

CADE FUNDING FORMULA: MODERNIZATION AND STABILITY FOR MARYLAND'S COMMUNITY COLLEGES



DEPARTMENT OF LEGISLATIVE SERVICES 2024

Cade Funding Formula: Modernization and Stability for Maryland's Community Colleges

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

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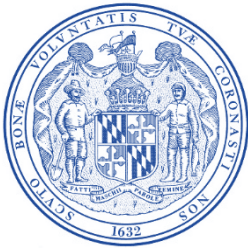
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF POLICY ANALYSIS
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Victoria L. Gruber
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October 15, 2024

The Honorable Guy Guzzone
Chair, Senate Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, Maryland 21401

The Honorable Ben Barnes
Chair, House Appropriations Committee
121 Taylor House Office Building
Annapolis, Maryland 21401

Re: 2024 Joint Chairmen's Report Cade Funding Formula Study, page 2 – B75A01.07

Dear Chair Guzzone and Chair Barnes:

On behalf of the Department of Legislative Services (DLS), we are pleased to submit the requested report, *Cade Funding Formula: Modernization and Stability for Maryland's Community Colleges*. In response to the committees' request, DLS, in consultation with the Maryland Association of Community Colleges, conducted a comprehensive study of the Senator John A. Cade Funding Formula.

The study examines how the Cade formula, originally established in 1996 to allocate State funds to community colleges, could be modernized to address the evolving needs of Maryland's community colleges. The report presents an in-depth analysis of the Cade formula's history, its current structure, and includes comparisons with funding mechanisms in other states.

The report identifies six key considerations for modernizing the community college funding formula: incorporating equity-focused funding components; introducing performance- and outcomes-based metrics; reintroducing fixed costs to stabilize smaller institutions; exploring the potential benefits and challenges of decoupling community college funding from the formula currently tied to four-year public institutions; broadening the eligibility of full-time equivalent students; and using accessible and efficient data metrics.

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We trust that the report provides a useful foundation for the committees' ongoing work on higher education funding. We would be pleased to provide any additional information or clarification as you review its findings.

Sincerely,

A handwritten signature in black ink, appearing to read "Victoria L. Gruber".

Victoria L. Gruber
Executive Director

A handwritten signature in blue ink, appearing to read "Ryan Bishop".

Ryan Bishop
Director

VLG:RB/CB/km

Enclosure

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Cade Funding Formula: Modernization and Stability for Maryland's Community Colleges

Introduction

Maryland's community colleges are a vital part of the State's higher education system, providing affordable, accessible, and diverse educational pathways for students. From technical certificates to transfer programs, these institutions serve a critical role in workforce development, economic mobility, and lifelong learning.

The Senator John A. Cade Funding Formula (Cade formula) was established in 1996 and since then has been the primary mechanism through which the State allocates financial support to community colleges. The formula ties community college funding to a percentage of per student State support for Maryland's public four-year institutions. While reliable and stable for over two decades, this approach may no longer meet the evolving needs of Maryland's community colleges or the diverse populations they serve. Declining enrollment trends, changing workforce demands, and the growing emphasis on educational equity present new challenges that the current formula may not be fully equipped to address.

Nationally, many states have transitioned from traditional enrollment-based models to hybrid approaches that incorporate performance- and equity-based components. These models recognize that funding should not be determined solely by the number of students but should also account for institutional performance and the needs of underserved populations. Maryland's current formula does not include such considerations, making it an appropriate time to explore how the formula could better serve the diverse community colleges across the State.

The Blueprint for Maryland's Future, a comprehensive educational reform initiative, has set ambitious goals for equity and student success in prekindergarten through grade 12 education. As community colleges play a critical role in preparing students for both higher education and the workforce, there is a natural connection between the goals of the Blueprint and potential adjustments to the Cade formula. This report will explore national trends, the current funding structure, and possible avenues for modernizing the Cade formula to better reflect the evolving role of community colleges in Maryland.

Overview of Maryland Community Colleges

As listed in **Exhibit 1**, Maryland has 16 community colleges: 15 are locally controlled, while Baltimore City Community College (BCCC) is State operated with minimal local support. All are subject to oversight by the Maryland Higher Education Commission (MHEC). Local community college boards of trustees oversee policy and operations. Funding is primarily provided by State and local government and by tuition and fee revenue paid by students.

Exhibit 1 Community Colleges in Maryland

Community College

Service Area

Allegany College of Maryland	Allegany County
Anne Arundel Community College	Anne Arundel County
Baltimore City Community College	Baltimore City
Community College of Baltimore County	Baltimore County
Carroll Community College	Carroll County
Cecil College	Cecil County
Chesapeake College	Caroline, Dorchester, Kent, Queen Anne's, and Talbot counties
College of Southern Maryland	Charles, St. Mary's, and Calvert counties
Frederick Community College	Frederick County
Garrett College	Garrett County
Hagerstown Community College	Washington County
Harford Community College	Harford County
Howard Community College	Howard County
Montgomery College	Montgomery County
Prince George's Community College	Prince George's County
Wor-Wic Community College	Somerset, Wicomico, and Worcester counties

Source: Maryland Association of Community Colleges

The county role, with regard to community colleges, is similar to that for the public elementary and secondary schools. Each community college (except BCCC) submits its operating and capital budgets to the county governing body, or in the case of regional colleges, to each of the counties in the region. The budget submission includes revenues by source and expenditures by major function as established by the commission. The county governing body reviews and approves or reduces the budget.

The State's community colleges provide diverse education services with particular emphasis on community-centered programs that afford open access to individuals. The community colleges are a flexible, lower-cost higher education pathway accommodating the needs of a wide variety of students. Community colleges offer undergraduate courses, technical and career education programs, skills training for businesses, continuing education programs, and developmental education. Students may receive a certificate or an associate degree.

Students enrolled in transfer programs constitute the largest share of credit enrollment. These programs are designed for the continuation of education at a four-year institution of higher education. Coursework can lead to certificates and associate degrees and, in accordance with guidelines established by the commission and the institutions, be transferred to four-year colleges and universities.

Technical and career programs are another major component of a community college's mission. These credit programs are designed primarily for immediate job entry or for upgrading skills. Data processing, technical art, hospital management, medical and health technologies, and criminal justice are examples of technical and career programs leading to a certificate or an associate degree. Some community colleges are designated statewide providers of special career programs.

Continuing education courses are regularly scheduled courses designed to meet the needs of part-time and returning students. These courses are not offered for academic credit. These courses may provide job training and retraining, satisfy professional requirements for certification, offer cultural enrichment, and address contemporary problems. For example, every community college in Maryland offers programs custom designed to businesses, government agencies, and professional and labor organizations in their regions. Continuing education courses may be offered in nontraditional settings such as business centers, the workplace, and public facilities.

