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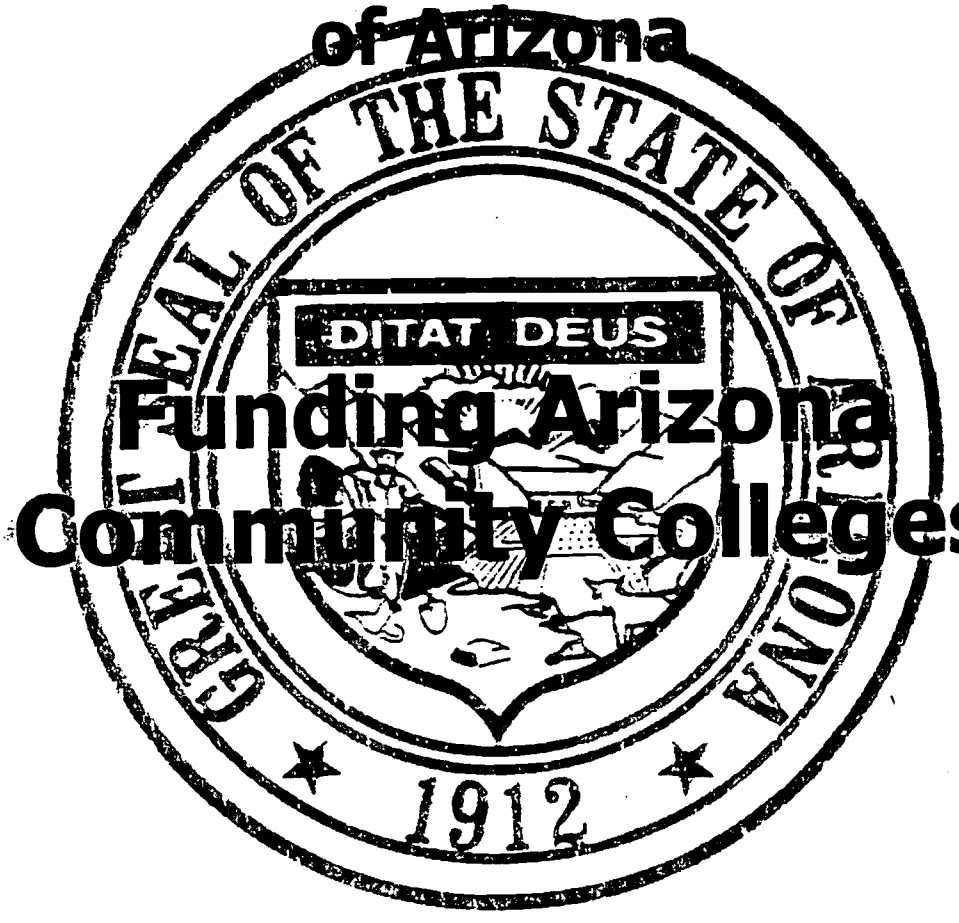
ABSTRACT

The purpose of this paper is to provide a foundation for the planned discussion of how the funding of Arizona community colleges might be improved to enable the colleges to better serve the needs of their communities and address the priorities of the State. This paper considers three of the most common funding sources: (1) state appropriations; (2) local tax levy; and (3) student tuition and fees. This paper discusses three factors that must be considered in developing a rational and effective model for funding of community colleges, which are state benefit, accountability, and equity. The first two are being reviewed by a task force, and will be presented in an upcoming report. In reviewing the current status of equity, this paper examines the present system of equalization, out of county reimbursement, variations in the level of state aid provided the various community college districts, variations in taxing and spending ability, and the level and variance in student tuition. This paper also offers recommendations for changing the process of how Arizona funds its community colleges. The report suggests that the following matters should be included in the consideration of a new funding paradigm: (1) base funding; (2) equalization funding; (3) performance funding; (4) funding for addressing state priorities; and (5) other funding considerations. Appendices are included. (VWC)

State Board of Directors for Community Colleges of Arizona



Funding Arizona Community Colleges

AUGUST 1999

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A discussion paper by
Donald E. Puyear, Ph.D., Executive Director
State Board of Directors for Community Colleges of Arizona

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August 1999

EXECUTIVE SUMMARY

Introduction

The State Board of Directors for Community Colleges of Arizona has undertaken a study of Arizona community college funding. The purpose of this paper is to provide a foundation for the planned discussion of how the funding of Arizona community colleges might be improved to enable the colleges to better serve the needs of their communities and address the priorities of the State.

How Community Colleges Are Funded In Arizona

American community colleges are typically funded from a variety of revenue sources. The most common of these sources are (1) state appropriations, (2) local tax levy, (3) student tuition and fees, (4) gifts and grants, and (5) sales and services. This paper will consider only the first three of these funding sources.

As compared to community colleges in most other states, Arizona community colleges receive an unusually small proportion of their funding from state appropriations with a correspondingly larger share from local property taxes. A brief description of each of the listed sources follows:

- State Appropriations. State appropriations include operating and capital outlay state aid and equalization state aid. The state is also obliged to provide up to $1,000,000 in matching funds for each community college campus for building purposes.
  - Operating State Aid. Operating state aid is based on the previous year's appropriation, and growth in enrollment. The legislature may also appropriate supplemental funds which, unless specifically identified as one-time funds, are included in the base for subsequent applications of the funding formula.
  - Equalization State Aid. Equalization state aid is intended to compensate for inadequate assessed valuation in the community college district. The amount of equalization aid is tied to the minimum assessed valuation required to establish a community college.

- Capital Outlay State Aid. Capital outlay state aid is appropriated on the basis of student enrollment. These funds are generally not great enough to be used for new construction, but are usually used for equipment purchases and facilities repair and maintenance. Up to twenty percent of the capital outlay state aid may be transferred from capital to operating funds, or a like amount may be transferred from operating to capital funds.

- District Tax Levy. The community college district governing board may, with many constraints discussed later in this paper, levy property taxes. This is the largest source of community college funding in Arizona.

- Tuition and Fees. Tuition and fees include both fees collected directly from students and from out of county reimbursement payments.

Considerations in State Funding of Community Colleges

Three factors that must be considered in developing a rational and effective model for funding of community colleges are state benefit, accountability, and equity.

- Equity. Considering first the status of equity, we address three basic and related questions: (1) Is the state providing comparable assistance to the various community colleges? (2) Is the state assuring that citizens in the less affluent areas are receiving assistance to bring them to some basic level of service? (3) Are citizens throughout the state able to participate in community college educational services in an effective and affordable manner?

- Accountability. Are the colleges demonstrating that they are using the resources provided them in an effective manner? Are community colleges, individually and collectively, producing the results they claim for individuals and for the communities at large? How do we know?

- State Benefit. Is the state benefiting from its investment in community colleges? In what way? How do we know?

Current Status of Equity

In reviewing the current status of equity, we will examine the present system of equalization, out of county reimbursement, variations in the level of state aid provided the various community college districts, variations in taxing and spending ability, and the level and variance in student tuition.

- Variations in the Level of State Aid. There is presently a large variance in the amount of operating state aid provided by state appropriation to the various districts. In the 1997-1998 fiscal year, the operating state aid per full-time-equivalent student (FTSE) varied from a high of $1,902 to a low of $864. One can argue that the urban districts enjoy an economy of scale that justifies a lower level of support, but the difference should likely be very much less than the present 120% difference between the high and the low. Even within the rural districts, there is a 32% variation for which there is no obvious explanation other than historical precedent.

  By its very nature, the present funding formula will perpetuate whatever discrepancy in funding levels has developed over time. The present funding formula has another feature that can contribute to unusual discrepancies. While growth is

funded, colleges experiencing a decline in enrollment are "held harmless," with funding continued at the previous level.

- Variations in the Level of Local Taxing Ability. There is a wide difference in the amount of local tax revenue that is available to the various community college districts. This is due to both the differences in property wealth (assessed valuation) in the district and constitutional limits on the tax levy. Equalization provisions, discussed below, address the problem of extremely low assessed valuation. Levy limits are constitutionally imposed limits resulting from voter initiatives passed several years ago. The levy limits automatically increase two percent each year plus any growth in assessed valuation due to new construction.

  Some colleges have extremely low levy limits, for which there is no redress other than an amendment to the constitution. Colleges with low levy limits can go to the voters for a seven-year levy override. This is difficult, but it is the only available remedy.

- Variations in the Level of Spending Ability. Expenditure capacity limitations are another constitutionally imposed limit on the ability of a community college district to spend tax-generated funds. Funds generated from tuition, fees, and sales are not included in the expenditure limit. Several districts are operating very close to their constitutional expenditure capacities.

- Variation in Tuition Levels. While tuition is a State Board responsibility, the State Board has generally approved the recommendations of local district governing boards on this topic. There are considerable differences among the tuition levels charged students in the various districts.

- Equalization. Arizona addresses the needs of the districts with the least taxing ability (assessed valuation) by separate "equalization" funding. This funding is designed to provide community college districts that fall below a minimum threshold of assessed valuation with state funds to make up for the local tax funds that would have been received had the district been at the threshold. On the surface, this is an excellent plan. There are, however, serious problems with Arizona's current plan. (1) The threshold describing the assessed valuation needed to support a minimal basic community college—which is the value driving the equalization plan—has been allowed to become excessively high. (2) There is no requirement that a community college district receiving equalization demonstrate that it is doing all that it can with its local resources before qualifying for this assistance.

- Out of County Reimbursement. There are currently four counties in Arizona that do not have an organized community college district. When students from these counties attend a community college in one of the organized districts, their home county is charged an amount determined by law. The amount charged is basically the college's average operating expense per student minus tuition and operating state aid.

Current Status of Accountability and State Benefit

Arizona community colleges are in the process of developing an ongoing institutional

effectiveness reporting system for the state as a whole. This process is based on the recommendations contained in the Report of the Task Force on Institutional Effectiveness Measures which established measures related to (1) access, (2) transfer, (3) economic impact/workforce development, (4) community development, and (5) return on investment. These measures are being refined and the first edition of what is to be an annual report is expected to be published in the fall of 1999. This will provide the basis for describing the state benefit for community colleges as a whole.

A Proposed New Paradigm for Funding Arizona Community Coleges

In the previous discussion we have seen that, while the basic structure of community college funding – with contributions from the state, from local taxpayers, and from students – is fundamentally sound and should be retained, there are equity problems in the apportionment of state aid for Arizona community colleges. There are unexplainable differences between the level of aid directed to different districts that should be addressed. The equalization formula needs to be revisited. And Arizona may wish to encourage excellence and responsiveness on the part of its community colleges with targeted funding increments.

It may well be that it is time for Arizona to examine how it funds its community colleges and to consider a change in this process. This paper, and the recommendations contained therein, is sharply focused on the state contribution to the funding of its community colleges. The thesis of these recommendations is that there should be four major components to state aid for Arizona Community Colleges. We suggest that the following matters should be included in the consideration of a new funding paradigm:

1. Base Funding. A foundation of funding should be provided based generally on college size. This may be measured by Full-time Equivalent Students (FTSE) or, as will be suggested, another measure of size based on successful completers rather than starters. A series of models for this base funding is proposed.
2. Equalization Funding. Equalization funding in some form is required to assist districts that have too low a property tax base to provide essential funding.
3. Performance Funding. An increment of funding should be provided based on the district's accomplishment of established performance measures.
4. Funding for Addressing State Priorities. An increment of funding is suggested based on the district's response to state priorities established by the Governor, Legislature., or State Board.
5. Other Funding Considerations. Other considerations are suggested, including an alternative to current out of county reimbursement provisions.

Each of these components is discussed in more detail below.

- **Base Funding.** Three approaches to base funding are presented. The approaches range from a relatively minor overhaul of the present operating state aid system, to a more complex model that, while still based on FTSE, builds in concepts of equity and economy of scale, and on to a new model that puts the emphasis on results.
  - First Option: Refine Present System. The first option is to apply concepts

contained in the author's 1996 paper entitled *"Some Thoughts on State Aid for Community Colleges of Arizona."* The model proposed that the eight rural districts receive state aid at the same rate per FTSE and that the two urban districts receive 80% of this level per FTSE. The steps outlined in this plan should be considered minimal steps. A more sweeping overhaul might serve Arizona better.

Second Option: A Base Funding Model. An alternative model is proposed to demonstrate that there are alternatives to the present funding formula. The model establishes a base funding value for even the smallest district and takes into account the economy of scale that can be attained by larger districts.

This model is based on the following propositions:

- There is a basic cost to operate a community college district.
- The model is cumulative. The first 999 FTSE are funded at the base amount for all districts, large or small. The next 100 FTSE are funded at the next level, and in the same manner each increment is funded at its level and added to the previous total.
- There are three arbitrary values subject to manipulation in this model: (1) the value of the basic aid for the initial 999 FTSE; (2) the value of the index reduction factor; and (3) the limiting point, beyond which no further reductions are made in the index. These are logical/political decisions that can be changed to produce different shapes to the results.
- Community college enrollments are volatile and are subject to a host of social and economic forces. Costs, on the other hand, continue. For this reason, there needs to be relative stability in state aid. Nonetheless, if a college has a sustained enrollment decrease, it must reduce its expenses and it is unreasonable to fund it on historical rates indefinitely. Therefore, it is suggested that when a college moves into a higher bracket, the funding be increased accordingly. When a college moves into a lower bracket due to enrollment decreases, and remains in the lower bracket for three consecutive years, the funding should decrease to the lower rate. Thus, a college fluctuating on the edge of a bracket will likely be placed in the higher bracket and remain there.

This model addresses many of the inequities in the present system, yet it is still based on FTSE, which measures only one of the many facets of the community college mission. The third option described below introduces a new basis for funding.

- Third Option: Base Funding Based on Course Completions. Both equity and state benefit would be enhanced if the base funding model were based on something more descriptive of the state benefits produced by commu-

nity colleges. One such measure would be the number of students who satisfactorily complete a course rather than the number who enroll. A focus on satisfactory completers would provide an even stronger incentive for the colleges to strengthen student support services and other strategies to enhance student success. It would also reduce the incentive to entice students into signing up for courses that they will not likely complete.

As recognized in the second model, funding should be held level for short-term enrollment declines. The previous funding level, and the enrollment upon which it was based, should be the starting point for future appropriations. Declines of more than three years duration should result in reductions in state aid appropriations.

- **Redefining Equalization**. There can be no question but that at least one of the present community college districts could not function without additional state support. This district, Graham County Community College District (Eastern Arizona College), was established as the Arizona Junior College System was created in 1960 by including in the initial system a long-established college in eastern Arizona. The equalization system presently in place was originally designed to assist this community college district.

  The present system is tied to the definition of the minimum assessed valuation required to qualify a county to establish a community college system. There is sound logic in this arrangement. However, the formula that was created to define this minimum criterion has raised the value far beyond any reasonable definition of a viable minimum. If equalization is retained in its present form, a study needs to be made to determine the actual minimum assessed valuation that is required to provide the local resources necessary to operate a very basic community college. Based on observations of community colleges throughout the country, it is likely that this minimum should be not more that 50% to 60% of the present value.

- **Funding Incentives Based On Performance**. As noted earlier, the State Higher Education Executive Officers organization (SHEEO) reports that the use of performance measures by states continues to grow. A major problem with many performance based budgeting strategies is that a mountain of data must be generated to feed the system, and the measures are often off the mark. However, meaningful performance incentives can be developed that do not require excessive data generation. The following example of one possible plan is offered.

  - <u>**Example:** A Transfer Performance Incentive Program</u>. Arizona recently developed an exemplary transfer articulation agreement between the community colleges and public universities of the state. Two features of this transfer model that lend themselves to incentive funding are the block transfer of the general education core and the block transfer of associate degrees.

    Salient factors in the development of this model are as follows:

    - The state general fund provides much more per-student support

for undergraduate instruction at a public university than at a community college.

- The transfer articulation agreement puts a premium on completing blocks of instruction at the community college (general education core and the associate degree).
- The new transfer articulation agreement becomes operational in the fall of 1999.
- The universities all have degree audit systems that identify students who transferred in a general education core block or an associate degree.

An incentive funding program with the following features would provide strong positive incentives to community colleges to make the transfer articulation system work and to assure that students are well prepared as they move to the university. It would save the state considerable money over time, and students would be better served.

- The universities would identify all current-year graduates for each community college district who (1) graduated from the university with no more than 160 credits, and (2) who transferred to the university with a general education core block but not an associate degree, or (3) who transferred to the university with an associate degree.
- For each such graduate who transferred a general education block but not an associate degree, the state would provide, as an incentive payment, $1,000 to the community colleges.
- For each such graduate who transferred an associate degree block, the state would provide, as an incentive payment, $2,000 to the community colleges.
- Most of the incentive payment should go to the college districts, but a share should go to the State Board to support enhanced transfer articulation support services and public awareness of the program.

Thus, the state would gain a substantial portion of the reduction in general fund cost for increased use of community colleges for the first two years of undergraduate instruction. The community colleges would be encouraged to make their transfer programs more attractive and to facilitate students' completion of a full block at the community college. Students would benefit from enhanced transfer effectiveness. Everyone wins.

This program would produce positive results with virtually no additional data collection requirements. The information required could be easily produced from already-existing data.

An alternative to the above system would be to provide an incentive payment for each student who transferred to either a public or private university with a general education block or associate degree – not waiting for the student to graduate from the university.

