special Populations Grant

Discussion: The special populations grant is targeted to serve the many students who enroll at community colleges with academic deficiencies and physical challenges that require special assistance by the college. The current distribution methodology is based on a grant of \$20,000 per college with the remainder distributed on remedial and adult basic/adult secondary education hours. It was suggested that more accurate measurements for targeting special populations exist. The Task Force agreed that a better distribution method would be through a base grant with future years' increases in the grant being distributed based upon special population measurements, such as zero Expected Family Contribution (EFC)

students and physically challenged students per district. Also, current special populations data collected would be reviewed for appropriateness as distribution measurements.

Recommendation: It is recommended that the fiscal year 1997 funding level be used in future years as a base grant amount. For fiscal year 1998, any funding above the fiscal year 1997 level will be distributed based upon the measurements targeted at special populations, such as the number of zero EFC students per district or other special populations student data currently available. Additional measures should be implemented (i.e., the number of physically challenged students per district) as data to support these measures are found to be verified and reliable. It is recommended that the Illinois Community College Board's Finance Advisory Committee be responsible for developing these additional measures for the fiscal year 1999 budget.

< **Workforce Preparation Business/Industry Grant**

Discussion: The workforce preparation business/industry grant was originally based upon a flat grant of \$30,000 per district with the remaining allocation based upon funded occupational hours. The flat grant amount has been increased to \$35,000 per district. The original idea of the base grant amount was to partially fund the salaries and benefit costs of a business/industry center staff on each campus. While the allocation of the grant based upon occupational hours appears reasonable, the flat grant amount needs further study and revision. It appears that the \$35,000 base amount no longer accurately reflects the cost of a business/industry center staff today. Based on the most recent salary survey data, this figure is approximately \$75,000.

Recommendation: It is recommended that the fiscal year 1998 base grant amount be calculated at \$75,000 which represents the current cost of staffing a college business/industry center. In future years, this cost should be inflated by the Higher Education Price Index.

< **Workforce Preparation Education-To-Careers Grant**

Discussion: The workforce preparation education-to-careers grant is distributed based upon a base grant of \$100,000 per district with the balance distributed based upon district population. The base grant amount is currently needed to fund infrastructure at the colleges for establishing education-to-careers partnerships. The district population distribution is not reflective of the activities being performed at the colleges. Better measurements are labor force, unemployment, and welfare caseload numbers. These three measures will address the purpose of the grant in

terms of upgrading the skills of the current workforce, employing the unemployed, and reducing the welfare caseload. Also, the need to maintain flexibility in reimbursing workforce preparation-related expenses by methods other than credit hours was considered a priority.

Recommendation: It is recommended that the base grant of \$100,000 remain in place for fiscal years 1998 and 1999, but a redistribution of the remaining grant funds should occur by utilizing labor force, unemployment, and welfare caseload data.

Future measures might include the number of people upgraded and other customized training not reimbursed, such as dollar volume under contract, number of nonreimbursed enrollees, and in-state versus out-of-state training. After fiscal year 1999, the base grant amount should also be reviewed. It is recommended that the Illinois Community College Board's Finance Advisory Committee be responsible for recommending future measures for the fiscal year 1999 budget. It is also recommended that flexibility in reimbursing workforce preparation-related expenses by methods other than credit hours be considered a priority in the future.

< **Workforce Preparation Student Support Services Grant**

Discussion: The workforce preparation student support services grant is to be used for expansion and enhancement of student support services related to workforce preparation. These include services such as career assessment, career interest inventories, and providing assistance with tutoring, development of college study skills, day care, and job placement. The current distribution methodology, based upon student headcount, was discussed and was found to be adequate.

Recommendation: None.

< **Advanced Technology Equipment Grant**

Discussion: The advanced technology equipment grant is used to purchase state-of-the-art instructional equipment. The distribution methodology for this grant, which is based upon occupational credit hours, was found to be adequate.

Recommendation: None.