Historical Overview of the Cade Formula

The Cade formula has been central to Maryland's approach to supporting its community college funding for nearly three decades. The Cade formula aims to provide a more equitable and predictable system of financial support for community colleges by tying State aid to the level of support received by public four-year institutions. Over time, the formula has evolved in response to both legislative priorities and the fiscal conditions of the State.

Early State Support for Community Colleges

Maryland began funding community colleges in 1946 with the establishment of Hagerstown and Montgomery Colleges. Initially, the State provided funding through flat grants. However, by 1949, aid was distributed based on full-time equivalent student (FTES) enrollment. Over the following decades, the State continued to modify funding levels and introduced additional formula aid and grants. By 1985, State support for community colleges included a full-time equivalent formula, a formula for small and regional community colleges, grants for fixed operating costs, supplemental funding per part-time student, and additional funding for low-income students, measured by the number of Pell Grant recipients.

In 1988, the State overhauled its support for community colleges following the recommendations of the Committee on the Future of Maryland Community Colleges (known as

the Blueprint for Quality). Under the committee's recommendations, community colleges began receiving a set amount per FTES, regardless of size, part-time student enrollment, or Pell Grant enrollment. Additionally, the overhaul introduced an annual fixed cost grant that adjusts funding so that smaller colleges receive relatively more support and a supplemental wealth equalization grant targeting Allegany, Baltimore City, Cecil, Garrett, and Hagerstown community colleges.

Chapter 465 of 1991 restructured the State's support for community colleges, introducing a new system based on five key factors. Under this system, the State distributed (1) 70% of funds through a fixed cost grant, allocated proportionally to each college based on the total aid it received in the previous year; (2) 27% of funds through a marginal cost grant, calculated on a per FTES basis; (3) 0.5% of funds through a wealth grant, distributed to counties according to their relative contribution and per capita wealth; (4) 2% of funds allocated to small and medium-sized colleges, with 1.75% for institutions whose FTES enrollment was less than or equal to 80% of the statewide median, and 0.25% for those with enrollments between 80% and 200% of the statewide median; and (5) 0.5% of funds reserved for challenge grants, which supported statewide initiatives and economic development projects for which community colleges could compete.

Community College Financing Study Group

In January 1996, the Community College Financing Study Group published a report of its final recommendations for increasing State formula aid to community colleges and updating the distribution of such aid. This study group of legislators, in addition to finding that the current funding scheme was failing to provide community colleges with the needed level of support, concluded that the existing formula was overly complicated. Further, the formula's emphasis on fixed costs conflicted with the reality that community colleges spend the most in variable cost categories like instruction and student services.

The report provided recommendations to increase the amount of State formula funding to community colleges and alter the distribution of aid in a streamlined manner. Specifically, the report recommended increasing the amount of State aid provided to community colleges by tying the funding each community college receives to a set percentage of the funding public four-year institutions receive on a per FTES enrollment basis. Initially, the study group recommended a funding target of 25% of the aid per FTES at four-year public universities by fiscal 2000. For formula distribution, the report recommended shifting to a simplified formula with a variable cost component providing the majority of funding, a fixed cost component, and a small size component.

Cade Formula Establishment

The State enacted the recommendations of the Community College Financing Study Group via Chapters 6 and 7 of 1996 and subsequently named the formula in memory of the late Senator John A. Cade via Chapters 330 and 331 of 1997. Unlike in previous iterations of State community college funding formulas, the Cade formula tied funding to the level of support provided at four-year public institutions of higher education. The Cade formula initially set the mandatory per pupil community college funding at 21% of the previous year's aid per FTES at four-year public institutions of higher education for fiscal 1998 but established that the percentage of four-year aid per FTES would increase over time until it reached 25% in 2002. Subsequent legislation further altered these targets.

In addition to anchoring community college funding to the funding received by four-year institutions, the Cade formula reworked the distribution of aid by specifying a new balance of funding across just three categories: a fixed cost factor; a marginal cost factor; and a size factor. As initially conceived, the fixed cost component represented 38% of total funding by fiscal 2000 and was distributed according to each community college's share of the total State grant for the prior fiscal year. The marginal cost factor was set at 60% of total funding in each year and was distributed based on the total number of FTES at each community college. The size factor represented 2% of funding by fiscal 2000 and was evenly distributed across community colleges with FTES enrollment less than or equal to 80% of the statewide median. The new formula eliminated the medium size factor, the wealth factor, and challenge grants.

Major Adjustments and Additions to the Cade Formula

Additional Funding to Small Community Colleges

As a result of the reduction of the small size factor and elimination of the wealth factor, several community colleges received less State funding than they would have received from the previous formula. To compensate for the funding decrease, Chapter 105 of 1997 provided hold harmless grants to seven community colleges. Subsequently, Chapter 570 of 1998 increased this additional funding to a total of \$2.0 million in unrestricted grants to small community colleges. By 2002, Allegany College of Maryland and Garrett Community College saw lagging growth in State aid to community colleges under the Cade formula. To compensate, Chapter 350 of 2002 provided a total of \$600,000 in additional grants for the two campuses for fiscal 2003 through 2005.

Issues related to Wor-Wic Community College not qualifying for the size factor component in fiscal 2005 led to the enactment of Chapter 330 of 2006, which introduced a five-year phase-out of the size factor component. The first year that a community college fails to qualify for the component, it receives 80% of the amount that it received from the component in the prior year. This percentage is reduced by 20% in each succeeding year, until it reaches 0% in the fifth year after the college last qualified for the size factor component.

Chapter 330 of 2017 again adjusted the small community colleges grant by requiring that funding be set at \$851,300 for all small community colleges in fiscal 2019. Instead of keeping grant amounts flat, Chapter 330 also required that grant amounts for each subsequent fiscal year are increased by the same percentage increase in funding per FTES at selected public four-year higher education institutions in the State.

Adjustments to State Aid Ratio to Four-year Institutions

The exact funding level as a percentage of funding provided to four-year colleges has been adjusted numerous times since the Cade formula's creation. The most recent adjustment to the formula funding requirements was in Chapter 717 of 2024, which requires that for fiscal 2025 and each fiscal year thereafter, the State fund community colleges at 27.2% of the FTES appropriation to the four-year public institutions of higher education.