Other similar models could likely be created addressing other aspects of community college operations that make a positive impact on the economy and welfare of the state. An example would be a premium paid for graduating students from occupational programs that address specific long-term worker skill shortages identified by the Department of Commerce or the Department of Economic Security.

- **Funding Incentives Based On State Priorities**. Community colleges can also be encouraged to develop new programs and to enhance existing programs focused on priorities established by the Governor, the Legislature or the State Board. The Commonwealth of Kentucky plan for a series of trust funds focused on state priorities shown in Appendix E illustrates one such approach.

  In its most basic form, such a plan could follow a sequence such as the following:

  - The Governor and Legislature, with involvement of the State Board, would establish long-term priorities that community colleges (and this might also extend to the university sector) might be able to address with new or enhanced programs.
  - A fund would be established to provide incentive increments to community colleges (or others) that present qualifying proposals to address these established priorities.
  - The fund would provide funding for a major portion of the cost of developing the proposed program and for its initial operation. The college would also be expected to devote some of its resources. Thus, there would be an incentive for a college to address the state priority if it was also a priority for the community college district. On the other hand, the college would not be encouraged to simply chase the money if the program was not something that the college would otherwise want to do.
  - The funding provided under this plan should be long term, but with accountability. This is to assure that the program is continued and that the results of the program are documented and evaluated.

  Example: Incentive Funding for Preparing Rural Health Care Providers. Consider the following hypothetical illustration of how this feature might work.
  Established Priority: To improve the accessibility and quality of health care in the rural regions of Arizona.
  Responses: Possible qualifying programs might include enhancement of programs to train health care workers in rural Arizona. Arizona's community college initiative in collaborative distance education, Arizona Learning Systems (ALS), might also be employed to bring health care instruction to several rural sites via electronic distance education. Since the instruction of health care workers is relatively expensive, special state support might be necessary to make it feasible for the colleges to provide this instruction. Yet, the benefit to the state could be immense. It has been demonstrated repeatedly that it is much more effective to train local health care workers than it is to try to import trained workers.

- **Other Considerations**. Two other relatively minor considerations need to be addressed.
  - Capital Outlay State Aid. The present capital outlay state aid system seems to be working reasonably well. One could argue that the amounts should be larger, but the distribution is considered by most to be equitable. It is, of course, based on the limited criterion of FTSE. Whatever method is ultimately adopted for operating state aid may also be adapted to capital outlay state aid.
  - Out of County Reimbursement. As discussed earlier, the present out of county reimbursement system is flawed in that citizens of a county, by their private actions, create a major liability for the unorganized county. A much more equitable system might entail the State Board establishing an out of county tuition applicable to students from unorganized counties. This tuition would be intermediate between resident tuition and out-of-state tuition. There would also need to be a provision that allowed the unorganized county Board of Supervisors to establish a tuition reimbursement plan for their citizens if they chose to do so.

The Next Steps

It is recommended that the State Board establish a high-level task force to review and make recommendations concerning the matters discussed in this paper. The membership of this task force should include civic leaders, leaders of the business community, representatives of the Governor and the Legislature, as well as State Board members, community college presidents, and district governing board members. The task force should be given adequate time to do its work. It would be helpful if the task force could have recommendations for the State Board, Governor and Legislature by the early fall of 2000 so that it might be considered in the January 2001 legislative session.

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A discussion paper by
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State Board of Directors for Community Colleges of Arizona
August 1999

Introduction

The State Board of Directors for Community Colleges of Arizona has undertaken a study of Arizona community college funding. The purpose of this paper is to provide a foundation for the planned discussion of how the funding of Arizona community colleges might be improved to enable the colleges to better serve the needs of their communities and address the priorities of the State.

In this paper, we will review the present funding system, which has developed and supported a productive community college system. After reviewing both the strengths and weaknesses of the present system, we will suggest changes that might further strengthen the system. While specific recommendations are made in this paper, these recommendations are intended solely to establish a starting point for discussion and deliberation. The purpose of strengthening the funding system is to provide greater equity and opportunity, and to encourage community colleges to address state priorities.

It is anticipated that, with an enhanced state funding system such as is called for in this paper, the justification and utility of increased state support for Arizona community colleges will become apparent. It is only through increased participation at the state level that many of the inherent inequities in local support can be overcome.

How Community Colleges Are Funded In Arizona

American community colleges are typically funded from a variety of revenue sources. The most common of these sources are (1) state appropriations, (2) local tax levy, (3) student tuition and fees, (4) gifts and grants, and (5) sales and services.

In order to focus on the primary purpose of this paper – improving the state funding mechanism – this paper will consider only the first three of these funding sources.

As compared to community colleges in most other states, Arizona community colleges receive an unusually small proportion of their funding from state appropriations with a correspondingly larger share from local property taxes[1]. The distribution of community college funding in FY 1997-1998[2] is shown in Table 1. A brief description of each of the listed sources follows:

Table 1. Distribution of Community College Funding – FY 1997-1998

	State Appropriations			Local Taxpayers	Tuition and Fees		
	Operating State Aid	Equalization Aid	Capital Outlay State Aid	District Tax Levy	Out of County Reimbursement	Other Tuition & Fees	TOTAL
Cochise	$5,333,000	$1,616,300	$632,700	$7,512,768	$101,955	$4,249,863	$19,446,586
Coconino	$2,803,900		$318,800	$3,334,611	$40,233	$1,471,384	$7,968,928
Graham	$4,906,300	$6,467,200	$1,571,800	$1,343,065	$694,065	$1,579,382	$16,561,812
Maricopa	$41,386,300		$7,185,800	$151,870,879	$654,968	$45,428,153	$246,526,100
Mohave	$3,618,500		$448,600	$7,667,054	$0	$1,546,557	$13,280,711
Navajo	$3,826,300	$634,500	$904,000	$5,708,697	$126,090	$1,700,766	$12,900,353
Pima	$16,483,700		$3,226,700	$38,678,627	$900,200	$19,629,291	$78,918,518
Pinal	$5,790,600		$685,000	$9,155,810	$477,891	$2,423,362	$18,532,663
Yavapai	$4,611,500		$570,790	$13,600,000	$230,073	$2,884,927	$21,897,290
Yuma-La Paz	$4,588,700	$23,500	$629,200	$10,003,968	$55,659	$1,738,297	$17,039,324
TOTAL	$93,348,800	$8,741,500	$16,173,390	$248,875,479	$3,281,134	$82,651,982	$453,072,285
	20.6%	1.9%	3.6%		0.7%	18.2%	
	$118,263,690 26.1%			54.9%	$85,933,116 19.0%		

- State Appropriations. State appropriations include operating and capital outlay state aid and equalization state aid. The state is also obliged to provide up to

[1] The last known extensive study of the sources of operating funds in community colleges was a 1991 study, *Community College Financing 1990: Challenges for a New Decade* by David Honeyman, Mary Lynn Williamson, and James L. Wattenbarger, American Association of Community and Junior Colleges. The study reported that, in FY 1988, Arizona received 26.80 % of its operating funds from State appropriations, 51.50 % from Local tax support, 13.10 % from Student Fees, and 8.60 % from other sources. At that time, Arizona had the lowest percentage of support from State appropriations and the highest percentage of local tax support among the 37 states participating in the study. While there have been significant changes in support for community colleges over the decade since that report was prepared, the relative position of Arizona with respect to source of funds has likely not changed materially.

[2] Revenue information is taken from the *Statistical Supplement to the Annual Report to the Governor, FY 1997-1998*, State Board of Directors for Community Colleges. pp. 14-15. For these discussions, income from gifts, grants, and sale of services is excluded. Fund balances as well as transfers to and from reserves are also excluded. Out of county reimbursement data are from State Office files. Financial data from 1997-1998 are used throughout this report for consistency.

$1,000,000 in matching funds for each community college campus for building purposes.[3]

- Operating State Aid.[4] Operating state aid is based on the previous year's appropriation, and growth in enrollment.[5] The legislature may also appropriate supplemental funds which, unless specifically identified as one-time funds, are included in the base for subsequent applications of the funding formula.

- Equalization State Aid.[6] Equalization state aid is intended to compensate for inadequate assessed valuation in the community college district. The amount of equalization aid is tied to the minimum assessed valuation required to establish a community college.[7]

- Capital Outlay State Aid.[8] Capital outlay state aid is appropriated on the basis of student enrollment. These funds are generally not great enough to be used for new construction, but are usually used for equipment purchases and facilities repair and maintenance. Up to twenty percent of the capital outlay state aid may be transferred from capital to operating funds, or a like amount may be transferred from operating to capital funds.

♦ District Tax Levy. The community college district governing board may, with many constraints discussed later in this paper, levy property taxes. This is the largest source of community college funding in Arizona.

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[3] Funds for the purchase of land and for the construction or renovation of buildings generally come from local tax sources. General obligation bonds are often used. However, A. R. S. § 15-1463 provides that the state, by legislative appropriation, shall pay a sum equal to fifty percent of the total cost for capital outlay for an initial or additional community college campus, not to exceed one million dollars. While many campuses have been funded, there are currently 13 campuses for which matching funds have not yet been appropriated.

[4] A. R. S. § 15-1466.

[5] The enrollment growth is based on the most recent year for which audited enrollment figures are available. Thus, the funding for enrollment growth lags an additional year.

[6] A. R. S. § 15-1468.

[7] A. R. S. § 15-1402.

[8] A. R. S. § 15-1464.

- Tuition and Fees. Tuition and fees include both fees collected directly from students and from out of county reimbursement payments.

  - Out of County Reimbursement.[9] Students from counties without community college districts may attend community colleges in other parts of the state without paying extra tuition. However, the county from which the students come must reimburse the community college they attend for the part of the cost of operating the college attributed to local property taxes.

  - Other Tuition and Fees.[10] The imposition of student tuition is a relatively recent addition in Arizona. Until 1981, Arizona community colleges were free. Student tuition and fees have now become important revenue sources.

Arizona Funding Task Force

The Arizona Funding Task Force, a group consisting primarily of community college district and state-level finance officers working with the assistance of a major consulting firm, recently issued its report.[11] The following observations are from this report.

- *The combination of state and local support assures Arizona community colleges of more funding stability and predictability than does dependence on any single source. Local property tax revenue protects community colleges against declines in income when the state economy slows. Arizona should continue this balanced revenue stream.*[12]

- *Community colleges in Arizona should not attempt to increase their share of revenue from property taxes. Arizona community colleges currently receive a greater share of funding from local property taxes than those in most other*

[9] A. R. S. § 15-1469.
[10] A. R. S. § 15-1425.5. states that "The State Board shall ... Fix tuitions and fees which the community college districts shall charge and graduate the tuitions and fees between institutions and between residents, nonresidents, and students from foreign countries."
[11] *Funding Options for Arizona Community Colleges: Summary and Recommendations*. Prepared for: Arizona Funding Task Force, Maricopa Community College District, 2411 West 14th Street, Tempe, AZ 85281. Prepared by: JBL Associates, Inc., 6900 Wisconsin Avenue, Suite 606, Bethesda, MD 20815. June 30, 1998.
[12] Op. cit., p. 1.

states. Further increases in their share of property taxes might provoke those who want to increase the limits on property tax revenue, and it would also increase revenue inequity between districts with high and low assessed valuation.[13]

- *Several states have introduced performance funding for community colleges as a way to make the institutions more responsive to state priorities. Usually, the budget incentives represent a small share of the institutional income and represent a reward rather than a punishment. College leaders in these states perceive these plans as a nuisance, at worst, and a chance to prove their value to the state at best. We think the benefits outweigh the problems if the incentives are small and offered as extra funding.*[14]

- *We advise community colleges to attempt to meet the needs and expectations of major employers and provide seamless transfer of units between the community colleges and universities in the state. Our research suggests that recessions and competition for scarce funds are weak explanations for reduced public funding for community colleges nationwide. Legislators protect community college funding in states where the sector can mobilize supporters among employers, former students and parents. Political support is most forthcoming in states where the community colleges serve employers directly and well. Students support their former colleges when the transfer to four-year institutions is smooth and predictable.*[15]

State Funded Community Colleges vs. State Aided Community Colleges

As noted above, Arizona community colleges receive less than a quarter of their operating funds from the state. Most of the remainder comes from local property taxes and student tuition and fees. With this low proportion of operating funds coming from the state, it is proper to consider Arizona community colleges to be

[13] Op. cit., p. 1.
[14] Op. cit., p. 2.
[15] Op. cit., p. 2.

state aided institutions rather than state supported institutions. This is not a minor distinction.

State aid funding for community colleges in Arizona, like many other states, is based on full-time equivalent student enrollment (FTSE) in credit courses.[16] This goes back to the concept of the average daily membership or average daily attendance measure commonly used for funding public schools. There is no question that credit enrollment is a handy statistic to describe the size of a community college and that this measure is well understood by budget analysts and legislators. There are serious problems with using full-time equivalent student enrollment as the sole basis for state aid funding for state aided institutions.

- The reliance on credit enrollment as the basis for state aid implies that the state is paying for (supporting) this function in the colleges, when this is not the case. This is particularly a problem when the colleges also receive funding from some other source based on a credit-producing activity. This is often interpreted as two sources fully funding the same activity. That is not the case since each source has funded only a portion of that activity.[17]

- The reliance on credit enrollment as the basis of funding also sends the message that credit instruction is the only aspect of the community college mission that is valued by the state, which should not be the case. Non-credit instruction directed to workforce development and worker skills maintenance is at least as valuable to the state as credit instruction.

[16] A full-time equivalent student (in Arizona, FTSE) is defined by A.R.S. § 15-1466.01. A FTSE is equivalent to a student taking 15 semester credit hours of courses each semester, as measured on the 45th day of the fall and spring semesters, with additions for short-term courses, open entry, open exit courses, skill center courses, and beginning in FY 1997-1998, adult basic education classes.

[17] Two fairly recent examples of this confusion include (1) a JLBC recommendation that community colleges not receive funding for enrollment in adult basic education classes on the grounds that these classes were already supported by grants from the Department of Education, and (2) concerns expressed about students concurrently enrolled in high schools and a community college being funded twice on the basis of public school attendance and community college credits.

Why States Fund Community Colleges

The following are among the more important reasons states provide funding for their community colleges:

- Benefit To Citizens. The primary reason a state supports community colleges is the same reason it supports other educational systems from K-12 to the universities: Community colleges are of benefit to the citizens of the state. The people want them and expect their legislators to support them. Further, both the individual and the state benefit from the individual's enhanced lifetime earning capacity.[18]

- Economic Development Of The State Or Regions. Community colleges are a valuable asset for economic development. It is through community colleges that much of workforce development takes place. Moreover, the presence of a good community college is an essential "quality of life" factor in industry location decisions.

- Benefit To Business And Industry. In addition to attracting businesses to a community, community colleges assist existing businesses with workforce development and job-related training. This allows these businesses to remain competitive without making large investments in educational and training activities. This is particularly important for small businesses that do not individually have the scope or scale to support specialized training activities.

- Social Benefits. Community colleges often become a center for community and cultural activities, particularly in rural communities.

[18] Rubi, David C, *Institutional Effectiveness Series: Return on Investment Measure*, State Board of Directors for Community Colleges of Arizona, Phoenix, 1995. Mr. Rubi reports that the state shows a 10.3 percent annual return on investment (non-compounded) for its investment in the education of an individual receiving an associate degree. (p. 8). This document is available on the State Board's web page, www.stbd.cc.az.us.

Has State Funding Diminished In Recent Years?

The report prepared by the Arizona Funding Task Force provided the following discussion regarding the perception of a decline in the public share of higher education funding:[19]

> *We can document no single factor as the root cause of declining public support for higher education. The best explanation is that a combination of economic, social and political interests influenced key state funding decisions.*
>
> *Each state represents a unique situation because the financial events take place in the context of political traditions that guide the decision-making process. Often, historical precedents, political values or the influences of powerful individuals explain state funding decisions. Government structures, functions of higher education boards, and constitutional considerations also vary among states. Court cases play a role in some states, especially school funding equalization plans that have direct implications for local support of community colleges. The convergence of shifting political, legal, economic and demographic realities define the range of community college funding options that legislators are willing to consider. These idiosyncratic factors make it difficult to use the experience of one state to explain what might happen in another.*
>
> *Analysts typically suggest one of four explanations for declining public support of community colleges:*
>
> - *Increased competition from other public spending priorities*
> - *Reduced state tax revenue due to recessions*
> - *Limits on tax revenue or state spending ceilings*

[19] *Funding Options for Arizona Community Colleges: Summary and Recommendations, pp. 8-9.*

- *Changes in assumptions about the public and private returns from postsecondary education*

The last explanation is probably the best. Community college tuition increased in states regardless of economic conditions or competition for funds. Community college tuition did not increase out of economic necessity. This suggests that legislators believe that individuals benefit from postsecondary education and should pay a high price.[20]

Both economic decline and competition for state funds from other priorities had a negative influence on community college funding in many states. The fact that many states reduced community college funding when no obvious economic problems existed undercuts the assumption that declines in state' economic health is the primary explanation for declining community college support. ...

Considerations in State Funding of Community Colleges

Three factors that must be considered in developing a rational and effective model for funding of community colleges are state benefit, accountability, and equity. Each of these factors will be briefly described and then a discussion of the current situation in Arizona will be presented.[21]

- Equity. Considering first the status of equity, we address three basic and related questions: (1) Is the state providing comparable assistance to the various community colleges? Another way of looking at this question is to ask whether

[20] Article 11, § 6. of Arizona's constitution states, in pertinent part: "The University and all other State educational institutions shall be open to students of both sexes, and the instruction furnished shall be as nearly free as possible." The mere imposition of tuition and fees has been held not to be in conflict with this provision where there is no suggestion that fees were excessive, or that instruction was not as nearly free as possible. [Board of Regents of University of Arizona v. Sullivan (1935).] This constitutional provision would, however, bar a strategy of high tuition for Arizona community colleges.

