

# Financing California's Community Colleges

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# Foreword

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Although California’s higher education system resembles many others, its level of success has been unique. One policy historian, John Aubrey Douglass, traces much of that success to “the California idea,” the Progressive-era notion that public colleges and universities should combine broad access, affordability, and quality. Many states have built systems with one or two of these features, but California became a world leader in higher education by combining all three. The key to this system, enshrined in the 1960 Master Plan for Higher Education, is a three-part, reasonably coordinated structure encompassing the California Community Colleges (CCC), California State University (CSU), and University of California (UC) systems. That structure has been a bargain for taxpayers as well as for students; as Douglass notes, the cost per college student funded by state taxpayers has remained at or just below the national average for over four decades.<sup>1</sup>

For the state’s higher education system to remain successful, each of its three segments must fulfill its role under the Master Plan. But as Patrick Murphy notes in his report, there is increasing evidence that the CCC system, by far the largest segment, faces serious financial challenges. Its revenue growth has suffered relative to CSU and UC, and given the exigencies of Proposition 98, it finds itself competing for resources with the even larger and more politically visible K–12 system. These challenges become even more daunting when one considers the state’s projected enrollment growth—the so-called Tidal Wave II—and the demands that this growth will make on our community colleges. If the CCC system cannot come to grips with its resource shortages and inefficiencies, the entire higher education system may lose one or more of the three features that account for its success.

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<sup>1</sup>John Aubrey Douglass, *The California Idea and American Higher Education: 1850 to the 1960 Master Plan*, Stanford University Press, 2000, p. 318.

As PPIC's first report on higher education, Murphy's study targets a significant but largely neglected set of policy issues. We trust his analysis and recommendations will draw thoughtful attention to these issues and thereby help to preserve a higher education system that deserves its renown—and our support.

David W. Lyon  
President and CEO  
Public Policy Institute of California

# Summary

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As the state addresses its future social and economic challenges, California's community colleges will be expected to play a significant role in the development of its human capital. Providing access to higher education for 1.6 million Californians, the community colleges already are making a major contribution to the education and training of the state's workforce. In addition, the community colleges often represent the only higher education option for many of California's low- and moderate-income residents. The system also accounts for a disproportionately large share of African Americans, Native Americans, and Latinos who are attending state higher education institutions.

How well the community colleges will respond to the challenges of contributing to the human capital of the state's workforce is difficult to predict, particularly during the current economic climate. Many elements will factor into that equation, with finances being one of the most critical. The level of resources available to the system and how those funds are distributed will affect both the quality of its instruction and the number of people with access to these services.

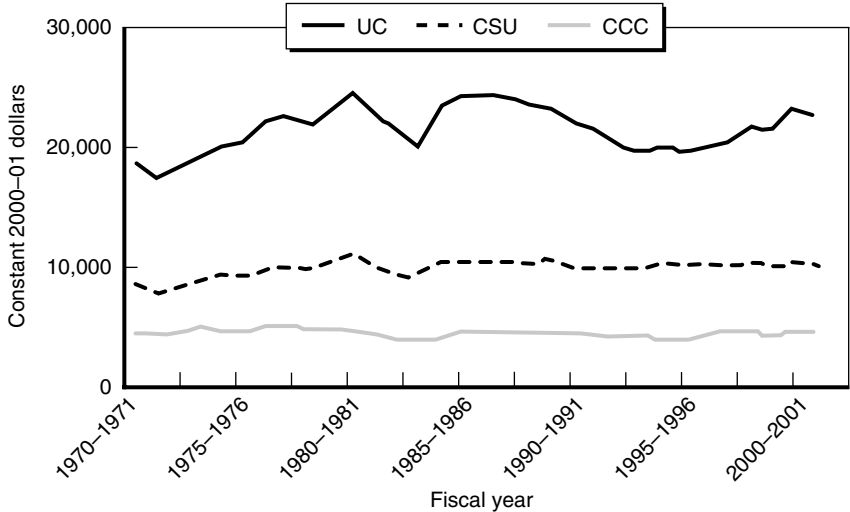
This report offers a baseline description of California Community College (CCC) financing in an effort to assess how well the system can meet the challenges of the future. It focuses on three questions regarding the financing of California's community colleges.