Without adjusting the percentage, language added in Chapter 203 of 2003 specified that the percentage of the general fund appropriation per FTES for a four-year institution must reflect any amendments or reductions made to the appropriation for the fiscal year. Chapter 2 of the 2007 special session specified that noncapital appropriations from the Higher Education Investment Fund must be included as part of the State general fund appropriation per FTES to the four-year public institutions of higher education in the State. In addition to changes to percentage funding requirements, Chapter 487 of 2009 established that community college funding must be based on funding to public four-year institutions to higher education in the same fiscal year. Chapters 44 and 417 of 2021 required the calculation of State general fund appropriation per FTES to include all appropriations regardless of where they are budgeted, designated for the general operation of four-year public institutions of higher education, including personnel-related appropriations.

Removal of Fixed Costs

Chapter 717 again streamlined the Cade formula by removing the fixed costs component entirely. Starting in fiscal 2025, the Cade formula no longer operates on the 60% marginal, 38% fixed, and 2% size factor distribution of aid. Instead, overall funding is set at 27.2% of State funding for four-year institutions and is distributed based on FTES enrollment at each community college. In addition, the State allocates 2% of the marginal funding amount to community colleges eligible for the size factor component. The result is a formula that closely reflects any FTES enrollment changes at community colleges.

Full-time Equivalent Enrollment Adjustments

Chapter 591 of 2019 significantly altered the Pathways in Technology Early College Higher (P-TECH) school program. As part of the alteration, the Act also changed the way the Cade formula counts FTES at community colleges to add the credit hours earned by P-TECH students to that count.

Other State Support to Community Colleges

English Speakers of Other Languages Grants

Chapter 434 of 1995 established a grant program for students who are enrolled in English Speakers of Other Languages (ESOL) programs in community colleges. As initially established, the grants provided \$800 per student but capped total funding at \$1.0 million for all local community colleges and \$200,000 for BCCC, a State-operated community college. In effect, the caps limited the per pupil amount for the ESOL grant below the statutory amount of \$800 per student by 1998. The caps have been increased several times since, most recently to \$8.0 million for all local community colleges and \$1.3 million for BCCC by Chapter 658 of 2013.

Tuition Programs

For certain students, the State pays some or all of the difference between in-county and out-of-county or out-of-state tuition rates at community colleges. The three tuition programs are described below:

- The Health Manpower Shortage Program (\$6.0 million in fiscal 2025) pays the difference between in-county and out-of-county or out-of-state tuition rates for students enrolled in certain health programs.
- The Garrett County/West Virginia Reciprocity Program (\$142,488 in fiscal 2025) allows students from West Virginia to attend Garrett College at in-county rates with the State paying Garrett College an amount equal to full formula support for each West Virginia FTES enrolled under the agreement.
- The Somerset County Reimbursement Program (\$355,583 in fiscal 2025) allows students from Somerset County to attend Wor-Wic Community College at in-county rates with the State paying half of the difference between in-county and out-of-county rates and Somerset County paying the other half.

Community College Teacher Retirement Plans

Qualifying local community college employees are eligible to be members of one of two defined benefit plans. The first plan, available to employees hired before 1980, is the Teachers' Retirement System. The second plan, available to employees hired in 1980 or after, is the Teachers' Pension System. Both systems are maintained and paid for by the State and guarantee a monthly retirement allowance based on a predetermined formula.

Since 1975, the State has also offered a defined contribution plan, the Optional Retirement Program (ORP), in which certain community college employees may choose to enroll instead of

enrolling in a defined benefit plan. Under this program, the employer is required to make contributions toward investment products, but the employee contribution toward investment products is voluntary. The performance of the investment products determines the amount available to the employee upon retirement. Since 2009, the community colleges have been responsible for administering the ORP for their employees. The fiscal 2025 budget includes \$69.7 million for eligible employees participating in either the defined benefit retirement plan or the ORP.

Capital Funding

Community colleges receive State grant assistance for construction or improvement of facilities through two programs: the Community College Construction Grant Program and the Community College Facilities Renewal Grant Program, both of which are administered by MHEC. For the construction grant program, the level of State assistance is determined by two criteria: the proportion of a project that meets the eligibility requirements for State support; and the State/local cost-sharing formula prescribed by statute. For regional colleges, State support may provide up to 75% of project costs, while other community colleges may receive between 50% and 70%, depending on the wealth of the jurisdiction. Grants are funded through general obligation bonds issued by the State. For the renewal grant program, grants are provided for improvements, repairs, and deferred maintenance projects that total less than \$1.0 million and were submitted to the commission as part of an annual master plan or 10-year master plan. Statute requires the Governor to include in the annual budget of MHEC an appropriation to the renewal grant program in an amount equal to 5% of the annual appropriation for the construction grant program. The statute also specifies that the appropriation to the renewal grant program must be in addition to, and may not supplant, the amount appropriated to the construction grant program in the State budget.

Historical and Current Community College Funding

Operating Funding

In fiscal 2023, the most recent year for which data is available, the local community colleges and BCCC received a total of \$1.4 billion in revenue (including State paid benefits): \$451.6 million (33.6%) from the State; \$481.5 million (35.8%) from county governments; and \$43.6 million (3.2%) from federal and other sources (some auxiliary revenues are excluded in these numbers). Student tuition and fee payments comprised the remaining \$368.8 million (27.4%) of community college funding. The Cade formula is the source of the majority of State support for community colleges, at 79% in fiscal 2023.

The amount provided by each county government is governed by a maintenance of effort (MOE) provision, which requires counties to provide at least as much funding for community colleges as they provided in the previous fiscal year. Counties must adhere to the MOE requirement in order to receive aid increases under the Cade formula. If the local appropriation for a college is reduced from one fiscal year to the next, the college receives no more than the amount of Cade

funding that it received in the previous year. For regional colleges with more than one supporting county, local support in the aggregate must be at least as much as was provided in the previous year. However, the MOE requirement does not apply when State funding does not increase or declines from one fiscal year to the next.

The Board of Trustees of each community college is responsible for setting tuition and fees with a view to making college education available at low cost. For out-of-state students, the board is required to charge an additional fee, at least 60% of the amount of State support per FTES, on top of the regular tuition and fees paid by in-state students. However, there are a few specified exemptions.