[21] An alternative list is provided by Arizona Western College's 6-E Decision-Making Model: Excellence –The decision provides for high quality, outstanding educational results. Equity – The decision allows for reasonable participation from target populations in the college service area. Efficiency –The decision produced the desired results within defined organizational resources. Effort – The decision will be maintained by staff commitment. Effectiveness – The decision implementation can be successfully measured by outcomes and/or results. Ethics – The decision supports behavior congruent with college values, principles and moral standards.

there is a rational justification for the differences in the amount of assistance provided the various colleges. (2) Is the state assuring that citizens in the less affluent areas are receiving assistance to bring them to some basic level of service? (3) Are citizens throughout the state able to participate in community college educational services in an effective and affordable manner?

- Accountability. Are the colleges demonstrating that they are using the resources provided them in an effective manner? The focus of accountability should go beyond assuring that funds are properly used and accounted for to the issue of outcomes. Are community colleges, individually and collectively, producing the results they claim for individuals and for the communities at large? How do we know?

- State Benefit. Is the state benefiting from its investment in community colleges? In what way? How do we know?

Current Status of Equity

In reviewing the current status of equity, we will examine the present system of equalization, out of county reimbursement, variations in the level of state aid provided the various community college districts, variations in taxing and spending ability, and the level and variance in student tuition.

- Variations in the Level of State Aid. As is demonstrated in Table 2, below, there is a large variance in the amount of operating state aid provided by state appropriation to the various districts. In the 1997-1998 fiscal year, the operating state aid per full-time-equivalent student (FTSE) varied from a high of $1,902 to a low of $864. One can argue that the urban districts enjoy an economy of scale[22] that justifies a lower level of support, but the difference should likely be very much less than the present 120% difference between the high and the low.

[22] The so-called "economy of scale" enjoyed by the urban community colleges might be more properly described as the "economy of population concentration." The rural colleges, to a varying degree, are called upon to provide a considerable part of their educational offerings to a broadly dispersed population, sometimes with few or no significant population centers. It is difficult under these circumstances to fill class sections to optimal levels or to effect other economies that are possible where the population to be served is more geographically concentrated.

Even within the rural districts, there is a 32% variation for which there is no obvious explanation other than historical precedent. By its very nature, the present funding formula will perpetuate whatever discrepancy in funding levels has developed over time.

The present funding formula has another feature that can contribute to unusual discrepancies. While growth is funded, colleges experiencing a decline in enrollment are "held harmless," with funding continued at the previous level.[23]

Table 2. Operating State Aid – FY 1997-1998

	Operating State Aid	Enrollment FTSE	$/FTSE	Aggregate $/FTSE
Pinal	$5,790,600	3,044	1,902.30	Rural
Coconino	$2,803,900	1,497	1,873.01	1,718.85
Graham	$4,906,300	2,637	1,860.56	
Navajo	$3,826,300	2,102	1,820.31	
Mohave	$3,618,500	2,147	1,685.37	
Yavapai	$4,611,500	2,763	1,669.02	
Cochise	$5,333,000	3,255	1,638.40	
Yuma-La Paz	$4,588,700	3,196	1,435.76	
Pima	$16,483,700	16,652	989.89	Urban
Maricopa	$41,386,300	47,875	864.47	896.83
TOTAL	$93,348,800	85,168	1,096.05	All
				1,096.05

- Variations in the Level of Local Taxing Ability. There is a wide difference in the amount of local tax revenue that is available to the various community college districts. This is due to both the differences in property wealth (assessed valuation) in the district and constitutional limits on the tax levy. Assessed valuation and tax levy data are shown in Table 3[24].

[23] The potential problem with the "hold harmless" feature can be illustrated by the following scenario: Consider two community college districts, both initially having the same enrollment and state aid funding. District "A" maintains steady enrollment and would receive level funding. District "B" has several years of enrollment decline followed by several years of recovery to the point where its enrollment returns to the original level. Since the funding formula has no memory beyond the previous year, District "B" would have been funded at the same level as District "A" throughout the years of enrollment decline and then have been funded for enrollment growth from the lowest point of the decline. Thus, at the end of the period District "B" would be funded at a level substantially above that of District "A". Yet both districts had the same enrollment at the beginning and end of the period in question.

[24] *Statistical Supplement to the Annual Report to the Governor, FY 1997-1998, p. 16.*

Equalization provisions, discussed below, address the problem of extremely low assessed valuation.

Levy limits[25] are constitutionally imposed limits resulting from voter initiatives passed several years ago. The levy limits automatically increase two percent each year plus any growth in assessed valuation due to new construction.

Table 3. Assessed Valuation and Tax Levy Data – FY 1997-1998

	1997 Primary Assessed Valuation	Tax Rate Used	Primary Levy Limit	Actual Primary Levy	Percent of Tax Levy Limit Used
Cochise	437,540,198	1.7368	9,666,576	7,599,198	78.6%
Coconino	819,179,271	0.3869	3,169,405	3,169,405	100.0%
Graham	73,089,776	1.8218	1,397,258	1,397,258	100.0%
Maricopa	15,006,270,531	0.9747	147,151,489	146,266,119	99.4%
Mohave	884,967,218	0.8522	7,533,294	7,541,837	100.1%
Navajo	487,024,631	1.1579	5,974,818	5,639,258	94.4%
Pima	3,468,269,392	1.1166	39,746,367	38,726,696	97.4%
Pinal	568,158,054	1.7295	16,222,618	9,826,294	60.6%
Yavapai	961,650,156	1.4589	15,503,725	14,029,514	90.5%
Yuma-La Paz	560,523,101	1.8218	12,477,784	10,213,432	81.9%
State Totals	23,266,672,328	1.0505	258,843,334	244,409,011	94.4%

Some colleges have extremely low levy limits, for which there is no redress other than an amendment to the constitution[26]. Colleges with low levy limits can go to the voters for a seven-year levy override. This is difficult, but it is the only available remedy.

The lack of consistency is readily illustrated by examining the first two lines in Table 3, comparing the Cochise County Community College District and the Coconino County Community College District. Cochise has relatively low property wealth (assessed valuation) (53%) compared to Coconino, yet its levy

[25] Levy limits are prescribed in the Constitution of Arizona, Article 9, Public Debt, Revenue, and Taxation, Section 19, Limitation on ad valorem tax levied; exceptions.

[26] The variation in levy limits is among the most serious funding challenges for some districts. Yet seeking a constitutional change, which would be required to remedy this problem, would be most difficult. The host of other political subdivisions also affected by levy limit problems would want to be included, and the net effect would be too large a tax increase to be palatable to the voters. If the question could be sharply limited to community colleges there might be some hope in persuading the voters to accept it.

limit is over three times larger. In FY 1997-1998, Cochise received $7,599,198 using only 78.6% of its taxing limit while Coconino received only $3,169,405 using 100% of its limit.

However, this problem will have to be dealt with locally. Neither the State Board nor the Legislature has the power to alter levy limits nor is it their responsibility to remedy a situation that was created by local decisions.

- Variations in the Level of Spending Ability. Expenditure capacity limitations are another constitutionally imposed limit[27] on the ability of a community college district to spend tax-generated funds. Funds generated from tuition, fees, and sales are not included in the expenditure limit. Expenditure limits increase in proportion to enrollment FTSE increases projected by the college and approved by the State Board. Expenditure capacity data[28] are shown in Table 4.

Table 4. Expenditure Capacity Data – FY 1997-1998

	Expenditure Limit Capacity	Expenditure Limit Used	Percent of Tax Levy Limit Used
Cochise	20,202,737	19,464,790	96.3%
Coconino	8,606,136	5,754,717	66.9%
Graham	15,649,286	13,163,644	84.1%
Maricopa	201,298,280	200,867,689	99.8%
Mohave	15,827,374	13,270,768	83.8%
Navajo	12,135,941	12,083,013	99.6%
Pima	56,546,000	55,155,000	97.5%
Pinal	22,493,316	19,453,000	86.5%
Yavapai	20,338,649	17,723,152	87.1%
Yuma-La Paz	21,485,067	17,670,481	82.2%
State Totals	394,582,786	374,606,254	94.9%

Note that several districts are operating very close to their constitutional expenditure capacities. This fact needs to be kept in mind as alternative funding strategies are considered. For example, a district operating at its expenditure limit could use an increase in state aid to reduce its local tax levy but not its

[27] Expenditure limits are prescribed in the Constitution of Arizona, Article 9, Public Dept, Revenue, and Taxation, Section 21, Expenditure limitation; school districts and community college districts; adjustments; reporting.
[28] *Statistical Supplement to the Annual Report to the Governor, FY 1997-1998, p. 16.*

tuition, since tuition is excluded from the expenditure capacity. The effect of any funding enhancement on expenditure limits will need to be considered in any plan to increase community college funding. Since expenditure capacities are constitutionally mandated, neither the State Board nor the Legislature can alter them.

- Variation in Tuition Levels. While tuition is a State Board responsibility, the State Board has generally approved the recommendations of local district governing boards on this topic. As shown in Table 5, there are considerable differences among the tuition levels charged students in the various districts.

  There is also considerable variability in the tuition plans. The State Board may wish to consider whether it is appropriate to have certain features, such as "take one course, get the second free" or discounts based on age in public community college tuition schedules. Many of these marketing features give a tuition break to casual students while charging serious students full rates. This may not be the best message to send about the purpose and values of Arizona community colleges.

Table 5. Enrollment and Tuition – FY 1997-1998[29]

	1997-98 Student Enrollment FTSE	Tuition for In-State Student Taking 30 Credits in Year
Cochise	3,255	$780
Coconino	1,497	$810
Graham	2,637	$652
Maricopa	47,875	$1,110
Mohave	2,147	$720
Navajo	2,102	$720
Pima	16,652	$798
Pinal	3,044	$784
Yavapai	2,763	$936
Yuma-La Paz	3,196	$840
State Totals	85,168	$970

[29] Enrollment data from *Statistical Supplement to the Annual Report to the Governor, FY 1997-1998, p. 1.* Tuition data from State Board Agenda Materials for the April 1997 State Board meeting.

- Equalization. Arizona addresses the needs of the districts with the least taxing ability (assessed valuation) by separate "equalization" funding. This funding is designed to provide community college districts that fall below a minimum threshold of assessed valuation[30] with state funds to make up for the local tax funds that would have been received had the district been at the threshold. On the surface, this is an excellent plan. Certainly, a community college district with too low a tax base will have difficulty—or even find it impossible—to operate. Some sort of state intervention is essential. President Gherald Hoopes, of Eastern Arizona College, has prepared a more complete discussion of Arizona's equalization plan, which is included as Appendix A of this paper.

  There are, however, serious problems with Arizona's current plan.

  - The threshold describing the assessed valuation needed to support a minimal basic community college—which is the value driving the equalization plan—has been allowed to become excessively high. The fact that a majority of the rural community college districts now qualify for equalization discredits the notion that the present threshold describes the minimum assessed foundation base to support a viable community college. By no reasonable standard can Central Arizona College (Pinal) or Arizona Western College (Yuma-La Paz) be described as minimal community college operations, yet in 1997-1998 each is just below the threshold.

  - There is no requirement that a community college district receiving equalization demonstrate that it is doing all that it can with its local resources before qualifying for this assistance. Some districts receiving equalization are taxing far below their levy limit. One district receiving equalization aid has the lowest level of student tuition in the state.

- Out of County Reimbursement. There are currently four counties in Arizona that do not have an organized community college district. When students from these

[30] The threshold value of assessed valuation for establishing a new district, which is the basis for equalization funding, is defined in A.R.S. § 15-1402. The threshold value for FY 1997-1998 was $539,542,655 and moved to $564,424,300 for FY 1999.

counties attend a community college in one of the organized districts, their home county is charged an amount determined by law. The amount charged is basically the college's average operating expense minus tuition and operating state aid. The charges for FY 1997 - 1998 are shown in Table 6. Students served within the unorganized county by contract with a community college are not included in these charges.

This charge is a problem for the unorganized counties in that it is beyond the power of the Board of Supervisors to control. It is an unusual charge in that a private citizen of the county creates the liability without any permission or action by the Board of Supervisors. Further, only the more affluent of the unorganized county's citizens can avail themselves of this benefit, since the student must relocate or commute to a community college in another county.

Table 6. Out of County Reimbursement – FY 1997 - 1998

	Apache County	Gila County	Greenlee County	Santa Cruz County	Total
Cochise	$9,560	$0	$17,519	$74,876	$101,955
Coconino	$11,833	$27,348	$0	$1,052	$40,233
Graham	$173,024	$152,895	$359,587	$8,559	$694,065
Maricopa	$373,194	$195,805	$18,251	$67,718	$654,968
Mohave	$0	$0	$0	$0	$0
Navajo	$112,788	$13,302	$0	$0	$126,090
Pima	$123,236	$48,578	$44,553	$683,833	$900,200
Pinal	$66,175	$381,636	$10,152	$19,928	$477,891
Yavapai	$147,316	$78,995	$0	$3,762	$230,073
Yuma-La Paz	$2,319	$3,479	$0	$49,861	$55,659
Totals	$1,019,445	$902,038	$450,062	$909,589	$3,281,134

Current Status of Accountability and State Benefit

Arizona community colleges are in the process of developing an ongoing institutional effectiveness reporting system for the state as a whole. This process is based on the recommendations contained in the Report of the Task Force on Institutional Effectiveness Measures[31] which established measures related to (1)

[31] *Report of the Task Force on Institutional Effectiveness Measures,* State Board of Directors for Community Colleges, June 1994. This report is available on the State Board World Wide Web Page, www.stbd.cc.az.us

access, (2) transfer, (3) economic impact/workforce development, (4) community development, and (5) return on investment. These measures are being refined and the first edition of what is to be an annual report is expected to be published in the fall of 1999. This will provide the basis for describing the state benefit for community colleges as a whole.

The State Higher Education Executive Officers (SHEEO) reports that the use of performance measures by state higher education agencies has steadily grown.[32] A brief report taken from the SHEEO web page is included as Appendix D.

A Proposed New Paradigm for Funding Arizona Community Colleges

In the previous discussion we have seen that, while the basic structure of community college funding – with contributions from the state, from local taxpayers, and from students – is fundamentally sound and should be retained, there are equity problems in the apportionment of state aid for Arizona community colleges. There are differences between the level of aid directed to different districts that should be addressed. The equalization formula needs to be revisited. And Arizona may wish to encourage excellence and responsiveness on the part of its community colleges with targeted funding increments.

It may well be that it is time for Arizona to examine how it funds its community colleges and to consider a change in this process. This paper, and the recommendations contained therein, is sharply focused on the state contribution to the funding of its community colleges. The thesis of these recommendations is that there should be four major components to state aid for Arizona Community Colleges. We suggest that the following matters should be included in the consideration of a new funding paradigm:

1. Base Funding. A foundation of funding should be provided based generally on college size. This may be measured by Full-Time Equivalent Students (FTSE) or,

[32] State-level Performance Measures Project, State Higher Education Measures Project, SHEEO World Wide Web Page www.sheo.org

as will be suggested, another measure of size based on successful completers rather than starters. A series of models for this base funding is proposed.

2. Equalization Funding. Equalization funding in some form is required to assist districts that have too low a property tax base to provide essential funding.

3. Performance Funding. An increment of funding should be provided based on the district's accomplishment of established performance measures.

4. Funding for Addressing State Priorities. An increment of funding is suggested based on the district's response to state priorities established by the Governor, Legislature, or the State Board.

5. Other Funding Considerations. Other considerations are suggested, including an alternative to current out of county reimbursement provisions.

Each of these components is discussed in more detail below.

- **Base Funding.** Three approaches to base funding are presented. The approaches range from a relatively minor overhaul of the present operating state aid system, to a more complex model that, while still based on FTSE, builds in concepts of equity and economy of scale, and on to a new model that puts the emphasis on results.

  - First Option: Refine Present System. In June 1996 the author prepared a brief paper entitled *"Some Thoughts on State Aid for Community Colleges of Arizona"* in which some of the same inequities described here were addressed. This paper is included as Appendix B. The model proposed in this 1996 paper proposed that the eight rural districts receive state aid at the same rate per FTSE and that the two urban districts receive 80% of this level per FTSE. The steps outlined in this plan should be considered minimal steps. A more sweeping overhaul might serve Arizona better. The application of the uniform formula described in the 1996 paper to 1997-1998 appropriations is shown in Table 7. Any district that would have suffered a loss because of this formula was held at the actual appropriation.