**How does financing for California community colleges compare to financing for other educational institutions in the state and in other states?**

Although revenues for California's community colleges have grown in absolute terms, they essentially have kept pace with rising prices and growing enrollments. Revenue per full-time-equivalent student (FTES) for the CCC system grew 4 percent between 1971 and 2001; per student

revenue for the University of California (UC) system increased 23 percent in real terms over that period. California State University (CSU) resources grew slightly faster, with revenue per FTES rising 24 percent after adjusting for inflation (Figure S.1). The mission of the UC and CSU systems has not changed so radically in the past 30 years, at least relative to the CCC system, that it would account for such a large increase in proportional funding. One is left to conclude that the state simply places a higher priority on the UC and CSU systems than on the community colleges. The 2003–04 budget did represent a departure from historical funding trends. The net effect of cuts and fee increases saw the total revenue for the community colleges increase very slightly, whereas available funds for the UC and CSU systems declined 1.0 and 2.0 percent, respectively.

Elected officials in Sacramento appear to place a higher priority on elementary and secondary education than on CCC system funding. Again, the state has historically provided more resources to K–12 education and the gap has been growing. In 1988–89, the CCC system



SOURCE: California Postsecondary Education Commission (2002, Displays 13–15).

**Figure S.1—State and Local Revenue per FTES for California Higher Education, 1970–02**

received \$2,765 from the state general fund and local property taxes for each FTES compared to \$3,534 per average daily attendance (ADA) in the K–12 system—a difference of 24 percent. In 2001–02, K–12 received 44 percent more resources than the CCC system on a per student basis (\$4,357 per FTES compared to \$6,291 per ADA in K–12).

For those familiar with the provisions of Proposition 98, it may come as a surprise that this funding gap could expand that significantly. Proposition 98 and its implementing legislation appear to guarantee a stream of revenue to both systems as a function of the state’s total receipts. Instead, it has pitted the CCC system against the K–12 schools in a zero-sum competition over Proposition 98 funds, the largest source of revenue for both systems. It is a contest that the community colleges have lost consistently for the last 10 years as the state legislature has suspended the legislation that guaranteed the community colleges a specific share of the Proposition 98 funding pool.

Although their resources have grown at different rates in recent years, the state’s community colleges do share with the K–12 system the distinction of being funded at a relatively low rate in national terms. Using data from the federal National Center for Education Statistics (NCES), the CCC system ranked 45th in per FTES revenue out of 49 states in the analysis for 1999–00. The CCC system revenue levels were ahead of those in Arkansas, Tennessee, Nevada, and Virginia. Wisconsin led the list, providing almost twice the level of funds for its community colleges as California. The national average revenue for public, two-year colleges was 23 percent higher than the revenue in California.

### **Are there differences in revenues across districts and what accounts for them?**

Public education financing, particularly in systems that rely on local property taxes for a major portion of their revenue, has a long history of disparate funding at the local level. This project examined per student revenues across districts and found such disparities. The chancellor’s office reported that the state’s 72 community college districts received a

total of \$5.306 billion in total revenue for 1.087 million full-time students in 2000–01—an average of \$4,882 per FTES. Individual districts varied considerably from this level. The Rancho Santiago District in Orange County represented the low end of the revenue spectrum, receiving \$4,318 per FTES, or 11.6 percent below the state average. At the high end, the West Kern District received \$8,305 in total revenue per FTES (70.1 percent above the average). Eighteen districts enjoyed more than 110 percent of the state average per FTES revenue (representing over 104,000 full-time students) whereas students in four districts (87,000 FTES) were enrolled at schools receiving less than 90 percent of the average revenue.

The differences in community college funding are not a product of variations in the property tax base, as one might expect. Instead, the allocation formula used to apportion state funds to the districts drives the variation. That process, Program-Based Funding (PBF) appears on the surface to be a sensible, albeit intricate, attempt to allocate resources based on the cost of delivering services at a particular standard. It also makes adjustments for different-sized districts and for rising costs. The degree of specificity applied to the program standards that constitute the formula even suggests a sense of accountability for how these public resources are being utilized.

