

# **COMMUNITY COLLEGE FUNDING STUDY**

A Report Prepared for the  
**Legislative Finance Committee**

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## STATUS OF FUNDING STUDY

At the Legislative Finance Committee (LFC) meeting on June 9, 2006, the committee recommended:

- That the community college funding formula should be revised starting with a process that would rebase the Cost of Education (COE) factor of the formula in order that it more accurately reflect the actual cost of education. The COE should be calculated based upon actual figures averaged across the community colleges for FY 2006, which would then serve as the base year for the 2009 biennium budget
- That the model to rebase the COE should start with cost of education data from the Commissioner of Higher Education (CHE) form 201, which each college is required to complete, as per statute, in establishing annual operating budgets. CHE 201 includes a separate accounting schedule for the current unrestricted operating funds, segregating these funds from others, including restricted, auxiliary, and capital funds
- That the calculation to rebase the COE should be made each biennium, using the CHE 201, thus eliminating the need to make a special adjustment calculation of the base COE factor, which was done in the past.
- That this new CHE 201 model should also include a calculation that establishes both a fixed cost of education component and a variable cost of education component, which, together, would comprise the new COE factor
- Therefore, to make this new formula operational, it is recommended that the funding study working group be charged to work with the community colleges to establish a transparent and logical formula in order to define which expenditures in their budgets are fixed and which are variable

Toward this end, “that the working group...work with the community colleges to establish a transparent and logical formula to define which expenditures in their budgets are fixed and which are variable,” on July 11, 2006 the working group for the Community College Funding Study met at Flathead Valley Community College in Kalispell with the financial officers of the three community colleges. At that meeting, a fixed vs. variable calculation was devised, agreed upon by all parties, and recommended for use in the new funding formula.

The purpose of this report to the LFC is to explain this proposed fixed vs. variable cost calculation and provide this option to the LFC for this calculation to be used to determine the Cost of Education Factor as part of the funding formula recommendation that the LFC made at the June meeting, which is reflected in the bill draft request, LC0179, attached to this report.

## RECOMMENDED NEW FUNDING FORMULA TO DETERMINE STATE APPROPRIATION

New Funding Formula Stated Mathematically (recommended by LFC at June 2006 meeting):

$$\frac{[(\text{Projected Student Enrollment} \times \text{Variable Cost of Education per Student}) + \text{Fixed Cost of Education}] \times \text{State Percent Share}}{\text{State General Fund Budget}}$$

- Projected Student Enrollment = the aggregated FTE count that the three colleges project for each year of the proposed biennial budget
- Variable Cost of Education per Student = the total variable costs for the base year divided by the actual FTE student enrollment for the base year (both derived from base-year CHE 201 form)
- Fixed Cost of Education = the total fixed costs for the base year (derived from base-year CHE 201 form)
- State Percent Share = the percent of the CHE 201 derived fixed + variable costs calculation that the legislature decides, as a matter of public policy, to support with a state appropriation

Note: The fixed and variable cost figures for the 2009 biennium budget would use the actual figures from the FY2006 base year CHE 201 form. Going forward, that base year FY2006 ratio of fixed/variable costs (each percentage) will be carried forward and applied to the CHE 201 total cost of education from each subsequent

budget base year in order to calculate the variable cost and fixed cost figures in the above equation for those subsequent budgets.

Recommended Calculation to Determine the Variable Cost and Fixed Cost Components:

The original calculation would be based upon the actual figures from the CHE 201 form for the base year of the biennial budget (e.g. FY 2006 for the 2009 biennium budget).

Each of the three colleges would complete this calculation for their CHE 201 figures. These three calculations would then be aggregated so that the total, average calculation of the three CHE 201 figures would determine the fixed cost vs. variable cost ratio to be used in the community college funding formula. That total, aggregated ratio would then be applied to the aggregated CHE 201 COE in order to identify the costs that are fixed and those that are variable.

This calculated ratio (percentage) would be used in subsequent biennia, and the working group recommends reviewing and updating this fixed/variable calculation every third biennium budget (6 years).

To complete the funding formula calculation illustrated above, the calculated variable costs total would be divided by the actual base year FTE student enrollment in order to determine the “variable cost of education per student.” That variable cost per student would then be the factor that is used and multiplied by the projected “student enrollment” for each budget year of the biennium in order to complete the funding formula.

The fixed vs. variable costs calculation, therefore, would contemplate separately each of the five categories on the CHE 201 form in the current unrestricted fund, those five categories being:

- Instruction
- Student Services
- Academic Support
- Institutional Support
- Operations and Maintenance

**Instruction Category:**

The instruction category includes expenses for all activities that are part of an institution’s instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions should be included.

Expenses for departmental research and public service that are not separately budgeted should be included in this classification. This category excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans.

Variable costs consist of expenditures for:

- Non-tenured faculty
- Faculty overload
- Adjunct Faculty

Fixed costs consist of expenditures for:

- Tenured Faculty
- Support Staff

The logic for this expenditure split is that student enrollment fluctuations drive the non-tenured faculty load as well as the number of adjunct faculty contracts. In addition, high student enrollment may lead to faculty overload costs. On the other hand, tenured faculty and support staff costs are not impacted upon by ordinary student enrollment fluctuations.

Therefore, to determine the fixed/variable cost ratio in the Instruction category, the above expenditures would be segregated and each applied against the category total expenditures. Each type of costs and total expenditures would be aggregated for all five categories to determine the fixed/variable costs ratio for the entire college current unrestricted fund, and aggregated again for all three colleges.