Historical Overview of Funding Levels

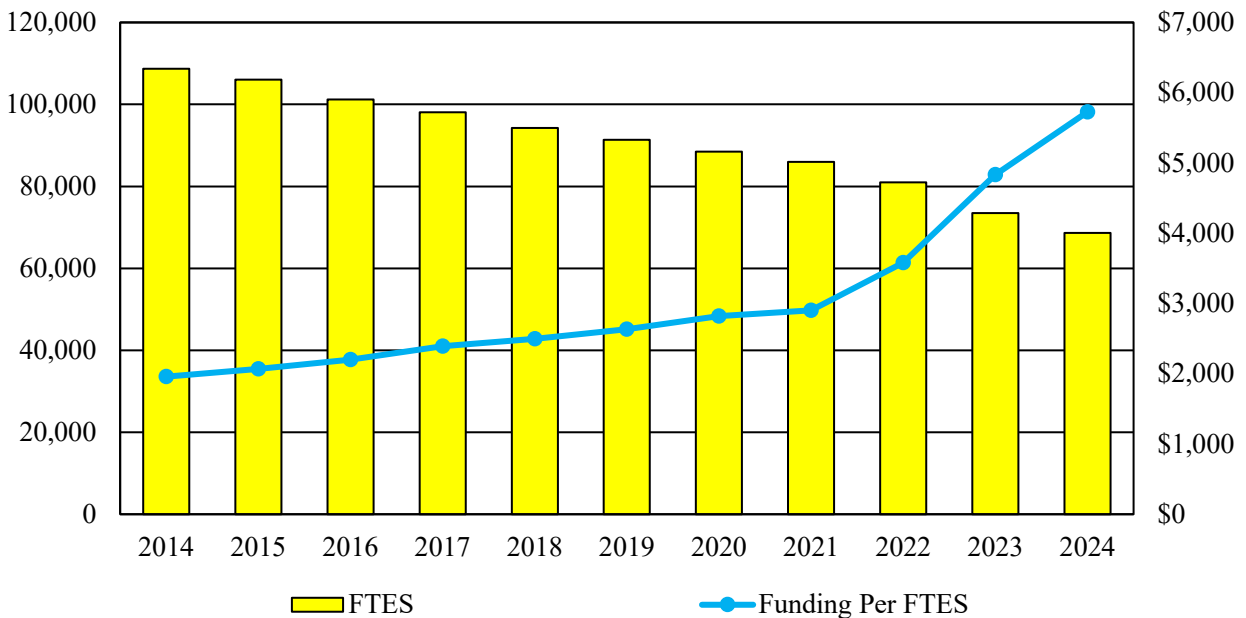
In its early years, the Cade formula set community college funding at 21% of the per FTES funding allocated to four-year institutions, with a target to increase this percentage to 25% by fiscal 2002. Over the next two decades, funding levels fluctuated, influenced by both economic conditions and increased demand for community college services.

Funding Trends in Recent Years

In recent years, Cade formula funding has seen both increases in total State appropriations and significant changes in per FTES funding due to declining student enrollment. From fiscal 2014 to 2024, total formula funding rose from approximately \$213.0 million to \$393.0 million, even as FTES enrollment declined by nearly 40% over the same period. The decline in FTES enrollment is consistent with national trends for two-year institutions.

Exhibit 2 shows that despite declining enrollment, per FTES funding has increased significantly, from \$1,958 in fiscal 2014 to \$5,726 in fiscal 2024. This rise is largely driven by public four-year institutions receiving more funding per FTES and the continued phase-in of the Cade funding percentage, even as community college enrollment decreased overall during this period.

Exhibit 2
FTES and Funding Per FTES Under the Cade Formula
Fiscal 2014-2024



FTES: full-time equivalent student

Source: Maryland Budget Books

Current Formula Components

The Cade formula now operates with two primary components:

- **Base Cost:** Accounts for the general operating needs of community colleges reflecting both fixed and marginal costs.
- **Size Factor:** Allocated additional resources to smaller institutions, ensuring they receive adequate funding despite lower enrollment.

Under the current structure, Maryland's community colleges are funded based on their FTES enrollment and their proportional share of statewide higher education funding. **Exhibit 3**

shows the distribution of \$384.8 million in Cade formula funding to the 15 locally controlled community colleges for fiscal 2025.

Exhibit 3
Cade Formula Funding for Community Colleges
Fiscal 2025

<u>College</u>	<u>FTES</u>	<u>Base Cost¹</u>	<u>Size Factor²</u>	<u>Total Grant</u>
Allegany	1,339	\$7,096,449	\$1,077,757	\$8,174,206
Anne Arundel	8,101	42,926,055	0	42,926,055
Baltimore County	13,011	68,948,700	0	68,948,700
Carroll	2,048	10,850,254	1,077,757	11,928,011
Cecil	1,163	6,164,331	1,077,757	7,242,087
CSM	3,893	20,629,234	0	20,629,234
Chesapeake	1,496	7,927,037	1,077,757	9,004,793
Frederick	3,914	20,743,431	0	20,743,431
Garrett	458	2,428,402	1,077,757	3,506,158
Hagerstown	2,517	13,336,505	1,077,757	14,414,261
Harford	3,406	18,046,557	0	18,046,557
Howard	6,237	33,050,277	0	33,050,277
Montgomery	13,189	69,889,139	0	69,889,139
Prince George's	8,502	45,054,348	0	45,054,348
Wor-Wic	1,911	10,124,166	1,077,757	11,201,923
Total	71,184	\$377,214,883	\$7,544,298	\$384,759,180

CSM: College of Southern Maryland

FTES: full-time equivalent student

¹ Based on the distribution of FTES in the second prior fiscal year.

² Distributed equally among the colleges with less than 80% of the statewide median of FTES in the second prior fiscal year.

Note: Numbers may not sum to total due to rounding.

Source: Department of Budget and Management; Department of Legislative Services

Potential Gaps in the Current Formula

Despite the overall increase in per FTES funding, the Cade formula does not account for several factors, including:

- the additional needs of nontraditional students, such as part-time or continuing education students, who are not included in FTES counts;
- equity concerns, particularly for institutions serving high numbers of low-income, minority, or first-generation students; and
- disparities in local wealth or local effort in supporting community colleges.

National Trends in Community College Funding

Community colleges, or two-year colleges, across the United States operate under a variety of governance structures that differ by state. In many states, these colleges are locally controlled by independent boards of trustees responsible for managing institutional operations and policy decisions. Funding for community colleges typically comes from a combination of state appropriations, local revenues, and student tuition. Smaller amounts come from other sources, such as state financial aid and federal programs. The Cade-funded community colleges in Maryland follow this model, with significant local support. In 2023, two-year institutions in 29 states received local appropriations, while only 7 states provided local appropriations to four-year institutions.