A careful examination of the details of PBF and how it has been implemented, however, reveals an opaque and needlessly complicated process that has apportioned funds via a series of incremental adjustments dating back to 1991. Because the state has funded only a fraction (54 percent in 2000–01) of what the PBF formula estimated to be necessary to meet its stated standard of service, PBF does not provide the resources necessary to reach its stated benchmarks. Finally, for the district seeking additional resources to expand its offerings or improve the quality of its services, the PBF process presents a significant constraint. Much of the variation in a district's allocation is determined by factors beyond its control. As for the variables that a district can control, the PBF formula creates incentives that may be unrelated to or in conflict with the CCC mission or community needs.



**Are there other current or potential sources of revenue for the community colleges that could augment their resources?**

There are a number of other sources of funds for the CCC system beyond the state's apportionment and local property taxes. These range from generating revenues via alumni giving and other gifts to contracting with local businesses to provide training for their employees. Not all districts possess the same capacity to explore these opportunities, however. Historically, a small number of districts account for the majority of the funds produced by these other sources.

The use of special taxes and bond issues to locally generate revenue for the community college districts has been limited. From 1986 to 2000, voters approved bond measures in only nine districts. Only one district proposed a special (parcel) tax during the period, and it failed to pass.

Resident student tuition represents the funding source with the greatest potential to augment revenue for all of the system's colleges. California's community college tuition fees were the lowest in the nation in 2000–01 (Figure S.2).

The CCC system fees were so low in 2000–01, they represented less than one-half the cost of community college tuition in New Mexico (\$866 per year), the state that ranks 49th in the country and the CCC charges less than one-quarter of the national average (\$1,359/year). The recently enacted 2003–04 budget raised CCC full-time annual enrollment fee 63 percent to \$594 (\$18 per unit). Assuming that none of the states *decreased* their tuition rates recently, however, California still maintains the distinction of having the nation's lowest priced community colleges. Relative to the tuition paid by students in the state's other higher education systems, the community college rates represent quite a bargain. The CCC system students paid, on average, for only 3 percent of the cost of the services provided to them, compared to CSU and UC students who accounted for 15 and 22 percent, respectively, of their institutions' total revenues in 2000-01. Enrollment fees in 2003-04 are expected to account for just 5 percent of total CCC system revenue.

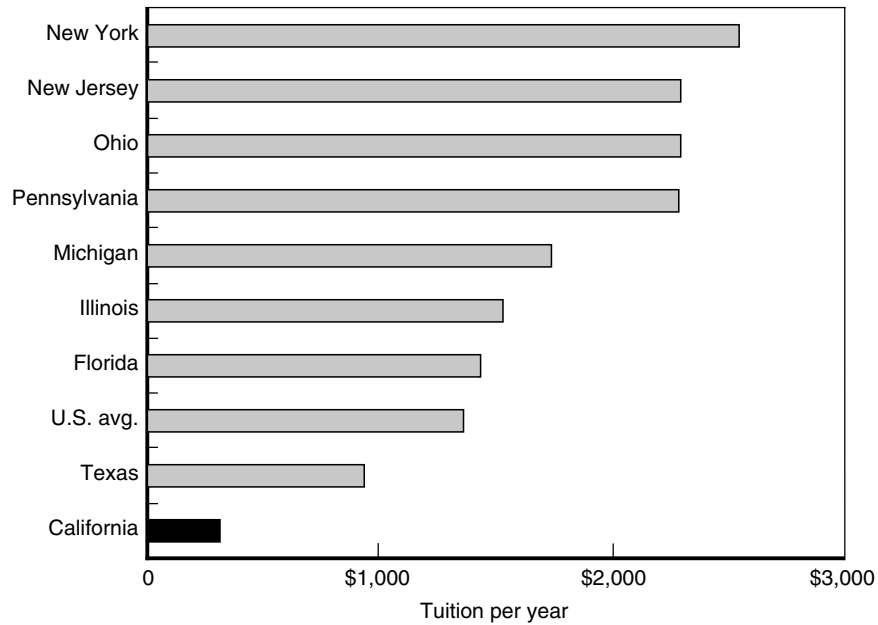


Figure S.2—Average Annual Tuition at Public Two-Year Colleges, Selected States, 2000–01

## Policy Concerns

Additional resources for the system and a simplified way to apportion those funds would improve the capacity of the CCC system to serve its students and begin the process of improving accountability. This report proposes that funding for the CCC system be increased, in concert with changes to the way those funds are distributed. The intent of these recommendations is to provide the colleges with additional resources to pursue their mission while beginning to hold them accountable for progress toward specific goals.