Once the above ratio for faculty/staff costs in the Instruction category is determined, that preliminary ratio would be used and applied to the operating expenditures in the Instruction Category. These two separate ratios, taken together, would represent the total fixed/variable costs ratio for the Instruction category.

### **Student Services Category:**

The student services category includes expenses incurred for offices of admissions and the registrar and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an essentially self-supporting activity), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an essentially self-supporting activity). In recent years, some institutions have created an office of enrollment management; expenses for such an office are best categorized in student services.

Variable costs consist of expenditures for:

- Temporary and Workstudy Employees
- Hospitality (meeting costs)
- Photocopying

Fixed costs consist of expenditures for:

- All other in this category

The logic for this expenditure split is that staff levels in this category are not impacted by student enrollment fluctuations, but for the number of temporary and workstudy employees. In addition, the photocopy demand is tied to student enrollment as is the hospitality volume related to meeting costs.

Therefore, to determine the fixed/variable cost ratio in the Student Services category, segregate the above expenditures and apply each of these against the category total expenditures. Each type of costs and total expenditures would be aggregated for all five categories to determine the fixed/variable costs ratio for the entire college current unrestricted fund, and aggregated again for all three colleges.

### **Academic Support Category:**

The academic support category includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. It includes the retention, preservation, and display of educational materials, such as libraries, museums, and galleries; the provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education; media such as audio-visual services and technology such as computing support; academic administration (including academic deans but not department chairpersons) and personnel development providing administration support and management direction to the three primary missions; and separately budgeted support for course and curriculum development. For institutions that currently charge some of the expenses—for example, computing support—directly to the various operating units of the institution, this category does not reflect such expenses.

Variable costs consist of expenditures for:

- Temporary Employees
- Hospitality
- Photocopying

Fixed costs consist of expenditures for:

- All other in this category

The logic for this expenditure split is similar to that of Student Services, in that only temporary employee staffing levels are impacted by ordinary student enrollment fluctuations, as well as hospitality and photocopy costs. All other costs in the Academic Support category remain constant.

Therefore, to determine the fixed/variable cost ratio in the Academic Support category, the above expenditures would be aggregated and apply each of these against the category total expenditures. Each type of costs and total expenditures would be aggregated for all five categories to determine the fixed/variable costs ratio for the entire college current unrestricted fund, and aggregated again for all three colleges.

### **Institutional Support Category:**

The institutional support category includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution, such as the governing board, planning and programming operations, and legal services; fiscal operations, including the investment office; administrative data processing; space management; employee personnel and records; logistical activities that provide procurement, storerooms, printing; transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fund raising. Appropriate allocations of institutional support are to be made to auxiliary enterprises, hospitals, and any other activities not directly related to the primary program categories or the related support categories.

Variable costs consist of expenditures for:

- Temporary Employees
- Hospitality
- Photocopying
- Bad Debt and Collections

Fixed costs consist of expenditures for:

- All other in this category

The logic for this expenditure split is, once again, similar to that of Student Services and Academic Support illustrated above. In addition, many of the community college staff in the Institutional Support category have several cross-functional job assignments and most of these departments are “one-person” offices.

Therefore, to determine the fixed/variable cost ratio in the Institutional Support category, the above expenditures would be segregated and then apply each of these against the category total expenditures. Each type of costs and total expenditures would be aggregated for all five categories to determine the fixed/variable costs ratio for the entire college current unrestricted fund, and aggregated again for all three colleges.

### **Operations and Maintenance Category:**

The operation and maintenance of plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution’s physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal; property, liability and all other insurance relating to property; space and capital leasing; facility planning and management; and central receiving. It does not include interest expense on capital related debt. This category may be allocated to the other functional categories based on an acceptable allocation methodology such as square footage of buildings.

Variable costs consist of expenditures for:

- Temporary Employees
- Fifty-percent of Custodial Supplies

Fixed costs consist of expenditures for:

- All other in this category

The logic for this expenditure split is that virtually all capital operations need to be maintained at the same level without regard to student enrollment fluctuations. The group also determined that to try and determine a more detailed analysis of facility operations would result in a complex calculation that would erode the policy goal of transparency and simplicity.

Therefore, to determine the fixed/variable cost ratio in the Operations and Maintenance category, the above expenditures would be segregated and then apply each of these against the category total expenditures. Each type of costs and total expenditures would be aggregated for all five categories to determine the fixed/variable costs ratio for the entire college current unrestricted fund, and aggregated again for all three colleges.

Once again, it is recommended that the ratio that results from this total calculation for all five categories across all three community colleges in the FY2006 base year be carried forward into future biennial budgets to determine the fixed/variable costs ratio, but that this calculation be reviewed and updated every third biennium (every 6 years). Therefore, the calculation would be reviewed again in preparing the 2013 biennium budget using the FY2012 base year.

## **BILL DRAFT TO AMEND COMMUNITY COLLEGE FUNDING FORMULA AS PER LFC RECOMMENDATION (AMEND 20-15-310, MCA)**

Attached is the bill draft, LC0179, which would implement the changes to the community college funding formula in accordance with the recommendations approved by the LFC at the June 2006 meeting.

### **Decision Point Options**

- 1) Approve the bill draft as a committee bill.
- 2) Take no action on the bill draft.

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## **APPENDIX A**

### Community College Funding Study Bill Draft LC0179