< **Advanced Technology Support Grant**

Discussion: The advanced technology support grant recognizes the community college system's critical need for technological advances in all areas of their operations, as well as the need for more efficient operations of institutions. These grant funds help defray the costs related to infrastructure, transmission, and maintenance costs associated with technology support. The current distribution methodology is based upon a grant of \$100,000 per district with the remainder distributed based on student headcount. Questions arose as to the appropriateness of the base grant amount and student headcount as the basis for distributing the remaining funds. It was determined that additional research is needed in this area to ensure that the distribution methodology accurately reflects the costs associated with this grant.

Recommendation: It is recommended that, for fiscal year 1998, the Illinois Community College Board's Finance Advisory Committee review the current data used to identify the cost of delivery to the number of students served through technology-based learning to better align the distribution of this grant with its related costs and to capture additional credit hours generated through technology-based learning.

5. Movement Toward Performance-Based Funding

Discussion: A number of community college systems in other states have set aside small amounts (usually 1-5 percent) of their appropriations to encourage and recognize quality, efficiency, and productivity improvements. While this component will take some time to develop, the newly enacted legislation regarding adult education requires a performance-based component in its funding formula. It is possible that a parallel structure could be used for the adult education funding component of the community college system formula. Also, the Illinois Community College Board received operating funds in fiscal year 1997 for the development of performance indicators.

Recommendation: It is recommended that the Illinois Community College Board implement a performance-based funding component no later than fiscal year 1999. Consideration should be given to funding adult education using a parallel structure to the adult education agreement between the Illinois Community College Board and the Illinois State Board of Education.

6. Cost Analyses

Discussion: In order to effect some of the changes in the funding formula, additional cost analyses will be required. The System Funding Task Force discussed the following areas where additional costs analyses are needed.

1. Review the homogeneity of the six credit hour funding categories currently in use. Analyses that were prepared indicated that wide cost variations exist within some of the funding categories.
2. Consideration should be given to funding high-cost/high-demand programs differently, either through their own funding category or through the use of differential funding within categories.
3. High-cost/low-demand programs were also an area of discussion. These programs should be reviewed to determine if funds can be identified that can be better utilized by the system in other program areas. The utilization of the PQP initiatives identified by the system is a resource that can be used to help address the issue of high-cost/low-demand programs.
4. The need for a cost study of adult education was also discussed. Concerns were raised regarding whether the current cost accumulation system accurately reflects the system's adult education activities.
5. Consideration of beginning to fund the startup costs for new programs through a separate funding category. Since system funding is based upon two-year-old audited data, no provisions currently exist for funding the startup costs of new programs.

Recommendation: It is recommended that the following cost analyses be prepared by Illinois Community College Board staff for inclusion in the system operating budget request no later than fiscal year 2000.

1. Review the homogeneity of the current cost categories for adequacy.
2. Consider funding high-cost/high-demand programs differently, either through their own funding category or through the use of differential funding within categories.
3. Review high-cost/low-demand programs as a possible area for funding redistribution.
4. Prepare a cost study of adult education to determine whether the current cost accumulation system accurately reflects the system's activities.
5. Consider funding startup costs of new programs through a separate funding category.

GLOSSARY

Adult education. Instruction provided to students in the areas of adult basic education (below 9th grade skill level), adult secondary education (9-12 grade skill level), GED (high school equivalency exam), and ESL (English as a Second Language).

Average annual threshold (equalization). The statewide weighted average amount of local property and corporate personal property tax revenue received per full-time equivalent student by community colleges in Illinois. Districts with local revenue per FTE below the statewide average are eligible for equalization grant funding.

Base (flat) grant. A flat dollar amount distributed to each district (or college) regardless of enrollment or other factors.

Bloc grant funding. Funds targeted for statewide initiatives and disbursed to colleges on bases other than credit hour or enrollment factors.

Buffering. A method used to lessen the impact of fluctuations due to changes in funding mechanisms.

Categorical (restricted) funding. Grants distributed to colleges for a specified purpose with restrictions placed on the types of allowable expenditures.