Currently, the state distributes two-thirds of the system’s total revenue through the PBF formula. In theory, the allocation process carefully calculates the level of funding necessary for districts to achieve particular program standards. The detailed standards, which include such benchmarks as maintaining a “student/faculty ratio of 25 to 1,” even imply a degree of accountability. In practice, the process does not

match revenue to the cost of providing services with the state providing enough funds to reach the standards. Consequently, there is little utility in attempting to hold districts accountable by comparing their performance to the established standards. The fiction of PBF should be ended and the process replaced by a simplified allocation formula based on a district's total enrollment with adjustments to account for growth each year.

Reforming the state's apportionment process would remove some of the elements that create funding disparities across districts and skew the incentives district administrators face. From the state's perspective, a simplified formula also would clarify for legislators and executive branch officials the effect of marginal changes in the general fund apportionment. At a minimum, system administrators would no longer have to spend countless hours performing the data collection and calculations required to determine allocations based on the cumbersome PBF formula.

With base funding being distributed in a predictable and equitable fashion, the state can use marginal funding as a way to pursue its goals and hold districts accountable for their performance. A separate pool of funds, tied to performance measures, would provide incentives for districts to address specific state priorities such as increasing the number of students who transfer to four-year institutions or expanding nursing programs. Additional resources would be distributed from this fund only to districts that demonstrate progress toward the state's identified goals.

Current funding levels have led the districts to choose between reducing their offerings or spreading their already modest resources that much further. The former option means that the CCC system will fall short of a commitment to "provide an appropriate place in California public higher education for every student who is willing and able to benefit from attendance" as stipulated in section 66201 of the state's education code; the latter option threatens the quality of the services being provided.

One way to increase revenue is to raise resident student tuition. The effects of such a change on students could be partially offset, however. Even with the nearly 70 percent tuition increase contained in the 2003–04 budget, the CCC system fees remain so low that qualifying students

cannot take complete advantage of de facto federal subsidies in the form of Pell Grant dollars and the Hope Scholarship tax credit. The Hope Scholarship allows individuals to claim an annual credit of up to \$1,500 per year for student tuition and fees. Additional fee increases should occur, however, only if the added revenue is not offset by reductions from general fund resources as some state officials have proposed. Students should be asked to pay more for their education, not pay off the state's deficit. Finally, because not all students are eligible for the Hope tax credit, a portion of any new revenue also should be directed to student services and financial aid.

Proposition 98 and its enacting legislation guaranteed that the CCC system would receive a specific level of funding relative to the total Proposition 98 resources. The state legislature has repeatedly ignored that promise and shortchanged the community colleges, apparently with little political cost. Respecting the statutory requirement that 10.9 percent of Proposition 98 funds go to the community colleges represents a second alternative to increase the system's resources.

California's community colleges appear to be providing considerable value to the state's residents in light of the resources at its disposal. The colleges have managed to pursue their multifaceted mission with a level of funding that is low compared to that of other states and the other California education systems. If California's community colleges are to play a significant role in the state higher education, and by extension its economic future, making more resources available to the CCC system is likely to be necessary. A reformed and more transparent allocation system should accompany any additional investment, however, to ensure accountability.

# Contents

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Foreword .....	iii
Summary .....	v
Figures .....	xv
Tables .....	xvii
Acknowledgments.....	xix
1. INTRODUCTION.....	1
2. CALIFORNIA’S COMMUNITY COLLEGES IN CONTEXT .....	5
CCC System Scale, Mission, and Structure .....	5
An Institutional Hybrid .....	9
Financing Community Colleges .....	12
3. CCC FUNDING IN PERSPECTIVE .....	17
CCC Revenue Relative to That of Other State Educational Institutions.....	17
Proposition 98, the CCC System, and K–12 Funding .....	19
The 2003–04 State Budget .....	23
National Comparisons .....	24
Summary.....	28
4. FUNDING ACROSS DISTRICTS .....	31
District Level Revenues .....	31
Program-Based Funding in Theory .....	34
Calculating the Base: Workloads and Standard Rates .....	34
Target Allocation: COLA and Growth .....	37
State Apportionment: Property Taxes and Student Fees .....	38
Program-Based Funding in Practice .....	39
Calculating the Base: Standard Rates and Percentage of Standard.....	40
Scale Factor .....	45
Target Allocation: COLA and Growth .....	46
State Apportionment: Property Taxes and Student Fees .....	50
Summary.....	52