Table 7. Application of Uniform Formula to 1997-1998 Appropriations

	Actual			Model		
	1996-97	1997-98 Appropriations				
DISTRICT	FTSE	$	$/FTSE	$/FTSE	$	+/-
Cochise	3,255	$5,333,000	$1,638	$1,719	$5,594,859	$261,859
Coconino	1,497	$2,803,900	$1,873	$1,873	$2,803,900	$0
Graham	2,637	$4,906,300	$1,861	$1,861	$4,906,300	$0
Mohave	2,147	$3,618,500	$1,685	$1,719	$3,690,373	$71,873
Navajo	2,102	$3,826,300	$1,820	$1,820	$3,826,300	$0
Pinal	3,044	$5,790,600	$1,902	$1,902	$5,790,600	$0
Yavapai	2,763	$4,611,500	$1,669	$1,719	$4,749,185	$137,685
Yuma-La Paz	3,196	$4,588,700	$1,436	$1,719	$5,493,447	$904,747
Total Rural	20,641	$35,478,800	$1,719		$36,854,964	$1,376,164
Maricopa	47,875	$41,386,300	$864	$1,375	$65,831,987	$24,445,687
Pima	16,652	$16,483,700	$990	$1,375	$22,897,843	$6,414,143
Total Urban	64,527	$57,870,000	$897		$88,729,830	$30,859,830
TOTAL	85,168	$93,348,800	$1,096		$125,584,794	$32,235,994

- Second Option: A Base Funding Model. An alternative model is presented in Table 8 to demonstrate that there are alternatives to the present funding formula. The model, the details of which are presented in Appendix C, establishes a base funding value for even the smallest district and takes into account the economy of scale that can be attained by larger districts. It is important to consider:

  - This model is not the final answer. Rather, it is presented to demonstrate that there are alternatives to the present system.

  - This model addresses base funding only. It is intended that this be but one part of the overall funding mix that will include increments for excellence and funding for addressing state priorities.

This model is based on the following propositions:

- There is a basic cost to operate a community college district. In this model the state aid to assist in the support of that cost was set at $1,900,000 for a district with less than 1,000 FTSE. There are currently no districts in this category.

Table 8. Alternative Base Funding Model

Category	FTSE Range for Category Low	Mid	Hi	Index Value	Value/ FTSE	Added $ for This Level	Value	$/FTSE at Midpoint	District in Category	Funding for Districts
1			999				$1,900,000			$0
2	1,000	1,050	1,099	1.0000	$1,900	$96,900	$1,996,900	$1,902		$0
3	1,100	1,150	1,199	0.9978	$1,896	$189,582	$2,186,482	$1,901		$0
4	1,200	1,250	1,299	0.9956	$1,892	$189,164	$2,375,646	$1,901		$0
5	1,300	1,350	1,399	0.9934	$1,887	$188,746	$2,564,392	$1,900		$0
6	1,400	1,450	1,499	0.9912	$1,883	$188,328	$2,752,720	$1,898	1	$2,752,720
7	1,500	1,550	1,599	0.9890	$1,879	$187,910	$2,940,630	$1,897		$0
8	1,600	1,700	1,799	0.9846	$1,871	$280,611	$3,221,241	$1,895		$0
9	1,800	1,900	1,999	0.9802	$1,862	$372,476	$3,593,717	$1,891		$0
10	2,000	2,100	2,199	0.9758	$1,854	$370,804	$3,964,521	$1,888	2	$7,929,042
11	2,200	2,300	2,399	0.9714	$1,846	$369,132	$4,333,653	$1,884		$0
12	2,400	2,500	2,599	0.9670	$1,837	$367,460	$4,701,113	$1,880		$0
13	2,600	2,700	2,799	0.9626	$1,829	$365,788	$5,066,901	$1,877	2	$10,133,802
14	2,800	2,900	2,999	0.9582	$1,821	$364,116	$5,431,017	$1,873		$0
15	3,000	3,100	3,199	0.9538	$1,812	$362,444	$5,793,461	$1,869	2	$11,586,922
16	3,200	3,300	3,399	0.9494	$1,804	$360,772	$6,154,233	$1,865	1	$6,154,233
17	3,400	3,500	3,599	0.9450	$1,796	$359,100	$6,513,333	$1,861		$0
18	3,600	3,700	3,799	0.9406	$1,787	$357,428	$6,870,761	$1,857		$0
43	15,500	15,750	15,999	0.6722	$1,277	$638,590	$25,173,195	$1,598		$0
44	16,000	16,250	16,499	0.6612	$1,256	$628,140	$25,801,335	$1,588		$0
45	16,500	16,750	16,999	0.6502	$1,235	$617,690	$26,419,025	$1,577	1	$26,419,025
46	17,000	17,250	17,499	0.6392	$1,214	$607,240	$27,026,265	$1,567		$0
47	17,500	17,750	17,999	0.6282	$1,194	$596,790	$27,623,055	$1,556		$0
105	46,500	46,750	46,999	0.4300	$817	$408,500	$52,918,325	$1,132		$0
106	47,000	47,250	47,499	0.4300	$817	$408,500	$53,326,825	$1,129		$0
107	47,500	47,750	47,999	0.4300	$817	$408,500	$53,735,325	$1,125	1	$53,735,325
108	48,000	48,250	48,499	0.4300	$817	$408,500	$54,143,825	$1,122		$0
109	48,500	48,750	48,999	0.4300	$817	$408,500	$54,552,325	$1,119		$0

- The model is cumulative. The first 999 FTSE are funded at the base amount for all districts, large or small. The next 100 FTSE are funded at

the next level, and in the same manner each increment is funded at its level and added to the previous total. There are economies of scale. The amount added for additional FTSE decreases continuously. In this model the incremental reduction in the cost multiplier is 0.0220 per 1,000 FTSE until the index value drops to 0.4300 (marginal value of a FTSE = $817). After this point the index is frozen at 0.4300.

- There are three arbitrary values subject to manipulation in this model: (1) the value of the basic aid for the initial 999 FTSE; (2) the value of the index reduction factor; and (3) the limiting point, beyond which no further reductions are made in the index. These are logical/political decisions that can be changed to produce different shapes to the results. No matter what values are chosen, similarly situated districts are treated the same and there is a logical progression in the treatment of the smallest to the largest districts.

- State aid is intended to assist community college districts, not to fund them. Therefore, it is appropriate to apportion this aid in plateaus rather than on incremental FTSE.

- Since small increases in enrollment are more significant for the smaller districts, the increment between plateaus starts at 100 FTSE for the first 600 FTSE beyond the base 1,000 (1,000 to 1,600 FTSE). The increment then moves to 200 FTSE between 1,600 and 4,000 FTSE—which accounts for all of the rural districts. The increment then moves to 500 FTSE for the remainder of the model.

- Community college enrollments are volatile and are subject to a host of social and economic forces. Costs, on the other hand, continue. For this reason, there needs to be relative stability in state aid. Nonetheless, if a college has a sustained enrollment decrease, it must reduce its expenses and it is unreasonable to fund it on historical rates indefinitely. Therefore, it is suggested that when a college moves into a higher bracket, the funding be increased accordingly. When a college moves into a lower bracket due to enrollment decreases, and remains in the lower bracket for three consecutive years, the funding should decrease to the lower rate. Thus, a college fluctuating on the edge of a bracket will likely be placed in the higher bracket and remain there.

Application of the model using FY 1997-1998 data produces the results presented in Table 9. Note that Coconino and Yuma-La Paz are very close to the upper limits of their categories. Were they each to move up to the next category, the result would be as shown in the second table.

Table 9. Application of Alternative Base Funding Model

	1997—1998		Category	Model	+/-
	Operating State Aid	Enrollment FTSE			
Coconino	$2,803,900	1,497	6	2,752,720	-51,180
Navajo	$3,826,300	2,102	10	3,964,521	138,221
Mohave	$3,618,500	2,147	10	3,964,521	346,021
Graham	$4,906,300	2,637	13	5,066,901	160,601
Yavapai	$4,611,500	2,763	13	5,066,901	455,401
Pinal	$5,790,600	3,044	15	5,793,461	2,861
Yuma-La Paz	$4,588,700	3,196	15	5,793,461	1,204,761
Cochise	$5,333,000	3,255	16	6,154,233	821,233
Pima	$16,483,700	16,652	45	26,419,025	9,935,325
Maricopa	$41,386,300	47,875	107	53,735,325	12,349,025
TOTAL	$93,348,800	85,168		118,711,069	25,362,269
Rural Districts	$35,478,800	20,641		38,556,719	3,077,919

	1997—1998		Category	Model	+/-
	Operating State Aid	Enrollment FTSE			
Coconino	$2,803,900	1,497	7	2,940,630	136,730
Navajo	$3,826,300	2,102	10	3,964,521	138,221
Mohave	$3,618,500	2,147	10	3,964,521	346,021
Graham	$4,906,300	2,637	13	5,066,901	160,601
Yavapai	$4,611,500	2,763	13	5,066,901	455,401
Pinal	$5,790,600	3,044	15	5,793,461	2,861
Yuma-La Paz	$4,588,700	3,196	16	6,154,233	1,565,533
Cochise	$5,333,000	3,255	16	6,154,233	821,233
Pima	$16,483,700	16,652	45	26,419,025	9,935,325
Maricopa	$41,386,300	47,875	107	53,735,325	12,349,025
TOTAL	$93,348,800	85,168		119,259,751	25,910,951
Rural Districts	$35,478,800	20,641		39,105,401	3,626,601

This model addresses many of the inequities in the present system, yet it is still based on FTSE, which measures only one of the many facets of the

community college mission. The third option described below introduces a new basis for funding.

- Third Option: Base Funding Based on Course Completions. Both equity and state benefit would be enhanced if the base funding model were based on something more descriptive of the state benefits produced by community colleges. One such measure would be the number of students who satisfactorily complete a course rather than the number who enroll. A focus on satisfactory completers would provide an even stronger incentive for the colleges to strengthen student support services and other strategies to enhance student success. It would also reduce the incentive to entice students into signing up for courses that they will not likely complete.

  Unfortunately, there are no data available at the state level to demonstrate the effect of this model. The colleges should have this information, but it has never been gathered at the state level. It should be pointed out that the concept of using course completers as part of the funding model is not altogether new. State aid for skill center students and the recently approved aid for adult basic education is based entirely on completers; state aid for students in "open entry – open exit" classes is based in part on completers.

  In order to make a more complete picture, the new "Full-Time Equivalent Course Completers" (FTECC) measure should include students who complete certain qualifying non-credit courses. These non-credit offerings might include courses qualifying for the awarding of Continuing Education Units, and other offerings focusing on workforce development. Avocational and recreational offerings, while part of the broad community college mission, should not be included in the justification for state aid.

  The state aid per FTECC will have to be substantially higher than the historical values of state aid per FTSE. As the model is developed, it will have to be calibrated to assure that there is no net loss to community colleges in the transition. Later, FTECC will provide a much stronger basis for increased funding based on state benefit.

As recognized in the second model, funding should be held level for short-term enrollment declines. The previous funding level, and the enrollment upon which it was based, should be the starting point for future appropriations. Declines of more than three years duration should result in reductions in state aid appropriations.

- **Redefining Equalization**. There can be no question but that at least one of the present community college districts could not function without additional state support. This district, Graham County Community College District (Eastern Arizona College), was established as the Arizona Junior College System was created in 1960 by including in the initial system a long-established college in eastern Arizona. The equalization system presently in place was originally designed to assist this community college district.

  The present system is tied to the definition of the minimum assessed valuation required to qualify a county to establish a community college system. There is sound logic in this arrangement. However, the formula that was created to define this minimum criterion has raised the value far beyond any reasonable definition of a viable minimum. As noted earlier, a majority of the rural community college districts is now below this value. Two districts, Pinal (Central Arizona College) and Yuma/La Paz (Arizona Western College), which are just under the minimum, allow us to visualize the size of the statutory minimum value. These two districts are far from minimal operations.

  Because of the excessively high statutory threshold, it is likely that at least one of the presently unorganized counties is being prevented from establishing a community college district when it may have the resources to operate a viable, albeit small, community college district.

  If equalization is retained in its present form, a study needs to be made to determine the actual minimum assessed valuation that is required to provide the local resources necessary to operate a very basic community college. Based on observations of community colleges throughout the country, it is likely that this minimum should be not more that 50% to 60% of the present value. If the 60%

estimate were used, the threshold would be (1997-1998 values) just over $323,700,000. Of the established community college districts, only Graham County falls below this level. Of the counties presently without a community college district, only Apache County had an assessed valuation over this level in 1998.[33]

If the equalization model were altered as suggested, there would be a significant impact on the community college districts presently receiving this aid. Depending on what other changes were simultaneously made, there might need to be a phase-down period or other adjustment to moderate this impact.

- **Funding Incentives Based On Performance**. As noted earlier, the State Higher Education Executive Officers organization (SHEEO) reports that the use of performance measures by states continues to grow. The SHEEO report included as Appendix D indicates that states are using performance measures for a variety of purposes, including the budget process. A major problem with many performance based budgeting strategies is that a mountain of data must be generated to feed the system, and the measures are often off the mark. However, meaningful performance incentives can be developed that do not require excessive data generation. The following example of one possible plan is offered.

  - **Example:** A Transfer Performance Incentive Program. Arizona recently developed an exemplary transfer articulation agreement between the community colleges and public universities of the state. Two features of this transfer model that lend themselves to incentive funding are the block transfer of the general education core and the block transfer of associate degrees.

    Salient factors in the development of this model are as follows:

    - The state general fund provides much more per-student support for undergraduate instruction at a public university than at a community college.

[33] The 1998 assessed valuation for the four unorganized counties is as follows: Apache County = $338,356,939; Gila County = $286,863,275; Greenlee County = $ 216,690,761; and Santa Cruz County = $177,638,581.

- The transfer articulation agreement puts a premium on completing blocks of instruction at the community college (general education core and the associate degree).

- The new transfer articulation agreement becomes operational in the fall of 1999.

- The universities all have degree audit systems that identify students who transferred in a general education core block or an associate degree.

An incentive funding program with the following features would provide strong positive incentives to community colleges to make the transfer articulation system work and to assure that students are well prepared as they move to the university. It would save the state considerable money over time, and students would be better served.

- The universities would identify all current-year graduates for each community college district who (1) graduated from the university with no more than 160 credits, and (2) who transferred to the university with a general education core block but not an associate degree, or (3) who transferred to the university with an associate degree.

- For each such graduate who transferred a general education block but not an associate degree, the state would provide, as an incentive payment, $1,000[34] to the community colleges.

- For each such graduate who transferred an associate degree block, the state would provide, as an incentive payment, $2,000 to the community colleges.

[34] This amount is less than half of the difference in State General Fund expense to support a student for one year in a community college as opposed to a State University. The general education block is approximately one year of study; an associate degree is two years of study.

- Most of the incentive payment should go to the college districts, but a share should go to the State Board to support enhanced transfer articulation support services and public awareness of the program.

Thus, the state would gain a substantial portion of the reduction in general fund cost for increased use of community colleges for the first two years of undergraduate instruction. The community colleges would be encouraged to make their transfer programs more attractive and to facilitate students' completion of a full block at the community college. Students would benefit from enhanced transfer effectiveness. Everyone wins.

This program would produce positive results with virtually no additional data collection requirements. The information required could be easily produced from already-existing data.

An alternative to the above system would be to provide an incentive payment for each student who transferred to either a public or private university with an general education block or associate degree – not waiting for the student to graduate from the university.

Other similar models could likely be created addressing other aspects of community college operations that make a positive impact on the economy and welfare of the state. An example would be a premium paid for graduating students from occupational programs that address specific long-term worker skill shortages identified by the Department of Commerce or the Department of Economic Security.

- **Funding Incentives Based On State Priorities**. Community colleges can also be encouraged to develop new programs and to enhance existing programs focused on priorities established by the Governor, the Legislature or the State Board. The Commonwealth of Kentucky plan for a series of trust funds focused on state priorities shown in Appendix E illustrates one such approach.

In its most basic form, such a plan could follow a sequence such as the following:

- The Governor and Legislature, with involvement of the State Board, would establish long-term priorities that community colleges (and this might also extend to the university sector) might be able to address with new or enhanced programs.

- A fund would be established to provide incentive increments to community colleges (or others) that present qualifying proposals to address these established priorities.

- The fund would provide funding for a major portion of the cost of developing the proposed program and for its initial operation. The college would also be expected to devote some of its resources. Thus, there would be an incentive for a college to address the state priority if it was also a priority for the community college district. On the other hand, the college would not be encouraged to simply chase the money if the program was not something that the college would otherwise want to do.

- The funding provided under this plan should be long term, but with accountability. This is to assure that the program is continued and that the results of the program are documented and evaluated.

Example: Incentive Funding for Preparing Rural Health Care Professionals.
Consider the following hypothetical illustration of how this feature might work.
Established Priority: To improve the accessibility and quality of health care in the rural regions of Arizona.
Responses: Possible qualifying programs might include enhancement of programs to train health care workers in rural Arizona. Arizona's community college initiative in collaborative distance education, Arizona Learning Systems (ALS), might also be employed to bring health care instruction to several rural sites via electronic distance education. Since the instruction of health care workers is relatively expensive, special state support might be necessary to make

it feasible for the colleges to provide this instruction. Yet, the benefit to the state could be immense. It has been demonstrated repeatedly that it is much more effective to train local health care workers than it is to try to import trained workers.

- **Other Considerations**. Two other relatively minor considerations need to be addressed.
  - Capital Outlay State Aid. The present capital outlay state aid system seems to be working reasonably well. One could argue that the amounts should be larger, but the distribution is considered by most to be equitable. It is, of course, based on the limited criterion of FTSE. Whatever method is ultimately adopted for operating state aid may also be adapted to capital outlay state aid.
  - Out of County Reimbursement. As discussed earlier, the present out of county reimbursement system is flawed in that citizens of a county, by their private actions, create a major liability for the unorganized county. A much more equitable system might entail the State Board establishing an out of county tuition applicable to students from unorganized counties. This tuition would be intermediate between resident tuition and out-of-state tuition. There would also need to be a provision that allowed the unorganized county Board of Supervisors to establish a tuition reimbursement plan for their citizens if they chose to do so.