Comparing Maryland's Funding with National Trends

Maryland's funding for community colleges reflects some national trends but also differs in significant ways. Maryland's 15 locally controlled community colleges receive both State and local appropriations, similar to other states. According to the *2023 State Higher Education Finance* report, Maryland allocated \$11,238 per FTES in total State and local appropriations to two-year public institutions, closely tracking the U.S. average of \$10,488 per FTES. Notably, Maryland's community college funding model balances State and local contributions. Of the \$11,238 per FTES, \$5,549 came from State appropriations, \$5,570 from local governments, and \$119 from State financial aid.

In contrast, four-year public institutions in Maryland received \$11,229 per FTES in total appropriations, which included \$10,682 from State funds and \$546 from State financial aid. This reliance on State funding for four-year institutions, compared to the more balanced State-local funding model for community colleges, illustrates a unique aspect of Maryland's higher education funding system. Nationally, two-year institutions receive less in local appropriations than in Maryland – an average of \$3,432 per FTES compared to Maryland's \$5,570 – highlighting Maryland's stronger local support for community colleges.

While Maryland's per FTES appropriations for two-year (\$11,238) and four-year institutions (\$11,229) are nearly identical, nationally, two-year institutions generally receive less

overall support. On average, two-year institutions receive about 85.2% of the total funding that four-year institutions receive.

In addition to appropriations, institutions generate tuition revenue. According to the State Higher Education Executive Officers Association, net tuition revenue is the gross amount of tuition and fees minus state and institutional financial aid, tuition waivers, discounts, and medical student tuition. Nationally, two-year institutions received an average of \$2,593 in net tuition revenue per FTES, while four-year institutions received \$10,269 per FTES. As a result, in 2023, total education revenue per FTES was \$13,081 for two-year institutions and \$20,507 for four-year institutions. This difference underscores the higher total revenues available at public four-year institutions compared to two-year institutions.

Funding Mechanisms in Other States

Community colleges across the United States are funded through a variety of mechanisms, often reflecting the unique economic, demographic, and political landscapes of each state. Broadly speaking, states utilize three primary funding models for community colleges: enrollment-based funding; performance-based funding (PBF) or outcomes-based funding; and equity-focused funding. Some states employ a combination of these approaches to address distinct goals, such as improving student outcomes or addressing disparities among institutions serving different populations. In addition, approximately 14 states do not fund community colleges through a funding formula and a few others use other funding models. Some example states are discussed below, and **Appendix 2** contains brief information about funding in 39 states.

Common Themes in State Funding Models

Enrollment-based Funding

In this model, funding is largely determined by FTES enrollment, often multiplied by a per student allocation rate. States that rely on enrollment-based formulas aim to provide community colleges with financial stability proportional to the number of students they serve. This model is particularly prevalent in states with growing student populations or where student enrollment is used as a proxy for institutional demand. This approach, while straightforward, can create volatility in funding when enrollment fluctuates. Additionally, it does not account for the specific needs of certain student populations, such as low-income or underrepresented students, who may require more intensive support.

Examples include:

- **Arizona:** Arizona exemplifies the enrollment-based funding model with a system that adjusts state aid according to changes in FTES numbers across its community college districts. Arizona determines a base funding amount per FTES, which is adjusted annually

based on budgetary needs and state revenues. In addition, community colleges can request additional funds based on specific institutional needs.

- **New York:** Similar to Arizona, New York’s funding formula is primarily based on FTES enrollment. However, New York offers more flexibility by taking into account historical enrollment trends. Community colleges are funded based on the greater of two options: either their prior year’s FTES enrollment; or a weighted average of the previous three years. This model helps mitigate the impact of sudden enrollment declines, providing more stability to institutions with fluctuating student populations. New York establishes a set amount of funding per FTES, which is revised annually based on state budget allocations and institutional needs. The model also incorporates a “full opportunity” provision, which guarantees funding for colleges with open-admissions policies that serve large numbers of underprepared students. This provision helps to partially address equity concerns, though New York’s formula is primarily driven by enrollment.

Performance-based or Outcomes-based Funding

PBF, also known as outcomes-based funding, ties state allocations to specific performance metrics, such as student completion rates, transfer rates, or job placement outcomes. This model has grown in popularity as states seek to improve accountability in higher education by incentivizing institutions to focus on student success rather than just enrollment.

While performance-based models have gained traction, they are not without their challenges. Critics of these models argue that they can disproportionately harm institutions serving nontraditional or part-time students, who may take longer to complete their degrees or face greater barriers to success. Additionally, performance-based models often require detailed data collection and reporting processes, which can place an administrative burden on institutions.

Examples include:

- **Tennessee:** Tennessee is widely regarded as one of the pioneers of PBF, and its community college funding model serves as a benchmark for other states. Tennessee’s system, known as the Complete College Tennessee Act, uses outcomes-based funding metrics to allocate state resources to higher education institutions. Tennessee’s formula includes a wide array of metrics that focus on student success. These include graduation rates, student retention, degree completion, transfer rates, and job placement. Institutions earn funding based on their success in these areas, which are adjusted for institutional mission and student demographics to ensure fairness.
- **Ohio:** Ohio has developed one of the most comprehensive outcomes-based funding models in the country. Its State Share of Instruction model allocates a significant portion of state funding to community colleges based on student success and institutional performance. Ohio’s outcomes-based model rewards institutions for degree completion,

course completion, student progress, and transfer success. The system also includes success points for students who achieve key milestones, such as completing developmental courses or earning credentials in high demand fields. Ohio's system includes an equity component that weights outcomes differently for institutions that serve higher numbers of low-income or minority students.

Equity-focused Funding

Equity-focused models aim to address disparities in access to and success within higher education for historically underrepresented or underserved student populations. These funding models often allocate additional resources to colleges that serve higher proportions of low-income students, students of color, or first-generation college students.

Examples include:

- **Illinois:** Illinois operates a hybrid funding model for its community colleges that combines enrollment-based funding with an equity-focused mechanism known as the Equalization Grant. This grant system addresses disparities in local property tax revenues between community college districts, ensuring that colleges in less affluent areas receive additional state support to compensate for their lower local funding capacity.

In more detail, a base foundation level of expected property tax revenue per FTES is established for all community college districts as a benchmark. The local revenue per FTES is calculate for each district, based on property taxes and other local funding. Districts with local revenues below the statewide foundation level are eligible for equalization funding. If state appropriations are insufficient to meet the fully funded threshold for Equalization Grants, the Equalization Grants are prorated. All community college districts that fall below the calculated foundation level are eligible for the grant. Additionally, a minimum Equalization Grant of \$50,000 is provided to ensure that eligible colleges do not lose funding if the state under appropriates in a given fiscal year. For example, in fiscal 2021, the equalization threshold was prorated at 78.4% due to underfunding by the state. The total equalization formula calculation was \$163.6 million, but the appropriation was only \$71.2 million.