5. OTHER REVENUE SOURCES .....	55
Categorical Programs .....	55
Partnership for Excellence .....	57
Local Taxing Authority .....	58
Contract Education .....	61
Foundations and Gifts.....	63
Resident Student Tuition .....	65
Other Sources of Revenue .....	70
6. POLICY CONSIDERATIONS .....	75
Reforming the Apportionment Process.....	75
Increases in CCC Funding .....	78
Maintaining District Autonomy over Resources .....	81
A Broader Policy Context .....	82
Appendix	
A. California Community Colleges System Revenues and Expenditures, 2000–01 .....	85
B. Revenue Sources for U.S. Public, Two-Year Colleges, 1999–00 .....	87
C. California Community Colleges System Categorical and Restricted Programs .....	91
D. Revenue per FTES in California’s Community College Districts, 2000–01 .....	93
E. Enrollment by Race/Ethnicity in UC, CSU, and CCC Systems, Fall 2001 .....	97
Bibliography .....	99
About the Author .....	103
Related PPIC Publications .....	105

# Figures

---

S.1. State and Local Revenue per FTES for California Higher Education, 1970–02 .....	vi
S.2. Average Annual Tuition at Public Two-Year Colleges, Selected States, 2000–01 .....	x
2.1. Full-Time-Equivalent Students in California Higher Education, 1970–02 .....	6
2.2. Enrollment, by Race and Ethnicity, Fall 2001 .....	9
2.3. CCC System Sources of Revenue, 2000–01 .....	12
2.4. Relative Composition of CCC Revenue, 1970–02 .....	13
2.5. CCC System Expenditures, 2000–01 .....	14
2.6. Total CCC System Revenue, in Current and Constant (2001–02) Dollars, 1970–02 .....	15
3.1. State and Local Revenue per FTES for California Higher Education, 1970–02 .....	18
3.2. Proposition 98 Funds for the K–12 and CCC Systems .....	22
3.3. Total Revenue per FTES for Public Two-Year Colleges, 1999–00 .....	26
4.1. Deviation from State Average Revenue per FTES, by District Size, 2000–01 .....	32
5.1. Average Annual Tuition at Public Two-Year Colleges, 2000–01 .....	67





# Tables

---

3.1. Actual and Projected CCC Revenue from Proposition 98 Resources .....	21
4.1. Program-Based Funding Categories, Workload Measures, and Standards .....	36
4.2. California Higher Education Enrollment per 1,000 State Residents .....	48
4.3. California Community College Basic Aid Districts, Fiscal Year 2000–01 .....	51
4.4. Summary of Effects and Incentives Associated with the Program-Based Funding Process .....	53
5.1. California Higher Education Instruction-Related Revenues and Student Enrollment Fees per FTES, 2000–01 .....	66
5.2. Nonresident Tuition Revenue for Selected Districts, 2000–01 .....	73
A.1. Total Revenue and Expenditures, 2000–01 .....	86
B.1. Relative Composition of Revenue Sources, 1999–00 .....	88
D.1. District Revenue .....	94
E.1. Enrollment .....	98



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# 1. Introduction

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The California Community College (CCC) system occupies a unique place in the state’s public education landscape. Positioned between K–12 and the state’s more visible higher education systems, the community colleges offer instruction that overlaps that of those institutions as well as curricula that only they provide. Composed of 108 colleges and operated by 72 local districts, the schools provide services that range from academic instruction and technical training to economic development and services for welfare recipients. Collectively, the schools are a \$5 billion enterprise serving 1.6 million state residents.

Given the scale of the system, California’s community colleges fill a critical gap in the state’s efforts to provide higher education to its adults. For many residents seeking to enhance their skills or obtain a credential, these schools represent their only higher education option. In this and other ways, community colleges contribute significantly to the development of human capital in the state’s workforce.<sup>1</sup>

As the CCC system enters the 21st century, its challenges are considerable. The combination of a rapidly changing economic landscape, declining opportunities in the state’s four-year universities, and shifting demographics suggest that the community colleges will be relied upon to continue making a major contribution to California’s economic growth. What is less certain is whether the CCC system is in a position to meet these challenges.