The Next Steps

It is recommended that the State Board establish a high-level task force to review and make recommendations concerning the matters discussed in this paper. The membership of this task force should include civic leaders, leaders of the business community, representatives of the Governor and the Legislature, as well as State Board members, community college presidents, and district governing board members. The task force should be given adequate time to do its work. It would be helpful if the task force could have recommendations for the State Board, Governor

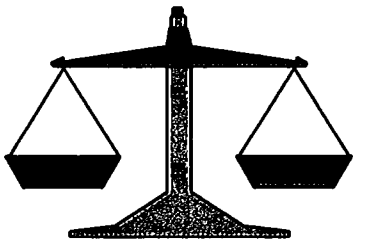
and Legislature by the early fall of 2000 so that it might be considered in the January 2001 legislative session.

Appendix A

Equalization To Supplement Inadequate Local Primary Tax Levy Capacity

Paper by Gherald Hoopes

Equalization



To Supplement Inadequate Local Primary Tax Levy Capacity

Equalization to supplement inadequate local tax levy capacity

Question	***Answer***
What is equalization aid?	State support to a community college district to supplement inadequate local primary tax levy capacity.
Who qualifies?	Any existing district which has an assessed valuation below the minimum level required to support the operation of a community college. The 1998-1999 equalization base valuation level is set at $564 million.[1]
How does equalization work?	The state provides "in lieu primary tax levy" funds to qualifying community college districts. The funding is to be used for the same purposes as primary tax levy.
How is the amount of equalization aid calculated?	A formula is applied: + [Primary local taxes the district would generate when its tax rate (to a maximum of $1.37) is applied to the minimum local assessed valuation level required to establish and support a new community college district] - [Primary local taxes the district generates when its tax rate (to a maximum of $1.37) is applied to its actual assessed valuation] = Primary Tax Levy Equalization Aid
What are the legal references addressing equalization?	**A.R.S. §15-1402** Community college districts; requirements **A.R.S. §15-1468** Equalization aid for community college district **A.G. Opinion I86-109** Equalization aid is not state aid

[1] 1998-1999 Equalization Base Valuation Level $564,424,300; 1999-2000 Equalization Base Valuation Level $584,630,700.

EASTERN ARIZONA COLLEGE

Equalization to supplement inadequate local tax levy capacity

Question	Answer
What is the history of equalization?	**1962** The legislature established the state community college system. The minimum local assessed valuation level required to establish and support a new community college district was set at $60 million. The Graham District (Eastern Arizona College) was "grand-fathered" into the state system. It did not meet the minimum valuation requirement. **1971** The legislature recognized local tax levy, state aid, and tuition were the three primary components of financial support for community college districts. It further acknowledged the Graham District could not operate on an equitable basis if local assessed valuation was inadequate. Equalization aid to supplement inadequate local tax levy capacity was established. The equalization base valuation level was set at $60 million to equal the minimum local assessed valuation level required to establish and support a new community college district. The equalization rate was set at the minimum qualifying local tax rate effort of $.75. **1977** To account for the effects of inflation the legislature increased both the minimum local assessed valuation level required to establish and support a new community college district and the equalization base valuation level to $120 million. The minimum qualifying local tax rate effort was set at $1.35, equal to the highest tax rate assessed by any community college district. The equalization rate was also set at $1.35. **1983** To account for the continued effects of inflation the legislature increased the minimum local assessed valuation level required to establish and support a new community college district to $250 million. A 7% annual growth factor to the minimum base valuation level was enacted to maintain the adequacy of support afforded by the base. The equalization base valuation level was left at $120 million. **1985** The legislature adjusted the equalization base valuation level to equal the minimum local assessed valuation level required to establish and support a new community college district. The equalization rate was set at $1.37. **1992** The growth factor applied to the minimum base valuation level was updated to provide consistency with valuation growth experienced by Arizona's rural community colleges. The formula was revised to reflect the average assessed valuation growth from the prior two years of districts with less than 500,000 population. Also, local district assessed valuations applied in the equalization formula began to be based on prior year actual valuations.
Is the equalization base valuation level growing too fast?	Since the legislature's 1985 action to tie the equalization base valuation to the minimum base valuation level required to establish and support a new community college district, the equalization base has grown by an average of 5.4% per year. During this same period, the average annual assessed valuation growth of all Arizona's rural community college districts has averaged 6.5%, while that of its two urban districts has averaged 5.1%. If local tax levy, state aid, and tuition are to remain as the three primary components of financial support for community college districts, it is essential for the equalization base valuation level to be maintained on an equitable basis.

Equalization to supplement inadequate local tax levy capacity

Question	***Answer***
Should equalization aid be reduced when the state does not fully fund the community college system FTSE formula?	Equalization aid is the same as "primary tax levy." To reduce a district's equivalent of primary tax levy when the state does not fully fund the FTSE aid formula would cause an inequitable and unrecoverable loss. Districts not relying on equalization are not required to reduce local taxes when the state fails to fully fund the FTSE aid formula. In fact, increasing local taxes to compensate for reduced funding from the state is a prime means of maintaining essential financial balance.
Is it inequitable for equalization to grow by more than 2% when local taxes are limited to 2% annual growth?	Primary tax levy revenue capacity is not limited to 2% annual growth. Each year the primary tax levy revenue capacity of a district grows by 2% plus adjustments for changes in assessed valuation. Since 1980, the year in which constitutional limits were imposed on primary tax levy growth, actual primary tax levy revenue capacity has grown far in excess of 2%.[2]

Average annual growth in Primary Tax Levy Revenue Capacity

All Rural Districts excluding Graham	7.9%
All Urban Districts	8.6%
All Districts excluding Graham	8.4%

[2]Coconino District is excluded from this comparison because it did not establish a Primary Tax Levy Revenue Capacity until 1991-1992.

EASTERN ARIZONA COLLEGE

Equalization to supplement inadequate local tax levy capacity

Question

Is it possible for a district that qualifies for equalization aid to generate more tax levy capacity than a non-equalized district? [3]

Answer

Yes. A high tax rate applied to the minimum equalization base valuation level may generate more tax capacity than a low tax rate applied to a substantially higher valuation.

However, it is important to understand any non-equalized district can yield more tax levy revenue than an equalized district, if the non-equalized district's local tax rate is set at the same level as the equalized district's local tax rate.

The following table illustrates the local tax rate support that would have been generated by community college districts in 1997-1998 if all districts had an equal $2.00 tax rate.[4]

Community College District	Primary Assessed Valuation	Equalized Assessed Valuation 539,654,200	Primary Tax Rate Actual	Primary Tax Rate Legal Limit	Primary Tax Rate Unused Capacity	Equal Local Tax Rates	Local Tax Generated Including Equalization	Actual FTSE	Tax Support Generated per FTSE	System Tax Support Rank
Coconino	819,179,271	819,179,271	0.3869	0.3869	100%	2.0000	16,383,585	1,497	10,944	1
Mohave	884,967,218	884,967,218	0.8522	0.8513	100%	2.0000	17,699,344	2,147	8,244	2
Yavapai	961,650,156	961,650,156	1.4589	1.6122	90%	2.0000	19,233,003	2,763	6,961	3
Maricopa	15,006,270,531	15,006,270,531	0.9747	0.9806	99%	2.0000	300,125,411	46,991	6,387	4
Navajo	487,024,631	539,654,200	1.1579	1.2268	94%	2.0000	10,461,518	2,102	4,977	5
Pima	3,468,269,392	3,468,269,392	1.1166	1.1460	97%	2.0000	69,365,388	16,323	4,250	6
Pinal	568,158,054	568,158,054	1.7295	2.8553	61%	2.0000	11,363,161	3,044	3,733	7
Yuma/LP	560,623,101	560,623,101	1.8218	2.2257	82%	2.0000	11,212,462	3,196	3,508	8
Cochise	437,540,198	539,654,200	1.7368	2.2093	79%	2.0000	10,149,766	3,255	3,118	9
Graham	73,089,776	539,654,200	1.9117	1.9117	100%	2.0000	7,853,728	2,637	2,978	10
								83,955		

[3] Tax Levy Capacity = Local primary tax levy capacity + state primary tax levy equalization aid capacity.

[4] 1997-1998 is the most current fiscal period for which actual data is available for primary assessed valuation and FTSE.

Equalization to supplement inadequate local tax levy capacity

Question

Is the Graham District receiving more equalization aid than is appropriate?

Answer

Graham's Governing Board recognizes the justification of Eastern Arizona College's existence is tied to the maintenance of quality and conservative fiscal policy. Eastern's exemplary NCA accreditation, strong enrollment, and thousands of satisfied students speak to the maintenance of quality.

Conservative fiscal policy is also addressed by objective evidence. Graham's operational efficiency, as demonstrated by its cost per FTSE, is consistently among the best in the state. In 1997-1998, Graham's $73 million assessed valuation level was 83% lower than the next lowest district in the state, and for practical purposes eliminated options to pursue significant debt capacity. By necessity, Graham's capital projects are on a save-first-then-buy basis.

Perhaps the most insightful indicator is a comparison of the "equalized constitutional primary tax levy capacity per FTSE" of community college districts.[5] The following table presents data for 1997-1998.[6]

Community College District	Constitutional Primary Tax Levy Capacity	Primary Tax Levy Equalization Aid	Equalized Constitutional Primary Tax Levy Capacity	Actual FTSE	Constitutional Primary Tax Rate Maximum	Equalized Constitutional Primary Tax Levy Capacity Per FTSE	Equalized Constitutional Primary Tax Levy Capacity Per FTSE Relationship
Yavapai	$15,503,725	$0	$15,503,725	2,763	$1.61	$5,611	100.0 %
Pinal	$16,222,618	$0	$16,222,618	3,044	$2.86	$5,329	95.0 %
Yuma/LP	$12,477,784	$23,500	$12,501,284	3,196	$2.23	$3,912	69.7 %
Mohave	$7,533,294	$0	$7,533,294	2,147	$0.85	$3,509	62.5 %
Cochise	$9,666,576	$1,616,300	$11,282,876	3,255	$2.21	$3,466	61.8 %
Navajo	$5,974,818	$634,500	$6,609,318	2,102	$1.23	$3,144	56.0 %
Maricopa	$147,151,489	$0	$147,151,489	46,991	$0.98	$3,131	55.8 %
Graham	$1,397,258	$6,467,200	$7,864,458	2,637	$1.91	$2,982	53.2 %
Pima	$39,746,367	$0	$39,746,367	16,323	$1.15	$2,435	43.4 %
Coconino	$3,169,405	$0	$3,169,405	1,497	$0.39	$2,117	37.7 %

[5]Equalized constitutional primary tax levy capacity per FTSE = Total Primary Tax Levy Capacity (including equalization if received) divided by total FTSE. This provides a meaningful comparison because it reflects the local tax levy resource on a per FTSE basis.

[6]1997-1998 is the most current fiscal period for which actual data is available for tax levy capacity and FTSE.

Equalization to supplement inadequate local tax levy capacity

Question

Why don't districts increase their tax revenues if they want to raise funds?

Answer

There are three reasons districts do not increase primary taxes:

Reason #1 Trustees choose not to increase taxes;

Reason #2 Trustees can't levy more taxes;[7]

Reason #3 Trustees can't spend more taxes.[8]

For 1998-1999, the reasons can be summarized by district as follows:[9]

Community College District	Reason #1 Trustees Choose Not To Increase Taxes	Reason #2 Trustees Can't Levy More Taxes	Reason #3 Trustees Can't Spend More Taxes
Cochise	■		
Coconino		■	
Graham	■		
Maricopa		■	
Mohave	■		
Navajo			■
Pima	■		
Pinal	■		
Yavapai	■		
Yuma/LP	■		

[7]Some districts were taxing at a low level in 1979-1980 and are "caught" by an arbitrarily low constitutional limit on tax levy; nonetheless, A.R.S. §42-301 provides for a primary tax capacity voter override for a 2-7 year period, with no limit on the amount requested.

[8]Some districts can't spend the taxes even if it they have the constitutional capacity to levy them; nonetheless, A.R.S. §15-1471 provides for an expenditure limit capacity voter override for a 2-7 year period, with no limit on the amount requested.

[9]For purposes of this illustration a district is represented at being limited by taxing authority or spending authority if it is above 99% of its constitutional capacity.

Equalization to supplement inadequate local tax levy capacity

Question	Answer
Would state aid funding to other community colleges improve if equalization aid was reduced?	This question has been raised a number of times and absolutely no evidence has ever been forthcoming to indicate a reduction in equalization aid would improve funding to other colleges. A November 1986 Arizona Attorney General opinion states: *"Equalization aid...is not state aid...the mere positioning of equalization aid separate and apart from the 'state aid' statutes leads us to conclude that it should not be included in the state aid formula calculations."*
Does the Graham District enjoy an unfair advantage because it receives equalization?	▪ Graham's equalized constitutional primary tax capacity per FTSE is approximately 61% of that enjoyed by districts fortunate enough to have a sound tax levy basis when the constitutional levy limits were imposed. ▪ Since the legislature's 1985 action to tie the equalization base valuation to the minimum base valuation level required to establish and support a new community college district, the equalization base has grown by an average of 5.4% per year. During this same period, the average annual assessed valuation growth of all Arizona's rural community college districts has averaged 6.5%. ▪ Graham's operational efficiency, as demonstrated by its cost per FTSE, is consistently among the best in the state. ▪ Each year Graham must defend equalization aid. No other district in the state is faced with a similar burden of annually re-justifying the existence of local taxes as an essential component of its financing.
What other options for funding does the Graham District have if equalization is reduced? File: FY98Q&A_Equalization RVSD May 17, 1999	Graham's community college tax rate is at one of the highest levels in Arizona. A substantial increase in tuition would severely limit the number of citizens who could afford to pursue educational opportunities in Graham's economically depressed service area. Enrollment would decline, exacerbating the District's financial stability. The only viable alternative for Graham is to seek establishment of a state funded system that does not rely on local property tax levy as a substantive revenue source.

Appendix B

Some Thoughts on State Aid for Community Colleges of Arizona

Don Puyear

June 7, 1996

Some Thoughts on
State Aid
for
Community Colleges of Arizona

Don Puyear

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Introduction

The operation of Arizona community colleges is supported by a variety of funding sources including (1) operating state aid (A.R.S. § 15—1466), (2) capital outlay state aid (A.R.S. § 15—1464), (3) equalization state aid (A.R.S. § 15—1468), (4) local property taxes (A.R.S. § 15—1462), and (5) student tuition and fees (A.R.S. § 15—1425.5). In addition, community colleges may receive funds from grants, contracts and other governmental and non-governmental support.

There are a number of aspects of funding of Arizona's community colleges that need attention. However this discussion is limited to operating state aid. Addressing operating state aid alone may allow a more direct approach and greater focus on the issue.

Other funding topics that should be addressed in due course include capital outlay state aid, equalization state aid based on the disparity in property wealth available to support the districts, and local levy limits.

Assumptions

The following assumptions underlie this discussion.

- The State has an interest in the viability of its community colleges. State aid is, therefore, an investment in a State resource.

- The distribution of state aid among the districts should be equitable and rational.

- The amount of state aid for a given district should be a function of the amount of service rendered by the district. Enrollment measured by the number of full-time equivalent students (FTSE) is a readily-available but incomplete indicator of service. Since it is the only measure presently recognized in law it will be used in this discussion but a better, more complete, measure of service needs to be developed as a matter of some urgency. When this more complete measure has been developed it should be applied to the rationale discussed below.

- The urban districts enjoy an economy of scale that may justify a somewhat lower level of state aid per FTSE. This difference must, however, be rationally developed.

- Discussion of differences in state aid on the basis of other resources available to the district (principally property taxes) may more productively be considered in a discussion of equalization aid, since the rationale of such differences are associated with the concept of making the "standard of living" enjoyed by the colleges more nearly equal.

Current Level and Distribution of State Aid

The level and distribution of state aid along with the general fund income available to each district is displayed in Table 1 on the following page. The rural districts and the urban districts are shown separately and the total resources for each group are summed. This allows us to examine the levels for each group as a whole.

In 1994-95 the rural districts, as a group, served 19,510 FTSE, had general fund income of $110,377,561 ($5,657/FTSE), and operating state aid of $28,747,600 ($1,473/FTSE). Operating state aid was 26.0 % of the general fund income for rural districts.

At the same time, urban districts served 58,593 FTSE, had general fund income of $265,099,197 ($4,524/FTSE), and received operating state aid of $48,726,200 ($832/FTSE). Operating state aid was 18.4 % of the general fund income for urban districts.

In 1994-95 the ratio of urban to rural general fund income per FTSE is $4,524/$5,657 = 0.80. This ratio may be considered an approximation of the economy of scale enjoyed by the urban districts that year. This, or some similar value, is proposed as the appropriate relationship between urban and rural operating state aid per FTSE.