- **California:** California's Student-Centered Funding Formula (SCFF) allocates community college funding based on enrollment, student need, and student success. The base allocation (70%) is primarily tied to the number of FTES, while the supplemental allocation (20%) provides additional funds for colleges based on the number of low-income students, including recipients of Pell Grants, College Promise Grants, and AB 540 students (undocumented students exempt from nonresident tuition under California law). The student success allocation (10%) rewards colleges for metrics like degree completion, transfers, and students earning a regional living wage, prioritizing outcomes for

underserved populations. These technical components aim to balance enrollment with targeted support for institutions serving disadvantaged students.

National Trends and Maryland's Context

In recent years, many states have transitioned away from purely enrollment-based funding models toward equity-focused and performance-based approaches, recognizing the need to not only increase student access but also to improve student outcomes and close equity gaps.

Equity Considerations: States such as California and Illinois have incorporated equity metrics, acknowledging that institutions serving a higher proportion of disadvantaged students often face additional challenges. Maryland could similarly consider revising the Cade formula to include equity-focused components, particularly as the Blueprint for Maryland's Future emphasizes narrowing achievement gaps across kindergarten through grade 12 education.

Shifts Toward Performance-based Funding: As states increasingly seek to improve completion rates, many have introduced performance-based metrics into their funding formulas. However, these models vary in scope and implementation, with some states using PBF as a supplemental funding mechanism, while others, like Tennessee and Ohio, rely heavily on these metrics.

Considerations for Maryland's Potential Funding Modernization

As Maryland looks at options to modernize the Cade formula, it is important to draw on lessons from other states while also considering the specific needs and context of Maryland's community colleges. The survey of other states highlights several national trends that could inform Maryland's approach, including a shift toward performance-based and equity-focused funding models. However, Maryland must also address unique local considerations, such as the financial pressures facing smaller community colleges, rising operational costs, and the evolving needs of an increasingly diverse student population.

1. Equity-focused Funding Components for Targeted Support

An equity-focused funding component is a consideration that emerges from the survey of other states, particularly from states like Illinois and California that have integrated equity-based measures into their community college funding formulas. These models allocate additional resources to colleges serving higher numbers of disadvantaged students, recognizing that institutions with large populations of low-income, minority, or first-generation students face greater challenges in promoting student success.

Illinois, in particular, has developed a hybrid model that combines enrollment-based funding with an Equalization Grant, which aims to reduce disparities in local funding levels. This

equity component ensures that community colleges in lower-income areas receive additional state support to offset disparities in local property tax revenues. Illinois' model could be illustrative for Maryland, where significant disparities exist in the local wealth of jurisdictions that support community colleges. By incorporating an equalization or equity-based component, Maryland could better ensure that community colleges in underresourced areas receive the financial support necessary to provide quality education and support services.

Alternatively, a model such as California's, which incorporates both enrollment levels and student need through the distribution of funds based on metrics such as the number of Pell Grant recipients, could further enhance equity in funding. California's SCFF allocates additional resources to districts serving larger populations of low-income students, helping them address the unique needs of disadvantaged students and improve student success outcomes. This approach not only recognizes enrollment but also incentivizes support for students facing greater financial challenges, aligning financial resources more closely with the needs of the student population.

Building on the models of states like Illinois and California, Maryland could introduce a weighted student funding formula that provides additional financial support for colleges serving higher proportions of low-income, minority, or first-generation students. This approach would align with the goals of the Blueprint for Maryland's Future by promoting educational equity and ensuring that institutions serving students with the greatest needs have the resources to offer support services, tutoring, and programs aimed at improving retention and completion rates.

The data on Pell Grant recipients shown in **Appendix 1** is an example of the type of data that could serve as a foundational metric for implementing equity-focused funding components in Maryland's community college system. By focusing on the percentage of students receiving Pell Grants – a federal program that provides financial aid to low-income students – policymakers can allocate additional resources to colleges serving higher proportions of financially disadvantaged students. Institutions like Wor-Wic Community College, with a Pell Grant rate of 49.0%, and Garrett College, with a 45.0% rate, serve a larger share of low-income students compared to colleges such as Anne Arundel Community College (20.1%). This data highlights disparities in student demographics and can be used to distribute funding more equitably, ensuring that colleges with higher concentrations of low-income students receive the necessary resources to provide support services, financial aid advice, and academic support that helps close achievement gaps.

2. Performance and Outcomes-based Metrics: Rewards and Risks

One of the most significant trends emerging from the survey of other states is the adoption of PBF. States such as Tennessee and Ohio have successfully implemented models that tie funding to student outcomes, including graduation rates, job placement, and transfer success. Maryland could consider integrating performance-based metrics into the Cade formula to incentivize community colleges to improve student success, particularly for low-income and underrepresented students. Such a model could focus on critical outcomes such as degree completion, student

retention, and post-graduation employment, aligning with the Blueprint for Maryland's Future goals of educational equity and workforce development.

However, the adoption of PBF comes with challenges. According to the Education Commission of the States, research indicates that these policies have produced mixed results in improving student outcomes. Critics argue that such models may unintentionally disadvantage institutions serving the most vulnerable populations, as these colleges face greater challenges in improving metrics such as graduation rates and job placement. There is also concern that institutions may shift focus from educational quality to metrics that secure more funding, leading to unintended consequences such as lowering academic standards or diverting resources away from nontraditional students. As such, any consideration of performance-based metrics must carefully weigh the potential benefits against the risk of exacerbating inequities or distorting institutional priorities.

3. Reintroducing Fixed Costs and Stabilizing Smaller Institutions

The survey of other states revealed that some states, particularly those with large rural populations, provide additional support to smaller community colleges through fixed cost components or special grants. Reintroducing a fixed cost component into the Cade formula could help Maryland's smaller colleges that have higher per student operational costs, particularly those in rural or underserved areas. This approach could ensure that essential operational expenses, such as facility maintenance and staff salaries, are adequately covered, even as enrollment fluctuates. This could be paired with a percentage change cap that limits year-to-year variations in funding, providing more budgetary stability for smaller institutions.

4. Reevaluating Higher Education Funding: Alignment vs. Decoupling

Since its establishment in 1996, the Cade formula has been directly linked to the State's public four-year institutions, with community college funding based on a set percentage of per-student support at four-year universities. This alignment has provided financial stability and ensured that community colleges benefit from any increases in funding for Maryland's higher education system. This structure is part of Maryland's broader higher education funding approach, with BCCC and the Sellinger funding formula for nonprofit private colleges also tied to the funding levels of public four-year institutions. The integration of community colleges, BCCC, and nonprofit four-year institutions into the public higher education funding framework has been a hallmark of Maryland's system, creating consistency across diverse types of institutions.