Competitive grants. Grants for special projects for which a college would have to compete for award of available funds.

Cost centers. Net instructional unit costs per funding category. See **net instructional costs**.

Credit hour grant funding. Unrestricted funds disbursed to colleges on the basis of credit hours generated in six reimbursable instructional (funding) categories.

Credit hour. Unit of enrollment measurement used for formula-based funding. One credit hour equals one student enrolled for one credit hour of instruction

Decoupling. A method to base funding on measures other than credit hour production or other enrollment data.

Differential funding. Funding at a rate above or below the average rate due to special circumstances.

Equalization grants. Unrestricted grants to colleges with local tax revenue per FTE student below the statewide weighted average threshold. These grants are an attempt to reduce the disparity between districts in local property tax funds available per student.

Equity tax. Additional tax levy authority granted by Section 3-14.3 of the Public Community College Act to eligible equalization districts with educational and operations and maintenance tax levy rates less than the certified statewide average rate.

Fixed costs. Costs that are not necessarily related to the size of the institution or shifts in enrollment.

Foundation level (minimum level). A level of funding per credit hour determined to be a minimum obligation on the part of the State. Usually defined as one-third of net instructional unit costs.

Funded hours. Reimbursable semester credit hours calculated for funding purposes by utilizing the higher of (a) actual credit hours generated in base fiscal year or (b) average of past three fiscal year's credit hours.

Funding category. Program categories of instruction classified by discipline area into reimbursable funding categories. Current funding categories include: (1) baccalaureate/transfer, (2) business and service occupational and vocational, (3) technical occupational and vocational, (4) health occupational and vocational, (5) remedial education, and (6) adult basic/adult secondary/English as a Second Language.

Full-time equivalent student (FTE). Defined as a student producing 30 credit hours annually.

IBHE. Illinois Board of Higher Education

ICCB. Illinois Community College Board

Local tax revenue. The amount of revenue received through property taxes and corporate personal property tax replacement revenues.

Modified residual concept. Current residual methodology with program improvement areas identified for additional funding above formula-driven calculations.

Net instructional costs. Costs for instruction in courses approved for credit. Costs include expenditures for teaching salaries, direct departmental and equipment costs, academic administration and planning costs, and an allocated proportion of support costs (learning resources, student services, administrative data processing, general administration, operation and maintenance of plant, institutional support, and building rental).

Nonreimbursed enrollees. Students served outside of the college credit program which is eligible for credit hour grant reimbursement.

Occupational hours. Credit hours generated in funding categories (2) business and service occupational and vocational, (3) technical occupational and vocational, and (4) health occupational and vocational.

Operations and maintenance costs. Activities necessary to maintain physical facilities, including grounds, buildings, and equipment. Includes campus security, plant utilities, and equipment, materials and supplies necessary to support this function.

Performance-based funding. Funding based upon defined performance indicators or outcome measures.

Priority, Quality, and Productivity (PQP). A statewide initiative implemented by the Illinois Board of Higher Education in 1991 to refine priorities in order to strengthen the quality and improve the productivity of Illinois higher education. The initiative requires intensive examination of multiple aspects of higher education and involves parallel review and decision making at the college, governing board, and state levels.

Program improvement funding. Identified instructional categories that require additional state funds targeted for special purposes or needs.

Program mix. Proportion of credit hours generated in each instructional funding category.

Residual concept. Method used to calculate state funding to the community colleges by determining the total amount of estimated revenue needs remaining after all other sources of revenue are subtracted. This calculation represents the credit hour grant funding request.

Square footage. Gross square footage of permanent or temporary, state-appropriated or locally funded, space owned and operated by the community college.

Technology-based learning. Instruction provided via interactive telecommunications technology.

Unit cost. Net instructional costs per semester credit hour. See definition of **net instructional costs**.

Variable costs. A cost that is dependent upon the level of service provided.

Zero EFC. Financial aid students who have no expected family contribution to their educational costs.

