

Adopt the Concept of a Tiered Cost Model for Funding Technical Education

Summary and Staff Recommendation

Kansas law requires the Postsecondary Technical Education Authority (the Authority) to “develop and recommend to the state board of regents (the Board) a credit hour funding distribution formula for postsecondary technical education training programs that (i) is tiered to recognize and support cost differentials in providing high-demand, high-tech training, (ii) takes into consideration target industries critical to the Kansas economy, (iii) is responsive to program growth and (iv) includes other factors and considerations as deemed necessary or advisable. Furthermore, the Authority shall establish and recommend to the state board of regents the rates to be used in such funding distribution formula.” In Spring, 2008, the Authority directed staff to work with the institutions that deliver technical education to launch the effort to move the system toward this new approach to state funding. Over the course of this past year, the entire system has engaged in transitioning all courses from clock hour to credit hour, the design and development of the tiered cost model envisioned in the first part of the statutory language, and in building the data system to support the new approach prescribed in the statute. The Authority has been updated regularly on progress and has provided invaluable guidance and direction to the effort. At this juncture, it seems appropriate to get the “green light” from the Authority and then the Board before proceeding to the next phase -- the development of a plan and funding request for presentation to the Governor and Legislature. Staff recommends the adoption of the concept of the tiered cost model for approved postsecondary career technical education programs.

June 1, 2009

Background

The Kansas Board of Regents initiated a policy discussion in 2005 about postsecondary technical education and long-standing concerns among policymakers about its governance, programs, and funding. Over the past four years, significant changes have occurred, including the creation of the Kansas Postsecondary Technical Education Authority in 2007. Much of the Authority’s effort has been focused on improving governance, aligning programs, and improving funding.

With regard to governance, previously postsecondary technical education programs were delivered by institutions with a variety of governance structures that ranged from a single local school board to an elected board of trustees. Governance reform initiatives have resulted in a state system of technical and community colleges, with independent governing boards, that are accredited, or on a pathway toward accreditation, by the Higher Learning Commission.

With regard to programmatic issues, previously some programs were based on clock hours while others were based on college credit hours. Today, all career technical education programs and courses have been transitioned to college credit hours. Program reform initiatives are ongoing through a statewide alignment project to ensure state funded technical programs are consistently meeting the needs of business and industry and reducing the amount of program variability among the institutions.

With regard to state funding, today there are 26 institutions that receive state funding for delivering technical education programs. The source and amount of state funding for that education varies from institution to institution depending on an institution’s structure as well as its history and the institutional decisions previously made.

- Six technical colleges (Flint Hills Technical College, Manhattan Area Technical College, North Central Kansas Technical College, Northwest Kansas Technical College, Salina Area Technical

College, and Wichita Area Technical College) receive state funding through two SGF line-item appropriations -- State Postsecondary Aid for Vocational Education and Capital Outlay. The technical colleges do not have local taxing authority and are primarily dependent upon state appropriations

- Six community colleges that merged with area vocational-technical schools after 1992 (Coffeyville CC/AVTS, Hutchinson CC/AVTS, Johnson CC/AVS, Kansas City CC/ATS, Seward County CC/Southwest Kansas ATS, Highland CC/Northeast Kansas Technical College receive postsecondary aid for technical programs that were in place at the time of merger and other technical credit hours are submitted as part of the community college operating grant.
- One community college merged with an area vocational-technical school after 1992, Dodge City CC/AVTS elected, at the time, to operate its programs as credit hour programs and, therefore, receives funding through the community college operating grant.
- Two community colleges that originally combined with area vocational-technical schools (Cowley County CC/AVTS and Pratt CC/AVTS) receive funding for technical programs through the community college operating grant.
- Kaw Area Technical School affiliated with Washburn University and receives funding through Postsecondary Aid.
- The other 10 community colleges receive funding for technical programs through the community college operating grant.

To address the need for funding reform the legislature directed the Postsecondary Technical Education Authority to develop and recommend a new approach for funding technical education delivered by two-year public postsecondary institutions. Initially in the form of a proviso, this direction has now been codified through the 2009 amendment to K.S.A. 2008 Supp. 72-4482. The Authority authorized an ad hoc workgroup comprised of institutional representatives and staff to establish and prepared an initial “straw man” proposal. The ad hoc workgroup developed a tiered cost model as the foundation for the new approach to funding. This tiered cost model and its various elements have been shared with all institutions through regularly scheduled meetings during the past year and periodic updates during Authority meetings.