Table 1. Enrollment, Income, and State Aid -- 1994-95

		General Fund Income **		Operating State Aid***		
Operating State Aid District Income	FTSE*	$	$/FTSE	$	$/FTSE	as % of Gen Fund
Cochise	3,013	$17,080,721	$5,669	$4,573,100	$1,518	26.8%
Coconino	1,387	$5,405,439	$3,897	$1,584,600	$1,142	29.3%
Graham	2,383	$13,953,975	$5,856	$4,144,400	$1,739	29.7%
Mohave	2,035	$10,861,697	$5,337	$2,784,200	$1,368	25.6%
Navajo	2,162	$10,679,979	$4,940	$3,262,400	$1,509	30.5%
Pinal	3,060	$17,163,926	$5,609	$4,875,800	$1,593	28.4%
Yavapai	2,490	$17,359,367	$6,972	$3,553,500	$1,427	20.5%
Yuma/La Paz	2,980	$17,872,457	$5,997	$3,969,600	$1,332	22.2%
Rural Districts	19,510	$110,377,561	$5,657	$28,747,600	$1,473	26.0%
Maricopa	43,657	$196,218,862	$4,495	$34,116,400	$781	17.4%
Pima	14,936	$68,880,335	$4,612	$14,609,800	$978	21.2%
Urban Districts	58,593	$265,099,197	$4,524	$48,726,200	$832	18.4%
Arizona Community College System	78,103	$375,466,758	$4,807	$77,473,800	$992	20.6%

*Annual Report to the Governor, 1994-1995, Statistical Supplement, p 1, General Enrollment Figures
**Annual Report to the Governor, 1994-1995, Statistical Supplement, p 16, General Fund Income
***Annual Report to the Governor, 1994-1995, Statistical Supplement, p 15, Analysis of State Aid

A Model for Operating State Aid

The basic premise of this proposal is that operating state aid should be uniformly allocated per FTSE to each rural district, and each urban district should receive an allocation of 80% of the same rate per FTSE. This model would support each district alike and the economy of scale of the urban districts would be fully recognized.

Table 2, on the following page, demonstrates the effect of applying this model to the 1996-97 appropriations. The base figure is the present aggregate rural district state aid ($1,701/FTSE). Note that the 1994-95 enrollments are the basis for the 1996-97 appropriations. The direct application of the model would result in a reduction in the operating state aid appropriation for four of the rural districts. If these districts were held harmless by maintaining the current 1996-97 appropriation level, the cost of adopting the model would increase $0.915 million.

Table 2. Results of Application of Model to the 1996-97 Appropriations

		1996-97 Appropriations					Using Target Aid Figure			
District	1994-95 FTSE	1996-97 Op State Aid	$/FTSE	$/FTSE	Op State Aid	Difference in Op State Aid	Target $/FTSE	Resulting $/FTSE	Op State Aid	Difference in Op State Aid
Cochise	3,013	$5,028,400	$1,669	$1,701	$5,124,046	$95,646	$1,701	$1,701	$5,124,046	$95,646
Coconino	1,387	$2,411,500	$1,739	$1,701	$2,358,796	($52,704)	$1,701	$1,739	$2,411,500	$0
Graham	2,383	$4,583,500	$1,923	$1,701	$4,052,639	($530,861)	$1,701	$1,923	$4,583,500	$0
Mohave	2,035	$3,258,700	$1,601	$1,701	$3,460,814	$202,114	$1,701	$1,701	$3,460,814	$202,114
Navajo	2,162	$3,889,300	$1,799	$1,701	$3,676,796	($212,504)	$1,701	$1,799	$3,889,300	$0
Pinal	3,060	$5,323,200	$1,740	$1,701	$5,203,976	($119,224)	$1,701	$1,740	$5,323,200	$0
Yavapai	2,490	$4,113,700	$1,652	$1,701	$4,234,608	$120,908	$1,701	$1,701	$4,234,608	$120,908
Yuma/La Paz	2,980	$4,571,300	$1,534	$1,701	$5,067,925	$496,625	$1,701	$1,701	$5,067,925	$496,625
Rural Districts	19,510	$33,179,600	$1,701		$33,179,600	($0)			$34,094,893	$915,293
Maricopa	43,657	$37,523,200	$860	$1,361	$59,396,076	$21,872,876	$1,361	$1,361	$59,396,076	$21,872,876
Pima	14,936	$16,359,800	$1,095	$1,361	$20,320,677	$3,960,877	$1,361	$1,361	$20,320,677	$3,960,877
Urban Districts	58,593	$53,883,000	$920		$79,716,753	$25,833,753			$79,716,753	$25,833,753
Arizona Community College System	78,103	$87,062,600	$1,116		$112,896,353	$25,833,753	$1,445	$1,457	$113,811,645	$26,749,045

Application of the Model in the Appropriations Process

The application of this model would require only two changes in the present procedure for calculating the base appropriations:

1. The base rate ($/FTSE) would be calculated on the aggregate enrollment and previous appropriation for the eight rural community college districts.

2. The base rate for the two urban community college districts would be set at 80% of the base rate for the rural community colleges.

All other provisions of the current plan would remain in place. Inflation considerations would be applied to the base rate. Enrollment growth or decline would be accommodated in the same manner as it is presently considered.

The plan should be phased in over a relatively short period. Two years is suggested.

Appendix C

A Model for Base Funding of Arizona Community Colleges

Appendix C

A Model for Base Funding
of
Arizona Community Colleges

The following model is intended to demonstrate an alternative to the present method of calculating the base operating State Aid. This model is based on the following propositions:

- There is a basic cost to operate a community college district. In this model the State Aid to assist in the support of that cost was set at $1,900,000 for a district with less than 1,000 FTSE. There are currently no districts in this category.

- The model is cumulative. The first 999 FTSE are funded at the base amount for all districts, large or small. The next 100 FTSE are funded at the next level, and in the same manner each increment is funded at its level and added to the previous total. There are economies of scale. The amount added for additional FTSE decreases continuously. In this model the incremental reduction in the cost multiplier is 0.0220 per 1,000 FTSE until the index value drops to 0.4300 (marginal value of a FTSE = $817). After this point the index is frozen at 0.4300.

- There are three arbitrary values subject to manipulation in this model: (1) the value of the basic aid for the initial 999 FTSE; (2) the value of the index reduction factor; and (3) the limiting point, beyond which no further reductions are made in the index. These are logical/political decisions that can be changed to produce different shapes to the results. No matter what values are chosen, similarly situated districts are treated the same and there is a logical progression in the treatment of the smallest to the largest districts.

- State Aid is intended to assist community college districts, not to fund them. Therefore it is appropriate to apportion this aid in plateaus rather than on incremental FTSE.

- Since small increases in enrollment are more significant for the smaller districts, the increment between plateaus starts at 100 FTSE for the first 600 FTSE beyond the base 1,000 (1,000 to 1,600 FTSE). The increment then moves to 200 FTSE between 1,600 and 4,000 FTSE—which accounts for all of the

rural districts. The increment then moves to 500 FTSE for the remainder of the model.

- Community college enrollments are volatile and are subject to a host of social and economic forces. Costs, on the other hand, continue. For this reason, there needs to be relative stability in State Aid. Nonetheless, if a college has a sustained enrollment decrease, it must reduce its expenses and it is unreasonable to fund it on historical rates indefinitely. Therefore, it is suggested that when a college moves into a higher bracket, the funding be increased accordingly. When a college moves into a lower bracket due to enrollment decreases, and remains in the lower bracket for three consecutive years, the funding should decrease to the lower rate. Thus, a college fluctuating on the edge of a bracket will likely be placed in the higher bracket and remain there.

The model is shown on the following 4-page table. Following the model is a column-by-column explanation of the formulas used to calculate the cells.

Table C-1
A Model for Base Funding of Arizona Community Colleges

Category	FTSE Range for Category Low	Mid	Hi	Index Value	Value/ FTSE	Added $ for This Level	Value	$/FTSE at Midpoint	District in Category	Funding for Districts	
1			999				**$1,900,000**			$0	Index Value
2	1,000	1,050	1,099	1.0000	$1,900	$96,900	$1,996,900	$1,902		$0	Increment =
3	1,100	1,150	1,199	0.9978	$1,896	$189,582	$2,186,482	$1,901		$0	**0.0220**
4	1,200	1,250	1,299	0.9956	$1,892	$189,164	$2,375,646	$1,901		$0	per 1000
5	1,300	1,350	1,399	0.9934	$1,887	$188,746	$2,564,392	$1,900		$0	
6	1,400	1,450	1,499	0.9912	$1,883	$188,328	$2,752,720	$1,898	1	$2,752,720	Limiting
7	1,500	1,550	1,599	0.9890	$1,879	$187,910	$2,940,630	$1,897		$0	Value of
8	1,600	1,700	1,799	0.9857	$1,873	$280,925	$3,221,555	$1,895		$0	Index =
9	1,800	1,900	1,999	0.9813	$1,864	$372,894	$3,594,449	$1,892		$0	**0.4300**
10	2,000	2,100	2,199	0.9769	$1,856	$371,222	$3,965,671	$1,888	2	$7,931,341	
11	2,200	2,300	2,399	0.9725	$1,848	$369,550	$4,335,221	$1,885		$0	
12	2,400	2,500	2,599	0.9681	$1,839	$367,878	$4,703,099	$1,881		$0	
13	2,600	2,700	2,799	0.9637	$1,831	$366,206	$5,069,305	$1,878	2	$10,138,609	
14	2,800	2,900	2,999	0.9593	$1,823	$364,534	$5,433,839	$1,874		$0	
15	3,000	3,100	3,199	0.9549	$1,814	$362,862	$5,796,701	$1,870	2	$11,593,401	
16	3,200	3,300	3,399	0.9505	$1,806	$361,190	$6,157,891	$1,866	1	$6,157,891	
17	3,400	3,500	3,599	0.9461	$1,798	$359,518	$6,517,409	$1,862		$0	Rural Subtotal
18	3,600	3,700	3,799	0.9417	$1,789	$357,846	$6,875,255	$1,858		$0	$1
19	3,800	3,900	3,999	0.9373	$1,781	$356,174	$7,231,429	$1,854		$0	
20	4,000	4,250	4,499	0.9296	$1,766	$618,184	$7,849,613	$1,847		$0	
21	4,500	4,750	4,999	0.9186	$1,745	$872,670	$8,722,283	$1,836		$0	
22	5,000	5,250	5,499	0.9076	$1,724	$862,220	$9,584,503	$1,826		$0	
23	5,500	5,750	5,999	0.8966	$1,704	$851,770	$10,436,273	$1,815		$0	
24	6,000	6,250	6,499	0.8856	$1,683	$841,320	$11,277,593	$1,804		$0	
25	6,500	6,750	6,999	0.8746	$1,662	$830,870	$12,108,463	$1,794		$0	
26	7,000	7,250	7,499	0.8636	$1,641	$820,420	$12,928,883	$1,783		$0	
27	7,500	7,750	7,999	0.8526	$1,620	$809,970	$13,738,853	$1,773		$0	
28	8,000	8,250	8,499	0.8416	$1,599	$799,520	$14,538,373	$1,762		$0	
29	8,500	8,750	8,999	0.8306	$1,578	$789,070	$15,327,443	$1,752		$0	
30	9,000	9,250	9,499	0.8196	$1,557	$778,620	$16,106,063	$1,741		$0	
31	9,500	9,750	9,999	0.8086	$1,536	$768,170	$16,874,233	$1,731		$0	
32	10,000	10,250	10,499	0.7976	$1,515	$757,720	$17,631,953	$1,720		$0	
33	10,500	10,750	10,999	0.7866	$1,495	$747,270	$18,379,223	$1,710		$0	
34	11,000	11,250	11,499	0.7756	$1,474	$736,820	$19,116,043	$1,699		$0	

Table C-1
A Model for Base Funding of Arizona Community Colleges

Category	FTSE Range for Category Low	Mid	Hi	Index Value	Value/ FTSE	Added $ for This Level	Value	$/FTSE at Midpoint	District in Category	Funding for Districts
35	11,500	11,750	11,999	0.7646	$1,453	$726,370	$19,842,413	$1,689		$0
36	12,000	12,250	12,499	0.7536	$1,432	$715,920	$20,558,333	$1,678		$0
37	12,500	12,750	12,999	0.7426	$1,411	$705,470	$21,263,803	$1,668		$0
38	13,000	13,250	13,499	0.7316	$1,390	$695,020	$21,958,823	$1,657		$0
39	13,500	13,750	13,999	0.7206	$1,369	$684,570	$22,643,393	$1,647		$0
40	14,000	14,250	14,499	0.7096	$1,348	$674,120	$23,317,513	$1,636		$0
41	14,500	14,750	14,999	0.6986	$1,327	$663,670	$23,981,183	$1,626		$0
42	15,000	15,250	15,499	0.6876	$1,306	$653,220	$24,634,403	$1,615		$0
43	15,500	15,750	15,999	0.6766	$1,286	$642,770	$25,277,173	$1,605		$0
44	16,000	16,250	16,499	0.6656	$1,265	$632,320	$25,909,493	$1,594		$0
45	16,500	16,750	16,999	0.6546	$1,244	$621,870	$26,531,363	$1,584	1	$26,531,363
46	17,000	17,250	17,499	0.6436	$1,223	$611,420	$27,142,783	$1,573		$0
47	17,500	17,750	17,999	0.6326	$1,202	$600,970	$27,743,753	$1,563		$0
48	18,000	18,250	18,499	0.6216	$1,181	$590,520	$28,334,273	$1,553		$0
49	18,500	18,750	18,999	0.6106	$1,160	$580,070	$28,914,343	$1,542		$0
50	19,000	19,250	19,499	0.5996	$1,139	$569,620	$29,483,963	$1,532		$0
51	19,500	19,750	19,999	0.5886	$1,118	$559,170	$30,043,133	$1,521		$0
52	20,000	20,250	20,499	0.5776	$1,097	$548,720	$30,591,853	$1,511		$0
53	20,500	20,750	20,999	0.5666	$1,077	$538,270	$31,130,123	$1,500		$0
54	21,000	21,250	21,499	0.5556	$1,056	$527,820	$31,657,943	$1,490		$0
55	21,500	21,750	21,999	0.5446	$1,035	$517,370	$32,175,313	$1,479		$0
56	22,000	22,250	22,499	0.5336	$1,014	$506,920	$32,682,233	$1,469		$0
57	22,500	22,750	22,999	0.5226	$993	$496,470	$33,178,703	$1,458		$0
58	23,000	23,250	23,499	0.5116	$972	$486,020	$33,664,723	$1,448		$0
59	23,500	23,750	23,999	0.5006	$951	$475,570	$34,140,293	$1,437		$0
60	24,000	24,250	24,499	0.4896	$930	$465,120	$34,605,413	$1,427		$0
61	24,500	24,750	24,999	0.4786	$909	$454,670	$35,060,083	$1,417		$0
62	25,000	25,250	25,499	0.4676	$888	$444,220	$35,504,303	$1,406		$0
63	25,500	25,750	25,999	0.4566	$868	$433,770	$35,938,073	$1,396		$0
64	26,000	26,250	26,499	0.4456	$847	$423,320	$36,361,393	$1,385		$0
65	26,500	26,750	26,999	0.4346	$826	$412,870	$36,774,263	$1,375		$0
66	27,000	27,250	27,499	0.4300	$817	$408,500	$37,182,763	$1,365		$0
67	27,500	27,750	27,999	0.4300	$817	$408,500	$37,591,263	$1,355		$0
68	28,000	28,250	28,499	0.4300	$817	$408,500	$37,999,763	$1,345		$0

Table C-1
A Model for Base Funding of Arizona Community Colleges
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Category	FTSE Range for Category Low	Mid	Hi	Index Value	Value/ FTSE	Added $ for This Level	Value	$/FTSE at Midpoint	District in Category	Funding for Districts
69	28,500	28,750	28,999	0.4300	$817	$408,500	$38,408,263	$1,336		$0
70	29,000	29,250	29,499	0.4300	$817	$408,500	$38,816,763	$1,327		$0
71	29,500	29,750	29,999	0.4300	$817	$408,500	$39,225,263	$1,318		$0
72	30,000	30,250	30,499	0.4300	$817	$408,500	$39,633,763	$1,310		$0
73	30,500	30,750	30,999	0.4300	$817	$408,500	$40,042,263	$1,302		$0
74	31,000	31,250	31,499	0.4300	$817	$408,500	$40,450,763	$1,294		$0
75	31,500	31,750	31,999	0.4300	$817	$408,500	$40,859,263	$1,287		$0
76	32,000	32,250	32,499	0.4300	$817	$408,500	$41,267,763	$1,280		$0
77	32,500	32,750	32,999	0.4300	$817	$408,500	$41,676,263	$1,273		$0
78	33,000	33,250	33,499	0.4300	$817	$408,500	$42,084,763	$1,266		$0
79	33,500	33,750	33,999	0.4300	$817	$408,500	$42,493,263	$1,259		$0
80	34,000	34,250	34,499	0.4300	$817	$408,500	$42,901,763	$1,253		$0
81	34,500	34,750	34,999	0.4300	$817	$408,500	$43,310,263	$1,246		$0
82	35,000	35,250	35,499	0.4300	$817	$408,500	$43,718,763	$1,240		$0
83	35,500	35,750	35,999	0.4300	$817	$408,500	$44,127,263	$1,234		$0
84	36,000	36,250	36,499	0.4300	$817	$408,500	$44,535,763	$1,229		$0
85	36,500	36,750	36,999	0.4300	$817	$408,500	$44,944,263	$1,223		$0
86	37,000	37,250	37,499	0.4300	$817	$408,500	$45,352,763	$1,218		$0
87	37,500	37,750	37,999	0.4300	$817	$408,500	$45,761,263	$1,212		$0
88	38,000	38,250	38,499	0.4300	$817	$408,500	$46,169,763	$1,207		$0
89	38,500	38,750	38,999	0.4300	$817	$408,500	$46,578,263	$1,202		$0
90	39,000	39,250	39,499	0.4300	$817	$408,500	$46,986,763	$1,197		$0
91	39,500	39,750	39,999	0.4300	$817	$408,500	$47,395,263	$1,192		$0
92	40,000	40,250	40,499	0.4300	$817	$408,500	$47,803,763	$1,188		$0
93	40,500	40,750	40,999	0.4300	$817	$408,500	$48,212,263	$1,183		$0
94	41,000	41,250	41,499	0.4300	$817	$408,500	$48,620,763	$1,179		$0
95	41,500	41,750	41,999	0.4300	$817	$408,500	$49,029,263	$1,174		$0
96	42,000	42,250	42,499	0.4300	$817	$408,500	$49,437,763	$1,170		$0
97	42,500	42,750	42,999	0.4300	$817	$408,500	$49,846,263	$1,166		$0
98	43,000	43,250	43,499	0.4300	$817	$408,500	$50,254,763	$1,162		$0
99	43,500	43,750	43,999	0.4300	$817	$408,500	$50,663,263	$1,158		$0
100	44,000	44,250	44,499	0.4300	$817	$408,500	$51,071,763	$1,154		$0
101	44,500	44,750	44,999	0.4300	$817	$408,500	$51,480,263	$1,150		$0
102	45,000	45,250	45,499	0.4300	$817	$408,500	$51,888,763	$1,147		$0