This report examines one element of the CCC system—its financing—and assesses how well prepared the community colleges are to meet the challenges of the future. Specifically, it provides a baseline

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<sup>1</sup>See Grubb (1999) and Lerman, Riegg, and Salzman (2000). Also, Carnevale (2000) found that from 1973 to 1996, the fastest growing segment of employment was that requiring community college skills rather than bachelor’s or graduate degrees.

description of funding for the CCC system and how resources are distributed among the colleges.

Previous research has suggested that the community colleges have fallen short with regard to resources and resource management. The Little Hoover Commission, for example, found the CCC system's financing structure to be misaligned with the colleges' goals and recommended that the state "develop a funding system that encourages universal access, teaching excellence and student success" (2000, p. 68). In particular, it maintained that the funding process should be "revised" to encourage course completion, recruitment of disadvantaged students, and improving transfer rates yet the commission offered few details about how the current process actually works. As a consequence, it was difficult to determine which changes were needed to accomplish the commission's recommendations.

The California Legislative Analyst's Office (LAO) also has identified shortcomings in how the community colleges are financed. At regular intervals, the LAO has singled out various programs in the CCC system's budget as poorly defined or unlikely to meet their objectives.<sup>2</sup> Although the LAO analyses offered insight into how legislators might respond to particular line-item budget requests, they provided less information on the functioning of the financing system as a whole.

This report complements both of these earlier research efforts. It unpacks the minutiae of the CCC system allocation method, shedding light on the inside of an otherwise *opaque* process. At the same time, it seeks to place specific program funding issues, such as those raised by the LAO, in the broader context of total system funding patterns. Although the financing structure represents just one piece of a large institutional puzzle, it is a critical one. It is hoped that this report will provide policymakers and others interested in the future of the state's community colleges with a better understanding of how the system is financed and what changes might be necessary as part of a broader reform.

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<sup>2</sup>See, for example, the 2001–02 analysis, which questioned the efficacy of increased resources for part-time faculty.

The CCC chancellor's office and the California Postsecondary Education Commission served as the sources for most of the report's detailed and historical financial figures. The federal National Center for Education Statistics (NCES) also provided statistics for national comparison and interviews with policy officials and administrators in Sacramento supplemented this information. To gain perspective on community college financing as seen beyond the state capitol, interviews were conducted in five community college districts across the state (Antelope Valley, Los Angeles, Napa Valley, San Francisco, and Yosemite). At each site, the interviews typically included the district's chief executive officer, its chief financial officer, and a member of the board of trustees. In multicollege districts, officials at the college level also were contacted.

Chapter 2 of this report provides a context and describes the system's mission, organizational structure, and basic financial information. Chapter 3 compares funding for the CCC system over time to other state education systems and to community colleges in other states. Chapter 4 examines intrasystem differences in the allocation of resources and the apportionment process itself. The fifth chapter provides an overview of the other sources of funding for the community colleges, beyond general apportionment. Finally, Chapter 6 attempts to connect all the report's findings with policy. It discusses the implications of these findings and offers recommendations as to how the state might begin the process of addressing the shortcomings of CCC system financing.





## 2. California’s Community Colleges in Context

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Most of the state’s residents have attended a public primary or secondary school, in either California or another state. Likewise, many have attended a university within the University of California (UC) and California State University (CSU) systems, many of which manage to attract the public’s attention with a variety of research breakthroughs, athletic successes, or other accomplishments. Community colleges, however, lack the visibility of the UC and CSU systems as well as the universality of the K–12 experience. For those unfamiliar with the CCC system, this chapter attempts to briefly provide a context for the more detailed discussion that follows. It begins by describing the system’s size, services, and structure. It then describes the sources of funds for the system and how the composition of those resources has changed over time. A broad breakdown of system expenditures also is presented. Finally, the chapter tracks overall funding historically, noting how resources for the system have grown dramatically in absolute terms over the past three decades.

### **CCC System Scale, Mission, and Structure**

With 108 colleges organized into 72 districts, the scale of the CCC system is impressive. Taken collectively, the colleges are “the largest system of higher education in the world,” as the CCC chancellor’s office homepage boasts.<sup>1</sup> During the 2001–02 fiscal year, 1.6 million students attended one of the system’s schools (California Postsecondary Education Commission, 2002).