Tiered Cost Model for Funding Technical Education

The new funding approach for technical education funding is based on a cost model – what should it cost to deliver a technical education course? The model, to be applied only to technical programs, is comprised of three cost components: Instructor costs, Extraordinary Costs, and Indirect costs.

- Instructor Costs. Program tier rates were based on an analysis of direct instructional costs as reported in the Kansas Study. The Kansas Study, originally funded through a federal grant, is a national instructional cost study conducted annually by Johnson County Community College. This study is similar to the Delaware Study, a study that collects cost information from universities. Using the classification of instructional programs (CIP) code for each program, staff identified categories based on average direct costs -- faculty salaries. A typical standard deviation model is used to identify six “tiers” of direct instructor costs for technical education programs. The rate for each tier is based on the average cost of the programs in that tier. Based on the data used to design the model, the tier rates would be as follows:

- Tier 1 \$ 85
 - Tier 2 \$ 118
 - Tier 3 \$ 123
 - Tier 4 \$ 139
 - Tier 5 \$150
 - Tier 6 \$205
- Extraordinary Costs. Instruction in most technical programs typically provides intensive, hands-on learning opportunities for students to acquire and perfect technical skills to meet the workforce needs of business and industry. As a result, many technical programs require additional supplies, materials and expensive equipment. To assist in determining a state rate for extraordinary costs, institutions were asked to submit five years of actual expenditure data reflecting these types of expenses for specific technical program areas. Staff then grouped the identified extraordinary program costs into categories based on the information received. Based on the data used in the design of the model, the rates for extraordinary costs would be as follows:
 - High Cost \$ 100
 - Medium Cost \$ 50
 - Low Cost \$ 25
 - None \$ 0
 - Indirect Costs. This category includes the overhead costs associated with administration, facilities, maintenance and student support services incurred by an institution in the delivery of technical education programs. The amount for indirect costs was based on information contained in the annual Kansas Community Colleges Enrollment and Financial Statistics Report (43.5% of instructional costs) and the Tier 3 program rate ($\$123 * .435$) to establish a \$53.50 indirect cost rate for each technical credit hour delivered.

The following examples illustrate the components of the model for a practical nursing student and medical office assistant.

Tiered Cost Calculation Example
Sample Semester Schedules

Student A--51.1613 Practical Nursing Student (Tier 6 Program Rate \$205)

Course Calculations

Courses	Cr. Hr.	Tier Rate	Extraordinary Rate		Instructor	Extraordinary	Indirect	
Anatomy and Physiology	4	\$205	\$100		\$820	\$400	\$214	
KSPN Foundations of Nursing	4	\$205	\$100		\$820	\$400	\$214	
KSPN Foundations of Nursing Clinical	2	\$205	\$100		\$410	\$200	\$107	
KSPN Medical Surgical Nursing I	4	\$205	\$100		\$820	\$400	\$214	
KSPN Medical Surgical Nursing I Clinical	3	\$205	\$100		\$615	\$300	\$161	
Total Credit Hours	17				Total Costs	\$3,485	\$1,700	\$910

Total Per Student Amount = \$6,095

Student B--51.0710 Medical Office Specialist (Tier 1 Program Rate \$85)

Course Calculations

Courses	Cr. Hr.	Tier Rate	Extraordinary Rate		Instructor	Extraordinary	Indirect	
Intermediate Document Processing	3	\$118	\$0		\$354	\$0	\$161	
Advanced Document Processing-Medical	3	\$118	\$0		\$354	\$0	\$161	
Medical Billing/Coding	3	\$85	\$0		\$255	\$0	\$161	
Computerized Medical Office Management	3	\$85	\$0		\$255	\$0	\$161	
Word Processing	1	\$85	\$25		\$85	\$25	\$54	
Spreadsheets	1	\$118	\$25		\$118	\$25	\$54	
Database	1	\$118	\$25		\$118	\$25	\$54	
Internship I	2	\$139	\$50		\$278	\$100	\$107	
Total Credit Hours	17				Total Costs	\$1,817	\$175	\$910

Total Per Student Amount = \$2,902

Staff Recommendation

To facilitate continued development of the new funding approach, staff recommends adoption of the concept of the tiered cost model. Additional work will be done over the course of the summer and fall regarding actual application of the model, potential incentives, and other policy issues as the Authority and Board develop a plan for presentation to the Governor and Legislature.