However, as Maryland considers options for modernizing the Cade formula, it may be worth exploring whether this alignment still best serves the unique needs of the State's community colleges. Community colleges have a distinct mission that differs from four-year institutions and private institutions, with a focus on workforce development, technical education, and providing affordable access to a diverse and increasingly nontraditional student body. Decoupling community college funding from four-year institutions could allow for a more tailored approach

that better addresses the unique challenges of these institutions, such as fluctuating enrollment, regional economic demands, and the costs associated with workforce training programs. However, any move to decouple must be carefully considered, as this historical alignment has provided a predictable and stable funding structure that integrates community colleges into the broader higher education ecosystem.

Incorporating inflation adjustments into the Cade formula is another potential modernization effort that could complement either maintaining or decoupling from the four-year funding model. Over time, inflationary pressures have significantly increased operational costs for community colleges, including personnel expenses, infrastructure needs, and program delivery.

If the Cade formula is decoupled from the funding model for four-year institutions, incorporating an inflation index like the Implicit Price Deflator (IPD) would help address community college-specific cost pressures more directly. The IPD could ensure that operational costs – such as personnel, infrastructure, and program delivery – are regularly adjusted for inflation, offering better financial predictability. This would protect community colleges from stagnant funding and align resources with actual economic conditions, ensuring that they can continue to deliver high-quality education as costs rise.

As Maryland seeks to modernize its community college funding structure, balancing the historical alignment with four-year institutions against the need for flexibility and inflation-adjusted funding is essential. Decoupling could offer community colleges the autonomy to receive funding more reflective of their specific mission, while maintaining the alignment offers continued integration with Maryland's broader higher education system. Any modernization effort must carefully weigh these considerations to ensure that community colleges, and the students they serve, are adequately and sustainably supported.

5. Broadening Eligible Full-time Equivalent Students and Clarifying Enrollment Definitions

Another consideration that emerged is potentially broadening the definition of eligible FTES for funding purposes. Currently, certain groups, such as continuing education students and learners in noncredit courses, are not included in FTES counts. Maryland could consider expanding the definition of FTES to include more nontraditional students, such as adult learners and part-time students, who increasingly make up a significant portion of the community college population. Broadening the eligible FTES base could provide more accurate funding that reflects the true scope of student enrollment and institutional costs. This could include accounting for noncredit workforce training programs, lifelong learning initiatives, and other educational pathways that serve a growing number of students.

6. Using Accessible and Efficient Data Metrics

One key consideration in any funding formula is the need for metrics that are easy to collect, access, and analyze. Formulas that rely on data already being collected annually can be implemented quickly, accurately, and fairly without placing a significant additional administrative burden on institutions. When designing or modernizing funding formulas, particularly those that incorporate equity components, it is essential to choose metrics that are readily available and verifiable. This ensures that the formula can operate transparently and consistently without creating complex reporting requirements that strain college resources. By using data points that institutions are already tracking, such as student demographics, enrollment, and outcomes, the funding process remains efficient, cost-effective, and scalable. This approach not only promotes fairness but also allows institutions to focus more on delivering education rather than managing administrative overhead.

Appendix 1. Community College Pell Recipients

Fiscal 2023

<u>Community College</u>	<u>Calculated Pell Rate</u>	<u>Total Pell Recipients</u>	<u>Total Undergraduate Students</u>
Allegany	43.5%	893	2,054
Anne Arundel	20.1%	2,384	11,857
Baltimore City	41.4%	1,712	4,135
Baltimore County	32.4%	5,759	17,759
Carroll	19.9%	507	2,547
Cecil	32.9%	541	1,644
CSM	25.1%	1,375	5,478
Chesapeake	34.2%	562	1,643
Frederick	24.3%	1,215	4,997
Garrett	45.0%	194	431
Hagerstown	37.2%	1,254	3,374
Harford	25.7%	1,212	4,715
Howard	30.5%	2,808	9,204
Montgomery	25.0%	4,898	19,566
Prince George's	34.3%	3,922	11,443
Wor-Wic	49.0%	1,212	2,474

CSM: College of Southern Maryland

Appendix 2. Detailed Survey of Other States

States Breakdown of Funding Formulas

Alabama: The Alabama Legislature considers the Governor's and Commission on Higher Education budget request for the Alabama Community College System (ACCS). While there is no set funding formula, once the Education Trust Fund (ETF) cap and Higher Education's percentage of the total ETF are determined, the legislature finalizes an appropriation for ACCS. ACCS then allocates funds to community colleges based on individual needs.

Arizona: Arizona's state aid funding formula is adjusted for each district to reflect the increase or decrease in full-time equivalent students (FTES) for the most recent fiscal years. The formula involves calculating the increase or decrease in FTES between the second and third most recent fiscal years and determining the average appropriation per FTES across all districts. Additional state aid can be allocated based on district budget requests, provided districts meet specific requirements such as adequate infrastructure and a minimum of 320 full-time students.

Arkansas: Arkansas employs a productivity-based funding model for state-supported institutions of higher education. The Arkansas Higher Education Coordinating Board develops policies for two- and four-year institutions, which are reviewed every five years. The model prioritizes completion of students' educational goals, progress toward degrees, affordability, transfer success, and service to underrepresented students, among other factors. Funds unallocated due to productivity declines are reserved for statewide higher education needs.

California: California uses a hybrid formula that it considers student centered. This model allocates 70% for a base allocation primarily based on enrollment, 20% for a supplemental allocation, and 10% for student success metrics. The base allocation is tied to the number of institutions within each district, while supplemental allocations consider the number of students receiving the College Promise Grant or Pell Grant. The student success allocation focuses on metrics such as transfer rates and completion of career education units.

Colorado: Colorado's funding model includes fee-for-service contracts, performance funding, and additional funding components. Performance metrics include full-time equivalent student enrollment, credential completion, Pell-eligible student share, minority student share, and graduation rates. The legislature determines funding allocations after considering recommendations from the Colorado Commission on Higher Education.

Florida: Florida utilizes a performance-based funding (PBF) model with 10 key metrics, including institutional excellence and improvement. The state sets benchmarks for both categories, and institutions are evaluated based on one-year analytics. The Board of Governors, Executive Branch, and legislature collectively determine new state funding allocations and institutional base appropriations.

Idaho: In Idaho, the community college budget appropriation consists of state general fund allocations and liquor tax distributions. The state does not appropriate funds from local property taxes, tuition, fees, or county tuition, meaning community colleges rely on non-state revenue sources for additional financial support.