COMMUNITY COLLEGE OPERATING GRANT DESCRIPTIONS

Base Operating Grant

- Credit Hour Grant

This grant is allocated to districts based upon credit hour enrollment in six funding categories (Baccalaureate, Business, Technical, Health, Remedial, and ABE/ASE). The hours used in the grant are the greater of the two years prior fiscal year actual credit hours or the average of the past three fiscal years. The grant rates are derived by taking the past completed fiscal year net instructional unit cost and weighing that to get a two-year cost increase. From the two-year weighted unit cost by funding category, tuition and fees, local tax contribution, vocational/adult education grants, and other revenues are subtracted out. If needed, a rate support is added back into the grant rates to get the total grant amount.
- Gross Square Footage Grant

This grant is allocated by the weighted gross square foot times a rate that is derived by taking the total grant amount divided by the total weighted gross square footage.. If the gross square footage(GSF) per student headcount is above the state average then a weighted gross square footage is used in the allocation, otherwise the districts actual gross square footage is used. The weighted GSF is derived by taking the amount greater than the state average GSF per student dividing that in half and then multiplying by the student headcount. This amount is then added to the districts total GSF. The total GSF is either the districts actual GSF or if the districts GSF per student headcount is greater than the state average GSF per student headcount then the GSF per student headcount multiplied by the districts actual student headcount is used.
- Small College Grant

This grant is distributed to districts with less than 2,500 noncorrectional full-time equivalent students. The allocation is the number of districts that qualify divided into the total grant amount.
- Equalization Grant

The grant is allocated by taking the calculated statewide threshold minus the districts local tax revenue per full-time equivalent(FTE), and then multiplying this amount by the districts FTE. Only the amounts greater than zero are used in the grant. If a district has an amount greater than zero prior to any proration factor being used but becomes less than zero after the prorated amount is factored into the grant then the district will receive a minimum grant amount. The statewide threshold is derived as follows; the funded equalized assessed valuation (EAV) is added to the funded CPPRT which is divided by the state average tax rate. This amount is then divided by the district's funded FTE. This final amount is then multiplied by the state average tax rate to end up with the statewide average threshold. The threshold will be adjusted by the prorated factor that

is used. The funded EAV is the lesser of the most recent EAV or the average of the past two years EAV. The funded CPPRT is the lesser of the most recent CPPRT or the average of the past two years. The funded FTE is the greater of the past two years completed in-district FTE or the average of the past three years completed in-district FTE. The statewide tax rate is derived by taking the total EAV divided by the total extensions amount. The total extensions amount is the district's EAV multiplied by the district's actual operating tax rate.

- Performance-Based Initiative Grant

This grant is allocated as 60 percent for state defined goals and 40 percent for a locally defined goal. The state goals consist of 1) student satisfaction, 2) student educational advancement, 3) student success in employment/continuing education, 4) student transfers, 5) population served, and 6) remedial course completion rate. The local goal is chosen by the district from the areas of workforce development, technology, and responsiveness to local priorities.

- Workforce Development Grant

- Current Workforce Training

The allocation is done by getting a rate to multiply by the number of employed persons in the district. If this amount is below \$50,000 then the districts allocation is brought up to that amount. The rate is derived by taking the initial allocation amount (total grant amount less dollars used to get districts to the minimum threshold) and dividing that by the number of total persons employed.

- Business/Industry Services

The allocation is done by giving each district a minimum grant and the remaining allocation done by taking a rate of remaining funds and multiplying by the number occupational/vocational funded credit hours. The rate is derived by taking the remaining allocation amount (the total grant less the basic allocation amount) and dividing by the total occupational/vocational funded credit hours.

- Education-to-Careers

The allocation consists of 1) a basic allocation, 2) allocation for an unemployment rate, and 3) an allocation by the number of persons in the district's labor force. The allocation for the unemployment rate is derived by taking a set amount of \$2,175 and multiplying by the unemployment rate. The allocation by the number of persons in the district's labor force is determined by taking the number of persons in the district's labor force and multiplying by a determined rate. The rate is derived by taking the total remaining amount (total grant amount less the basic allocation and less the allocation for the unemployment rate) and dividing by the number of persons in the labor force.