Table C-1
A Model for Base Funding of Arizona Community Colleges
Page 4 of 4 pages

Category	FTSE Range for Category Low	Mid	Hi	Index Value	Value/ FTSE	Added $ for This Level	Value	$/FTSE at Midpoint	District in Category	Funding for Districts
103	45,500	45,750	45,999	0.4300	$817	$408,500	$52,297,263	$1,143		$0
104	46,000	46,250	46,499	0.4300	$817	$408,500	$52,705,763	$1,140		$0
105	46,500	46,750	46,999	0.4300	$817	$408,500	$53,114,263	$1,136		$0
106	47,000	47,250	47,499	0.4300	$817	$408,500	$53,522,763	$1,133		$0
107	47,500	47,750	47,999	0.4300	$817	$408,500	$53,931,263	$1,129	1	$53,931,263
108	48,000	48,250	48,499	0.4300	$817	$408,500	$54,339,763	$1,126		$0
109	48,500	48,750	48,999	0.4300	$817	$408,500	$54,748,263	$1,123		$0
110	49,000	49,250	49,499	0.4300	$817	$408,500	$55,156,763	$1,120		$0
111	49,500	49,750	49,999	0.4300	$817	$408,500	$55,565,263	$1,117		$0
112	50,000	50,250	50,499	0.4300	$817	$408,500	$55,973,763	$1,114		$0
113	50,500	50,750	50,999	0.4300	$817	$408,500	$56,382,263	$1,111		$0
114	51,000	51,250	51,499	0.4300	$817	$408,500	$56,790,763	$1,108		$0
115	51,500	51,750	51,999	0.4300	$817	$408,500	$57,199,263	$1,105		$0
116	52,000	52,250	52,499	0.4300	$817	$408,500	$57,607,763	$1,103		$0
117	52,500	52,750	52,999	0.4300	$817	$408,500	$58,016,263	$1,100		$0
118	53,000	53,250	53,499	0.4300	$817	$408,500	$58,424,763	$1,097		$0
119	53,500	53,750	53,999	0.4300	$817	$408,500	$58,833,263	$1,095		$0
									Total	$119,036,587

Column	Heading	Formula (For Row 5)	Comments
A	Category	Numbers in sequence	Label
B	FTSE Range – Low	=D4 +1	Lower limit of FTSE range for category.
C	FTSE Range – Mid	=(B5 + D5 + 1)/2	Mid range for the FTSE category.
D	FTSE Range – High	=B5 + the range value	Range value is 100 for category 2 through 9; 200 for category 10 through 19; 500 for category 20 to the end.
E	Index Value	=IF((E4-(Increment*(C5-C4)/1000)>Limit),E4-(Increment*(C5-C4)/1000),Limit)	Calculating the index value. If the new index value is greater than the limit, insert the new index value, otherwise insert the limit.
F	Value/FTSE	=(Base_Value/1000) * E5	Calculates the incremental value of a FTSE for this category.
G	Added $ for This Level	=F5 * (C5 – C4)	Multiplies the $/FTSE times the FTSE range for this category.
H.	Value	=H4 + G5	Adds the added $ to the previous value.
I	$/FTSE at Midpoint	=H5/C5	Divides the new Value by the midpoint of the range for this category.
J	Districts in Category	Value added manually. Default value = 0	The number of districts that are in this category.
K	Funding for Districts	=H5 * J5	The total value for all districts in this category.
L	Various values.	Variable name: Increment. Index Value Increment per 1000. Value added manually Variable name: Limit. Limiting Value of Index. Value added manually. Rural Subtotal = SUM(K3:K21)	These are two of the three variables that are subject to manipulation in the model. The other variable is named Base_Value and is located in cell H3, the Value for the initial 999 FTSE Sum of categories 1 through 19.

Appendix D

Sate-level Performance Measures Project

State Higher Education Executive Officers (SHEEO)

SHEEO **State Higher Education Executive Officers**

State-level Performance Measures Project

Over the past several years, the use of performance measures by state higher education agencies has steadily grown. SHEEO conducted a survey in January, 1997 to find out which states are using them, how they are using them, and if they are making a difference. A summary of results is now available, and three reports have been published by SHEEO this year:

- Christal, Melodie E. *State Survey on Performance Measures: 1996-97* is the result of a 1997 SHEEO survey of state-level higher education coordinating agencies and multi-institution governing boards to learn which states are using performance measures and how, and if they are making a difference.
- Ruppert, Sandra S. *Focus on the Customer: A New Approach to State-level Accountability Reporting and Processes for Higher Education* is one of two companion pieces to the survey on performance measures. It reports on the current status of accountability policies in the states, and discusses state responses to higher education's new "customers": students, employers, and legislators. *Focus on the Customer* provides recommendations on how state boards can manage in this new environment and what their new role is.
- Albright, Brenda N. *The Transition from Business as Usual to Funding for Results: State Efforts to Integrate Performance Measures in the Higher Education Budgetary Process* uses data from the SHEEO survey on performance measures and focuses on strategies for using performance measures in higher education. This report outlines key principles that can guide states' explorations of performance-based funding.

Ordering information

Also see Improve Performance? Yes? Link It to Funding? No! by James R. Mingle in the Association of Governing Boards of Colleges and Universities' *Trusteeship*, November/December 1997.

For more information, contact Hans L'Orange at hlorange@sheeo.org.

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LAST UPDATED: 09/03/98

SHEEO **State Higher Education Executive Officers**

Preliminary Results from the SHEEO State Survey on Performance Measures

The following results are based on survey responses from 48 states.

- The use of performance measures by states continues to grow. About three-quarters (38 states) report or use performance measures in some way and 27 of those states have plans to expand or refine their current efforts. An additional six states are planning to report or implement performance measures in the near future.
- States are using performance measures for a variety of purposes. Thirty-two states view performance measures as a response to accountability demands and almost one-half (22 states) use performance measures to inform consumers about higher education. Over 40 percent of the states (22) use performance measures in the budgetary process in some manner.
- Reporting of performance measures is frequently mandated through legislation, with 23 states requiring the use of performance measures for accountability reporting and eight states requiring them for consumer information. Sixteen states mandate performance measures as part of the budgeting process.
- Although most states report that it is too early to assess the impact of performance reporting, some states report that they have had a major positive impact on bringing about greater effectiveness (5 states), greater productivity (4 states), and greater quality (3 states).

Reporting of Performance Measures

- The SHEEO agencies, system governing boards, and institutions are heavily involved in the development of performance measures in almost one-half the states. The governor's office and legislature are heavily involved in some of the states.
- Availability of data in 28 states has determined what performance measures are used. Thirty-one states report that new data collection efforts have been necessary.
- The most frequently used performance measures for accountability purposes are graduation rates (31 states), transfer rates (24 states), and faculty workload/productivity data (23 states).
- The most frequently used performance measure for consumer information is graduation rates (15 states), followed by degrees awarded, admission standards, and transfer rates with 11 states reporting these measures.
- Reports on higher education performance are disseminated most frequently to the legislature (34 states) or the governor's office (32 states). Reports are provided to the higher education community in 20 states, and to consumers in 19 states.
- A number of states provided suggestions for disseminating information. Suggestions include:

  Arkansas: Trustees, faculty, students, parents, and other policy leaders need regular exposure to information to easily understand it.

  Hawaii: The tendency is to become very complex and this results in documents that few bother to read. Limit the information in summary reports and inform the public that greater detail is available if needed.

- Almost all states agree that the practical problems of designing a system of performance measures are tremendous.
  - Performance measures must be acceptable to politicians and educators alike and balance institutional autonomy with state-level review and control.
  - The complexities of measuring "quality," particularly of student learning are enormous, and many campuses and faculty fear that state mandated efforts undermine their responsibility for quality assessment.
  - Institutions tend to "lower the bar" in setting goals to ensure that they achieve them. This tendency creates tension and friction with SHEEO agencies.
  - Standardizing state goals for diverse institutions does not work; balancing systemwide goals with unique or customized goals or measures is a more effective strategy.
  - Using quantitative measures exclusively negates important institutional processes, balancing good process goals with quantitative goals or measures is becoming a more acceptable approach.
  - The ultimate test for effectiveness is whether front-line educators are involved and a positive change occurs in teaching and learning.

The Use of Performance Measures in State Budgets

- More than half of the states (30) are planning to or report performance measures in the state budget process. An emerging and growing trend is legislatively mandated initiatives (16 states) that frequently apply to all state agencies. Examples are:

  Arizona: Since 1994, as part of the state operating budget request, all state agencies must submit performance indicators. Every university has unique measures related to each program. Annually up to 50 programs undergo "program authorization review" during which the measures are used to determine continued authorization of the program. This year, state funding to the law schools was cut because of the review.

  Georgia: 1993 legislation implemented a performance-based budget (results-based budgeting). Performance measures will be used systematically to assess progress toward meeting stated goals and objectives. The first phase (FY98) requires identification of program purpose and goals.

  Maine: 1996 legislation establishes a Commission on Performance Budgeting in State Government and outlines a schedule for the full implementation of performance budgeting including the development of agency and joint agencies strategic plans. Performance budgeting will allocate resources based on the achievement of measurable objectives identified in the strategic plan.

- For most states, performance measures are indirectly linked to the budget, however, for eight states, there is a direct linkage with funds allocated to institutional performance on goals and measures.
- With the exception of Tennessee, states have a limited track record -- all programs have been implemented in the past four years. The future of at least one state (Arkansas) is uncertain.
- Performance-based funding represents about 2-3 percent of the overall support for higher education, but for some states a relatively large percentage of the increase in the last year. The proposed South Carolina program is an exception. Most states believe that a relatively small percentage of the budget (1-5 percent) allocated to performance-based funding can effect

meaningful institutional change.

- Each state's performance-funding system is unique, but all focus on using the budget as an incentive for institutions to achieve better student performance and attain state goals. In the current management lexicon, performance-based funding represents a paradigm shift -- rather than the state meeting the institution's needs, the college or university meets the state's needs.
- Several states observe that using performance measures in the budget process serves as an image and credibility builder to reinforce confidence in higher education and results in better communication with political leaders.
- States that have implemented performance based funding see it as a catalyst for change by shifting the focus to important goals, such as teaching and learning. Others say it as an effective way of receiving funding increases beyond inflation and enrollment growth.

Summary of States that Directly Link Performance Measures to the Budget, 1996-97

State/Sectors	Legislative Mandate	Year Implemented	FY97 $	% of Budget	% of Increase
Tennessee (2- and 4-year)	No	FY81	$25M	4%	3%
Colorado (2- and 4-year)	Yes	FY94	$6.2M	2%	2%
Missouri (2- and 4-year)	No	FY94 (4-yr) FY95 (2-yr)	$10.7M	2%	16%
Arkansas (2- and 4-year)	No	FY95	$9M	2%	
Ohio (2-year)	Yes	FY96	$3M	1%	
Florida (2-year)	Approp. Bill	FY97	$12M	1%	25%
Kentucky (2- and 4-year)	Language in Approp. Bill	FY97	$3M	0.5%	13%
South Carolina (2- and 4-year)	Yes	FY98		Mandates 100% by 2000	

SHEEO/ECS Workshop on Performance Measures (July 9, 1997)Melodie Christal, 303-299-3688

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LAST UPDATED: 11/03/97

Appendix E

Commonwealth of Kentucky

Regional Excellence Trust Fund

Research Challenge Trust Fund

Postsecondary Education Workforce Development Trust Fund

ACTION ITEM
CPE (F)
November 3, 1997

1997/98 INCENTIVE TRUST FUNDS CRITERIA

Recommendation:

- That CPE approve the attached incentive trust funds criteria to be used in allocating 1997/98 incentive trust fund monies in the Regional University Excellence Trust Fund (Attachment A), the Research Challenge Trust Fund (Attachment B), and the Workforce Development Trust Fund (Attachment C). The CPE ad hoc Work Group developed these criteria.

- That CPE direct its Work Group to develop the Request for Proposals document for each trust fund based on these criteria.

Rationale:

- The recommendation advances the goals established in HB 1 for each of the three incentive trust funds to which funds were appropriated in 1997/98.

- These incentive trust fund criteria were developed by the CPE Work Group and incorporate many suggestions advanced by the Conference of Presidents.

- The recommendation provides for an allocation of funds for technology and instructional equipment in the Kentucky Tech branch of KCTCS from the Workforce Development Trust Fund. This approach only applies to 1997/98 funds.

- The selection process outlined in the criteria is based on the concept of a partnership between CPE and the institution and its governing board.

- The process for awarding funds allows each institution to progress at a pace beneficial to that institution.

- The recommendation addresses the issues of matching funds and reallocation of funds as referenced in HB 1.

Background:

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) introduced a new concept to postsecondary education funding. That new concept is the Strategic Investment and Incentive Funding Program " for the purpose of encouraging the activities of institutions, systems, agencies, and programs of postsecondary education." HB 1 established six Strategic Investment and Incentive Trust Funds to advance the goals of postsecondary education. These funds are the:

- Research Challenge Trust Fund;
- Regional University Excellence Trust Fund;
- Postsecondary Workforce Development Trust Fund;
- Technology Initiative Trust Fund;
- Physical Facilities Trust Fund; and
- Student Financial Aid and Advancement Trust Fund.

HB 1 charges CPE with the responsibility for developing the criteria and the process for submission for allocation of the incentive trust fund monies. With respect to the Regional University Excellence and the Research Challenge trust funds, CPE is responsible for determining matching funds or internal reallocation requirements from the applicants to qualify for funding.

House Bill 4 (HB 4), the appropriations bill enacted during the May Special Session, appropriated $15 million for 1997/98 to three of the six trust funds: the Regional University Excellence Trust Fund ($6 million), the Research Challenge Trust Fund ($6 million), and the Postsecondary Workforce Development Trust Fund ($3 million). HB 1 identified goals for each of these trust funds. The goal of the Regional University Excellence Trust Fund is to provide financial assistance to encourage regional universities to develop at least one nationally recognized program of distinction or at least one nationally recognized applied research program. The goal of the Research Challenge Trust Fund is to encourage research activities at the doctoral universities so that these institutions may achieve: (1) the status of a major comprehensive research institution ranked nationally in the top 20 public universities at the University of Kentucky and (2) a premier, nationally-recognized metropolitan research university at the University of Louisville.

The goal of the Postsecondary Workforce Development Trust Fund is to provide financial assistance to further cooperative efforts among community colleges and technical institutions and for the acquisition of equipment and technology necessary to provide quality education programs. In testimony and discussions of HB 4 during the May Special Session, it was indicated that the exclusive intent of the 1997/98 appropriation into this trust fund was to assist the Kentucky Tech branch of KCTCS in the acquisition of equipment and technology to enhance the delivery of instruction to students. This exclusive intent applies only to the 1997/98 appropriation to the trust fund.

CPE began discussions of the incentive trust fund criteria at its October 7, 1997 meeting. Chair Hardin appointed an ad hoc Work Group to develop the incentive funds criteria. The Work Group met on October 16, and presented its first drafts of the incentive funds criteria to be discussed at the October 20 CPE meeting. These drafts also were sent to the university presidents who were invited to comment on the proposed criteria at the October 20 CPE meeting. The presidents also were asked to submit their comments on the drafts to CPE by October 25. On October 27, the Work Group conducted a conference call to further revise the criteria after receiving suggestions from the presidents. The Work Group made final changes to these criteria on October 29.

1997/98 Regional University Excellence Trust Fund Criteria

Introduction

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) gives the Council on Postsecondary Education (CPE) the responsibility to develop the criteria and process by which institutions may apply for funds appropriated to individual Strategic Incentive and Investment Trust Funds. CPE recognizes that any criteria and processes it develops must be designed to implement the spirit and intent of HB 1 and eventually the strategic agenda called for in HB 1.