Illinois: Illinois provides base operating grants to community colleges based on credit hours generated in six reimbursable instructional categories. The funding formula multiplies funded credit hours by the effective credit hour rate, which is adjusted for inflation. The proration factor is applied when necessary to balance state appropriations. However, there are also equity focused elements, such as equalization grants, designed to address disparities in property tax wealth between districts. These grants help ensure that colleges in areas with lower property values receive additional state funding to provide roughly equivalent financial resources compared to wealthier districts.

Indiana: Indiana's Ivy Tech community college system uses an outcomes-based funding formula aligned with the state's long-range plan for higher education. The formula prioritizes employer needs, positive wage outcomes, and stackable credentials. The state reviews and updates the formula biennially.

Iowa: Iowa's community college funding model uses three subformulas based on the annual inflation rate. Subformula components include general increases, allocations based on FTES enrollment, and funding favoring colleges with high growth in FTES. The allocations adjust based on the inflation rate, ensuring budget flexibility.

Kansas: Kansas utilizes a cost-based funding model for community and technical colleges. Tiered courses are funded based on infrastructure and instructional costs, while nontiered courses consider institutional and instructional support costs. The course rates are multiplied by eligible credit hours to calculate total funding.

Kentucky: Kentucky's performance funding model allocates 35% of funds based on student progression and credential production, 35% based on earned student credit hours, and 30% for campus infrastructure and services. The model prioritizes student retention, degree completion, and high-wage job preparation in science, technology, engineering, and mathematics (STEM) and high-demand fields.

Louisiana: Louisiana's Board of Regents oversees an outcomes-based funding model. The formula consists of base funding, cost metrics, and outcomes measures that account for student success and institutional role. A portion of the funding is tied to economic development and workforce needs, reflecting the state's emphasis on alignment with postsecondary goals.

Massachusetts: Massachusetts splits its community college funding 50/50 between base funding and performance funding. The base allocation is determined by student credit hours, while performance funding considers college completion rates, closing achievement gaps, and adding credentials in high-demand fields.

Michigan: Michigan allocates 30% of funds for base operations, 30% based on contact hours, and 10% for performance improvement metrics. Administrative costs and local strategic value initiatives are also factored into the funding formula, ensuring a balanced approach to operational and performance needs.

Minnesota: Minnesota's PBF model is driven by goals such as degree completion, postgraduate employment, and cost efficiency. The formula incentivizes institutional improvements and systemwide streamlining to benefit students.

Mississippi: Mississippi's student-based funding formula incorporates net enrollment, district sparsity, and base student cost, adjusted for local contributions. Hold harmless provisions ensure districts do not experience drastic funding reductions year-over-year.

Missouri: Missouri uses a performance funding model that prioritizes student degree completion, workforce readiness, affordability, and institutional efficiency. Institutions are rewarded for producing graduates and maximizing student success metrics.

Montana: Montana applies a dual scenario funding model that either continues the use of previous factors or adopts a proposal from community college presidents. The state uses FTES increases and weighting factors to distribute funding equitably.

Nebraska: Nebraska's state aid formula includes equalization, reimbursable educational units, and a projected growth component. The formula distributes 18% of funding equally among colleges and allocates the remaining 70% based on a three-year average of reimbursable educational units.

Nevada: Nevada's funding formula uses weighted student credit hours as the basis for distributing general fund appropriations. Additional funding components include small institution support, research space funding, and performance-based set-asides.

New Hampshire: New Hampshire is in the process of developing a formal funding formula for its community colleges.

New Jersey: New Jersey's funding model includes base aid, enrollment aid, performance aid, and diversity incentives. Each college receives a base allocation, and the remaining funding is distributed proportionally based on enrollment and performance metrics.

New Mexico: New Mexico's PBF formula redistributes prior year base funding and new money based on institutional performance. Institutions are rewarded for total awards, STEM and health-related degrees, at-risk student completions, and end-of-course credit hours.

New York: New York's community college funding model is based on funded FTES enrollment, with provisions for funding full-opportunity colleges that provide open admissions and extensive student support services.

North Carolina: North Carolina's workforce-focused funding model, Propel NC, categorizes courses into workforce sectors such as healthcare, advanced manufacturing, and information technology. The formula allocates funds based on the number of FTES and workforce sector demand.

North Dakota: North Dakota's funding formula is based on completed student credit hours, adjusted for instructional program costs, institutional size, and inflation factors. The formula ensures equitable distribution across institutions with varying sizes and missions.

Ohio: Ohio's State Share of Instruction State formula allocates 50% of funds based on course completions, 25% on student success metrics, and 25% on completion milestones such as degrees and transfers to four-year institutions.

Oklahoma: Oklahoma's PBF model is goal-driven, focusing on increasing degrees and certificates, raising median household income, and reducing poverty rates. Institutions are measured by retention rates, graduation rates, and Pell Grant retention.

Oregon: Oregon's student-focused distribution model funds colleges based on FTES enrollment and local property tax revenues. The state dedicates 10% of funds to support equity and success outcomes for underrepresented students.

Rhode Island: Rhode Island's PBF formula allocates unrestricted state revenue based on student completion, incremental milestones, and certificate achievements in high-demand fields. Weights are assigned to performance metrics based on institutional mission and state needs.

Tennessee: Tennessee's outcomes-based funding formula rewards institutions based on overall student success, focusing on degree completion, workforce readiness, and success among underrepresented populations.

Texas: Texas employs an outcomes-based formula that emphasizes completions and transfers for adult learners and economically disadvantaged students. The formula includes provisions for dual-credit course completions and low taxable-valuation districts.

Utah: Utah's PBF formula incentivizes timely degree completion and alignment with high-wage, high-demand jobs. The state allocates additional funds based on workforce outcomes.

Virginia: Virginia's outcomes-based funding model emphasizes completion of core college-level math and English courses, retention, progression, and degree/certificate attainment.

Washington: Washington uses a base-plus funding method, adjusting allocations based on changes in need, legislative priorities, and student retention and progression metrics.

West Virginia: West Virginia's PBM applies primarily to four-year colleges, with an emphasis on degree completion and postgraduate employment outcomes.

Wisconsin: Wisconsin's outcomes-based funding formula prioritizes job placement, degrees in high-demand fields, dual enrollment participation, and transition from adult basic education to skills training.

Wyoming: Wyoming's funding model includes fixed and variable costs and a four-year performance review based on FTE enrollment. To qualify for state aid, districts must meet criteria related to accreditation and local property tax levy.