- Welfare-to-Work

The allocation consists of a basic allocation and the remaining allocation being done on the basis of the number of caseloads in the district. The rate that is multiplied against the number of caseloads in the district is calculated by taking the remaining allocation (total grant less the basic allocation) and dividing it by the total number of welfare caseloads.

- P-16 Initiative Grant
 - Accelerated College Enrollment

The allocation is done by determining a rate to multiply by the number of 11th and 12th grade high school students in the district. If this amount is below \$15,000 then the districts allocation is brought up to that amount. The rate is derived by taking the initial allocation amount (total grant amount less dollars used to get districts to the minimum threshold) and dividing that by the total number of 11th and 12th grade high school students.
 - Teacher Preparation and Professional Development

The allocation consists of a basic allocation and the remaining allocation being done on the basis of the number of certified instructional FTE teachers in the district. The rate that is multiplied against the number of certified instructional FTE teachers in the district is calculated by taking the remaining allocation (total grant less the basic allocation) and dividing it by the total number of certified instructional FTE teachers in the district.
- Advanced Technology Grant
 - Illinois Community Colleges Online

This allocation is divided equally among each district.
 - Technology Equipment

The allocation is determined by multiplying each districts occupational/vocational funded credit hours by a specified rate. The rate is determined by taking the total grant amount and dividing by the total occupational/vocational funded credit hours.
 - Technology Support

The allocation consists of 1) a basic allocation, 2) an allocation based on geographical size, 3) an allocation based on the market service areas(MSA's), and 4) an allocation based on the student headcount. The allocation amount based on the geographical size is derived by taking the number of square miles in the district and multiplying by a determined rate. The rate is determined by taking the allocated amount (which is the total grant less the basic allocation then divided by 3) and dividing it by the total number of square miles in the state. The allocation based on the market service areas and student headcount is done the same way except the factors used are the total number of MSA's and the total student headcount, respectively.
 - Technical Skills Enhancement

The allocation is determined by taking a derived rate and multiplying by the number of staff FTE in the district. The rate is derived by taking the total grant amount and dividing it by the total number of staff FTE.
- Special Populations Grant

The allocation consists of a basic allocation by college and the remaining amount allocated by multiplying a derived rate by the number of ABE/ASE and remedial funded credit hours.

The rate is derived by taking the remaining allocation (total grant less the basic allocation) and dividing it by the total number of ABE/ASE and remedial funded credit hours.

- Deferred Maintenance Grant

The allocation consists of a basic allocation by district and the remaining amount allocated by multiplying a derived rate by the weighted GSF. The rate is derived by taking the remaining allocation (total grant less the basic allocation) and dividing by the total weighted GSF. The weighted GSF is the same numbers as used in the Gross Square Footage grant.

- Retirees Health Insurance Grant

City Colleges of Chicago is the only district that receives this grant. It is a straight allocation to the district.