The purpose of the Regional University Excellence Trust Fund is to "provide financial assistance to encourage regional universities to develop at least one nationally-recognized program of distinction or at least one nationally-recognized applied research program. . . . ". CPE believes that one intended outcome of the Regional University Excellence Trust Fund is to result in a complementary array of instructional and applied research programs of distinction across the state to meet identified needs of the Commonwealth. The expectation of CPE is that graduates of each program of distinction will have achieved a mastery in a particular field of study that builds on the core liberal arts programs; will be in high demand nationally by employers and graduate programs; will have cutting edge knowledge and demonstrated competencies in their field; and will be ultimately prepared to enter the workplace or advanced graduate study. While CPE prefers one program of distinction initially for each university, an institution may wish to demonstrate its ability to support additional programs.

CPE believes that the selection of an institution's program of distinction must include a campus-based process involving its board of regents, faculty, and other university constituents, as appropriate. Such a broad-based effort is particularly important given the expectation that recurring funds will be reallocated from other areas of the university to the selected program or programs of distinction. As a means of supporting both this on-campus process as well as facilitating this initiative at the systemwide level, CPE will select one consultant to advise CPE on the selection process used by each university and to advise CPE on the proposed programs resulting from the selection process.

The specific program proposals should include a discussion of the longer-term outlook (five-year enhancement plan) including the resources, which may be required to achieve national status. Such a long-term budget outlook should specify the types of resources, which may be required to achieve national recognition. This information will help CPE develop its budget requests in the future as it will ensure a more effective match of program enhancement, physical facilities, technology and other items which may be needed by the various programs to achieve national status.

Program Criteria

To be eligible for funds from the Regional University Excellence Trust Fund, the proposed program:

1. Must be a single, disciplinary or interdisciplinary instructional or applied research program or a limited number of such programs in a related field of study. (Additional unrelated programs must be addressed in separate proposals.)

2. Must be consistent with the institutional mission, strategic plan, HB 1 and eventually the strategic agenda, all of which should be directed to address the needs of the Commonwealth; and must improve the quality of education and the educational experience at the university.

3. Must complement programs of distinction at the other regional universities in addressing the educational needs of the Commonwealth.

4. Must have potential capacity for national prominence.

5. Must reflect cooperation and collaboration with other sectors in the postsecondary education system.

While not required, proposed programs of distinction:

1. Should embody the competitive strengths likely to be required by universities of the 21st Century. These strengths may include: innovative and integrated curriculum, innovative delivery, active learning, and lifelong learning.

2. Should enhance economic development, quality of life, workforce development, or lifelong learning.

3. Should have a positive impact on the institution as a whole, on the entire postsecondary education system, and on the Commonwealth.

4. Should include a masters degree program as a component of the overall initiative to establish the program of distinction.

Funding Criteria

To be eligible for funds from the Regional University Excellence Trust Fund, the institution:

1. Must provide a 1:1 match from either internal reallocation or external funds.
2. Must match recurring funds to receive recurring funds and, likewise, match nonrecurring funds to receive nonrecurring funds.
3. Must have matching funds available prior to the allotment of trust funds.
4. Must establish an identifiable budget and expenditure unit for each program.
5. Must supplement, rather than supplant, current program funds.

Assessment Criteria

The program proposal submitted by the university:

1. Must include outcomes-based performance indicators, benchmarks, and evaluation criteria, specifically including student outcomes. The program proposal must indicate the ultimate outcome to be achieved as well as periodic (e.g., annual or biennial) intermediate outcomes.

Trust Fund Award Process

CPE views the award of strategic incentive and investment trust funds as one of its most significant responsibilities. It also recognizes the responsibility of each institutional governing board in proposing the program of distinction that best fits with its university's mission and strategic plan. To help assure that each party fulfills its respective role and that the objectives of both the system and the individual institution are met, CPE advocates a selection process that involves a partnership between the CPE and the governing board. This process will involve the following steps:

Selection Process:

1. CPE will select one consultant to review and advise CPE on the selection process used by each university as well as on the potential for the resulting array of proposed regional university programs to significantly improve the quality of postsecondary education in Kentucky.
2. The proposal must have support from the institution as evidenced by approval of the board of regents and a description of the selection process which provides for involvement of university faculty.
3. CPE will determine if the proposal from each university is complete and ready to advance to the proposal review process.

Proposal Review:

1. Upon receipt of institutional proposals, CPE and its consultant may select one or more program area specialists, including nationally recognized experts in the area of the proposed program of distinction, to serve as an external review panel to review proposals. That review panel will report on the reasonableness of the planned expenditures, the appropriateness of the proposed benchmarks, and the potential for achieving national prominence.

2. CPE will have final approval on the selection and funding of programs of distinction.

Post-Award Review:

1. CPE will conduct a periodic (annual or biennial) assessment of each funded program. If approved intermediate outcomes have not been substantially achieved, trust funds may not be provided in subsequent years.

Proposal Contents

The proposal submitted by each university shall include a:

1. Program Plan

2. Funding Plan

3. Assessment Plan

The specific elements to be included in each of these sections will be detailed in the Request for Proposals (RFP) document.

1997/98 Research Challenge Trust Fund Criteria

Introduction

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) gives the Council on Postsecondary Education (CPE) the responsibility to develop the criteria and process by which institutions may apply for funds appropriated to individual Strategic Incentive and Investment Trust Funds. CPE recognizes that any criteria and processes it develops must be designed to implement the goals of HB 1, (i.e., to achieve (1) a major comprehensive research institution ranked nationally in the top 20 public universities at the University of Kentucky and (2) a premier, nationally-recognized metropolitan research university at the University of Louisville) and eventually the strategic agenda. CPE believes that one intended outcome of the Research Challenge Trust Fund is to result in research institutions recognized nationally as leaders in specific programs or a core of interrelated disciplines of distinction.

CPE believes that the development of these proposals (i.e., the selection process) must include a campus-based process involving its board of trustees, faculty, and other university constituents, as appropriate. Such a broad-based effort is particularly important given the expectation that recurring funds will be reallocated from other areas of the university to the programs included in the proposal. As a means of supporting both this on-campus process as well as facilitating this initiative at the systemwide level, CPE will select one consultant to advise CPE on the selection process used by each university and to advise CPE on the proposals resulting from that selection process.

CPE will accept one institutional "overview" or conceptual proposal and a series of specific "program" level proposals from each research university. In the overview proposal, the university should describe (1) its broad strategy of achieving HB 1 goals including focusing on specific programs, building research infrastructure, enhancing research productivity of faculty, reallocation of resources, etc.; (2) its approach to selecting programs for enhancement; and (3) the categories of resource needs (faculty positions, research assistant funding, research equipment funding, general enhancement, etc.) and trust fund support which will enhance its ability to meet HB 1 goals.

The specific program proposals should include a discussion of the longer-term outlook (five-year enhancement plan) including the resources, which may be required to achieve national status. Such a long-term budget outlook should specify the types of resources, which may be required to achieve national recognition. This information will help CPE develop its budget requests in the future as it will ensure a more effective match of basic research enhancement, physical facilities, technology and other items which may be needed by the various programs to achieve national status.

Program Criteria

To be eligible for funds from the Research Challenge Trust Fund, proposed programs:

1. Must include a conceptual proposal that designates either a single, disciplinary or interdisciplinary academic degree program or research area or a series of academic degree programs.

2. Must be consistent with the institutional mission, strategic plan, HB 1 and eventually the strategic agenda, all of which should be directed to address the needs of the Commonwealth.

3. Must show evidence of, where programmatically feasible and practicable, efforts to collaborate with and complement research programs at the other research university in addressing the needs of the Commonwealth.

4. Must have potential capacity for national prominence.

While not required, proposed research programs:

1. Should lead to the advancement of knowledge while enhancing economic development, quality of life, or workforce development.

2. Should have a positive impact on the institution as a whole, including direct benefit to undergraduate students, on the postsecondary education system, and on the Commonwealth and nation.

3. Should include the doctoral degree (or appropriate terminal professional degree) if consistent with the overall research agenda.

4. Should have a plan approved by CPE for technology transfer and intellectual property rights.

Funding Criteria

To be eligible for funds from the Research Challenge Trust Fund, the institution:

1. Must provide a 1:1 match from either internal reallocation or external funds.

2. Must match recurring funds to receive recurring funds and, likewise, match nonrecurring funds to receive nonrecurring funds.

3. Must have matching funds available prior to the allotment of trust funds.

4. Must establish an identifiable budget and expenditure unit for each program.

5. Must supplement, rather than supplant, current program funds.

Assessment Criteria

The research proposal submitted by the university:

1. Must include outcomes-based performance indicators, benchmarks, and evaluation criteria. The program proposal must indicate the ultimate outcome to be achieved as well as periodic (e.g., annual or biennial) intermediate outcomes.

Trust Fund Award Process

CPE views the award of strategic incentive and investment trust funds as one of its most significant responsibilities. It also recognizes the responsibility of each institutional governing board in developing proposals that best fit its university's mission and strategic plan. To help assure that each party fulfills its respective role and that the objectives of both the system and the individual institution are met, CPE advocates a selection process that involves a partnership between the CPE and the governing board. This process will involve the following steps:

Selection Process:

1. CPE will select one consultant to review and advise CPE on the selection process used by each university as well as on the potential for the resulting array of proposals to significantly affect the advancement of knowledge and the national ranking as research universities.

2. The proposal must have support from the institution as evidenced by approval of the board of trustees and a description of the selection process which provides for involvement of university faculty.
3. CPE will determine if the proposals from each university are complete and ready to advance to the proposal review process.

Proposal Review:

1. Upon receipt of institutional proposals, CPE and its consultant may select one or more program area specialists, including nationally recognized experts in the area of the proposal, to serve as an external review panel to review proposals. That review panel will report on the reasonableness of the planned expenditures, the appropriateness of the proposed benchmarks, and the potential for achieving national prominence.

2. CPE will have final approval on the selection and funding of proposals.

Post-Award Review:

1. CPE will conduct a periodic (annual or biennial) assessment of each funded program. If approved intermediate outcomes have not been substantially achieved, trust funds may not be provided in subsequent years.

Proposal Contents

The proposal submitted by each university shall include a:

1. Program Plan

2. Funding Plan

3. Assessment Plan

The specific elements to be included in each of these sections will be detailed in the Request for Proposals (RFP) document.

1998-2000 POSTSECONDARY WORKFORCE DEVELOPMENT TRUST FUND CRITERIA AND GUIDELINES

ACTION
Agenda Item C-3
November 9, 1998

Recommendation:

- That the Council approve the 1998-2000 Postsecondary Workforce Development Trust Fund Criteria included as Attachment 1.

- That the Council authorize the staff to finalize the 1998-2000 Postsecondary Workforce Development Trust Fund Application Guidelines and initiate the request for proposal process. These criteria and guidelines will be used by the KCTCS to apply for the $6 million annual appropriation to the trust fund.

Rationale:

- The *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1) created the Postsecondary Workforce Development Trust Fund to "provide financial assistance to further cooperative efforts among community colleges and technical institutions and for the acquisition of equipment and technology necessary to provide quality education programs."

- The proposed criteria demonstrate the KCTCS' commitment and contribution to the postsecondary education community.

- The proposed criteria are consistent with the principles outlined in *2020 Vision*, the Council's strategic agenda.

- The proposed criteria reflect many of the same expectations as for the research and comprehensive universities in their respective Incentive Trust Fund Criteria.

- The proposed criteria have expanded the original idea of collaboration between the community colleges and technical institutions to include other institutions, business, industry, labor, and communities.

- The proposed criteria incorporate the KCTCS Work Group recommendations with one clarification made by Council staff to broaden the range of sources of in-kind match. Council staff discussed the clarification with the KCTCS staff; they support the change.

Background:

In November 1997, the Council established criteria for the 1997-98 Postsecondary Workforce Development Trust Fund appropriation of $3 million that allowed the KCTCS to submit proposals for acquisition of instructional equipment. When the 1997-98 KCTCS funding

proposal was approved at the May 1998 meeting, the Council indicated that the focus of the 1998-2000 appropriation to the Postsecondary Workforce Development Trust Fund would be on collaborative efforts between the branches of the KCTCS.

The KCTCS created an Academic and Workforce Program Collaboration Taskforce. The Taskforce recommended a refinement of the Postsecondary Workforce Development Trust Fund criteria to be used in the future biennium. A KCTCS Trust Fund Criteria Work Group was appointed in August 1998 to review the 1997-98 criteria and application guidelines, to consider the Collaboration Taskforce suggestions, and to advise the Council staff on the 1998-2000 trust fund criteria. The recommendations of the Work Group were reviewed by the Chancellors of the Technical College Branch and the Community College Branch and forwarded by Interim President Jeff Hockaday to the Council president for consideration.

The recommendations forwarded to the Council and incorporated by Council staff into the 1998-2000 Postsecondary Workforce Development Trust Fund criteria demonstrate a maturing system's ability to fully contribute to the postsecondary education environment. As with the research and comprehensive universities, the initiatives developed under the new criteria will require a 1:1 match, supplement rather than supplant current program funds, and contain assessment requirements to measure performance. The Postsecondary Workforce Development Trust Fund money should augment the KCTCS' ability to produce graduates that have achieved mastery in their field; are in high demand by business, industry, and labor; and have current knowledge and demonstrated competencies in their field. The 1998-2000 Postsecondary Workforce Development Trust Fund criteria reinforce collaborative efforts among the KCTCS institutions and with other postsecondary education institutions, business, labor, industry and communities. The clarification to expand the potential sources of in-kind match is intended to allow the KCTCS to reach beyond the traditional bounds of collaborative initiatives. It should help develop the cooperative and competitive strengths likely to be required by educational institutions of the 21st century.

Staff Preparation by Norma Northern

1998-2000 Postsecondary Workforce Development Trust Fund Criteria

I. Introduction

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) gives the Council on Postsecondary Education (CPE) the responsibility to develop the criteria and process by which the Kentucky Community and Technical College System (KCTCS) may apply for funds appropriated to the Postsecondary Workforce Development Trust Fund. The Council recognizes that any criteria and processes it develops need to be designed to implement the spirit and intent of HB 1 and *2020 Vision*, the Council's strategic agenda.

The purpose of the Postsecondary Workforce Development Trust Fund is "to provide financial assistance to further cooperative efforts among community colleges and technical institutions and for the acquisition of equipment and technology necessary to provide quality education programs." The Council believes that one intended outcome of the Postsecondary Workforce Development Trust Fund is to result in citizens of the Commonwealth educationally and technologically prepared to fully contribute to the workforce of the 21st century. The expectation is that graduates of the KCTCS will have achieved mastery in a particular field of study such that they are in high demand by business, industry, and labor and have current knowledge and demonstrated competencies in their field.

The Council believes that it is critical for the KCTCS to involve its board of regents, faculty, and other constituents, as appropriate, in the proposal development process. Such a broad-based effort is particularly important if recurring funds are reallocated or innovative sources are used as match. Before making awards from the trust fund, the Council or its designees will conduct a pre-submission work session with the president of KCTCS and other representatives as appropriate.

II. Criteria

A. Program Criteria

1. To be eligible for funds from the Postsecondary Workforce Development Trust Fund, the proposal must:

   - Be consistent with *2020 Vision,* HB 1, the institutional mission, and the institutional strategic plan, all of which should be directed to address the needs of the Commonwealth.

   - Complement other workforce development initiatives in addressing the educational needs of the Commonwealth.

- Improve the quality of education and the educational experience at the institution or provide the technology and equipment necessary for quality educational programs.

- Have qualitative and quantitative measures of assessment of evaluation.

- Reflect cooperation and collaboration with other community colleges or technical colleges.

- Have support from all appropriate areas as demonstrated by the approval of the KCTCS Board of Regents and include a description of the proposal development process reflecting involvement of institutional faculty and staff.

2. While not required, preference may be given to proposals which:

   - Embody the cooperative and competitive strengths likely to be required by educational institutions of the 21st century. These strengths may include innovative and integrated curriculum, innovative delivery, active learning, and lifelong learning.

   - Enhance economic development, quality of life, or workforce development.

   - Have a positive impact on the postsecondary education system and on the Commonwealth.

   - Demonstrate the involvement or support of business, labor, or industry.

   - Incorporate innovative strategies that optimize utilization of resources.

   - Promote programs within and outside the KCTCS that enhance the transfer of credit.

   - Advance the utilization of technology to improve access to quality educational programs.

   - Promote collaboration among the two branches of the KCTCS, the Commonwealth Virtual University, other sectors of postsecondary education, or other constituencies.

B. Funding Criteria

1. To be eligible for funds from the Postsecondary Workforce Development Trust Fund, the proposal must:

   - Provide a 1:1 match from either internal reallocation or external funds. Matching funds may be cash, in-kind, or a combination of funding sources. Matching funds must be associated with the program being funded.

- Have matching funds committed prior to the allocation of trust funds.
- Have a separately identifiable budget and reporting system.
- Supplement, rather than supplant, current program funds.

2. While not required, preference may be given to proposals which:
   - Provide matching funds above the 1:1 ratio.
   - Have the potential to become self-sustaining through non-trust funds.

C. Assessment Criteria

The proposal submitted must:

- Include performance indicators, benchmarks, and evaluation criteria, specifically including student outcomes.
- Indicate the ultimate outcome to be achieved as well as periodic (e.g., annual or biennial) intermediate standards.
- Include a "sunset provision" based on periodic assessment of the program.

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