PRINCIPLES ADOPTED BY THE PRESIDENTS' COUNCIL

From Report of the Presidents' Council Funding Task Force
December 1995

Comments of the 2002 System Funding Task Force are in Bold and Underlined

1. Full budgetary authority for the distribution of state funds should be vested in the ICCB.
2. ICCB reserves the right to seek funds from the Legislature based upon its own independent analysis of need.
3. As long as there is an expectation in the formula that certain local tax revenue levels are available, local districts should have statutory authority to generate those levels.
4. An appropriate revenue mix among local taxes, student tuition, and state grants should be developed and maintained with a goal being no less that one-third of total revenues being derived from state grants **at the system level.**
5. The residual funding concept should be disbanded with a model with minimal (foundation level) state support established in its place. **(This has not occurred).**
6. An appropriate revenue mix between restricted and unrestricted state grants should be determined and maintained with a goal being that no more than 10 percent of state grants should be restricted. **(Currently 15 percent of state grants are restricted; the Task Force recommends that the percentage goal be eliminated).**
7. Equalizing local tax revenue availability through state grants should continue as a principle, provided that participating institutions meet a minimum tuition/fee threshold.
8. Local districts should be able to generate funds through federal and private grants without being penalized in the formula.
9. While the primary focus of the formula should be cost-based and allow for cost variations among courses and programs, the cost centers and variations should be reexamined periodically to determine their validity.
10. There should be an appropriate distribution of state and other grants to community colleges other than those appropriated to the Illinois Community College Board.
11. The extent to which state grants depend on enrollments should be diminished; other methods of generating state revenues should be incorporated into the funding mechanism.
12. Because the formula includes a two-year lag in terms of funding enrollments, further attention needs to be given to new program initiation and its associated costs.
13. Colleges must retain the right to set their own tuition **and fee** levels.

PRINCIPLES ADOPTED BY THE SYSTEM FUNDING TASK FORCE

From Report of the System Funding Task Force
September 1996

1. Funding should be tied to, or consistent with, system goals and priorities.

2. Funding should not solely be based on student enrollments; decoupling from student credit hour funding should be used, where appropriate, to properly align the funding formula with community college activities.
3. Equalizing local tax revenue available through state grants should continue.
4. Funding from state sources should not be based solely upon the residual concept.
5. Funding should be cost based, with periodic reviews to ensure that the costs accumulated provide the proper level of accountability to accurately reflect the activities of the system.
6. Funding should encourage and reward quality, efficiency, productivity, and innovation through performance-based components.
7. The impact of substantial changes in funding should be minimized through the use of buffering.

COMMUNITY COLLEGE FUNDING STUDY TASK FORCE

Task Force Co-Chairs

Bob Luther, President, Lake Land College, Presidents' Council
Lin Warfel, Trustee, Parkland College

Committee A: Equalization/Tax Caps/'Maxed' Out/Small College

Chair - Bob Carlock, Dean Administrative & Financial Services, Rend Lake College and Chair, Illinois Community College Chief Financial Officers
Barb Oilschlager, Trustee, College of Lake County
Rick Radeke, Executive Vice President, Finance and Operations, Waubensee Community College
Dean West, Trustee, Southeastern Illinois College

Committee B: Residual Nature/Innovation Incentives

Chair - Mike Shirley, President Elgin Community College and Chair, Presidents' Council Finance Committee
Abe Eshkenazi, Vice Chancellor, Finance, City Colleges of Chicago
Jim Howard, President, Lincoln Land Community College, and Vice Chair, Presidents' Council Finance Committee
Tom Ryan, Vice President, Administrative Affairs, College of DuPage

Committee C: Enrollment-Driven

Chair - Roger Tuttle, Trustee, Heartland College
Mark Kern, President, Rend Lake College, Presidents Council Finance Committee
Donna Mast, Student, John A. Logan College, Student Advisory Committee
Libby Roeger, Faculty, Shawnee Community College, Illinois Community College Faculty Association
Wayne Watson, Chancellor, City Colleges of Chicago, Presidents' Council Finance Committee

Committee D: Unrestricted vs. Restricted/Performance and Accountability /Data Collection and Technology

Chair - Charles Guengerich, President, Wright College, Presidents' Council Finance Committee
J. P. Barrington, Vice President, Business Services, John A. Logan College
Carole Bulakowski, Assistant Vice President, Educational Affairs, College of Lake County, Illinois Council of Community College Administrators
Gary Davis, Executive Director, Illinois Community College Trustees Association

Ex-Officio Members

Richard Anderson, Trustee, College of Lake County, President of Illinois Community College Trustees Association
Ed Duffy, Chair, Illinois Community College Board
Gretchen Naff, President, College of Lake County, President of Presidents' Council
Joe Cipfl, President/CEO, Illinois Community College Board

Facilitator/Consultant

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Virginia McMillan, Executive Vice President

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