In terms of enrollment, the CCC system dwarfs the state’s other higher education offerings—the UC and CSU systems. Comparing the

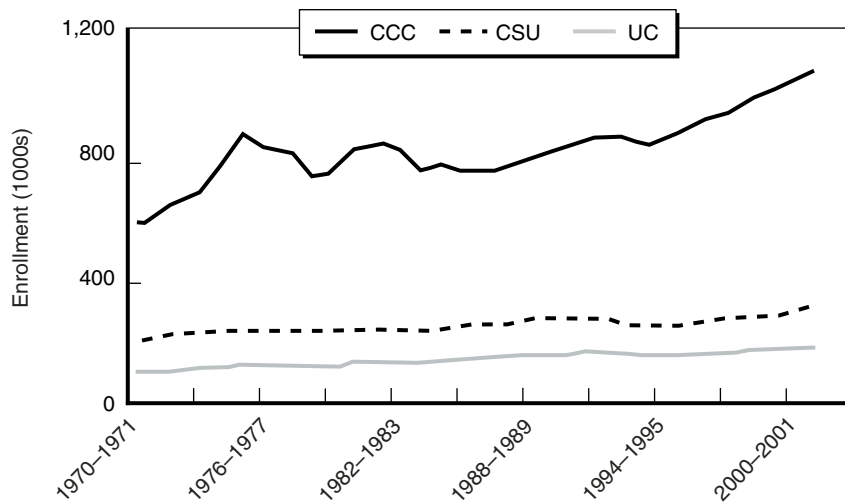
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<sup>1</sup> [www.cccco.edu](http://www.cccco.edu).

three systems on the basis of full-time students, the CCC system enrolls three times more students than the CSU schools and six times more than the UC system (Figure 2.1).<sup>2</sup>

Although all of the state’s higher education systems have grown over the past three decades, the expansion of the CCC system accounted for the majority of the increase in the state’s higher education enrollment. Total higher education grew from 880,000 full-time-equivalent students (FTES) in 1970–71 to 1.5 million FTES in 2001–02; community colleges accounted for 73 percent (488,000) of that expansion.

Within the system, the size of individual districts varies considerably. With its nine colleges, the Los Angeles District accounted for over 93,000 FTES (9 percent of the state total). The Copper Mountain Community College District (Joshua Tree) represented the smallest



SOURCE: California Postsecondary Education Commission (2002, Display 61).

**Figure 2.1—Full-Time-Equivalent Students in California Higher Education, 1970–02**

<sup>2</sup>The numbers of individuals enrolled, as opposed to FTES, amplifies the size differences. In the fall of 2001, the CCC system had 1,640,033 individuals enrolled. This figure is 4.2 times the CSU enrollment (387,311) and 8.5 times the UC figure (191,903).

school with fewer than 1,500 FTES. Overall, the 72 districts averaged just over 15,000 FTES in 2000–01.<sup>3</sup>

More than just a large state population drives the enrollment figures. Adult Californians attend community college at a rate higher than that of nearly any other state in the country. Nationally, 2.7 percent of the adult population was enrolled for credit in a community college in the fall of 1997. In California, that figure was 4.9 percent. Only Wyoming (5.3 percent) reported a higher rate of adult participation (Patton, 2001).

As impressive as the system is in terms of its size, the breadth of its mission is nearly as imposing. Historically, community colleges have played a variety of roles, sometimes only loosely collected under the heading of postsecondary education. These roles include providing the first two years of college-level instruction for students preparing to transfer to four-year institutions. The colleges also have offered stand-alone one- and two-year certificates and associate degrees for a variety of professions (e.g., early childhood development and law enforcement). Related offerings include continuing education coursework for individuals looking to add to, or maintain, various professional credentials. Courses may serve individuals studying English as a second language, preparing for citizenship application, seeking to obtain a GED, or earning college credit while concurrently enrolled in high school. Students can enroll in a class seeking to acquire or upgrade a particular skill, such as proficiency in a computer software program. Other classes are geared more to avocation, providing community members access to instruction in everything from general physical fitness and sports to nutrition and cooking.

What sets the CCC system further apart from the other higher educational systems is the degree to which its offerings are linked to other state social, economic, and educational programs. The system, for example, has long provided educational and training components for welfare recipients. At one point, every campus in the system participated in the Greater Avenues to Independence (GAIN) or, later, the California Work Opportunity and Responsibility to Kids (CalWORKs) welfare-to-

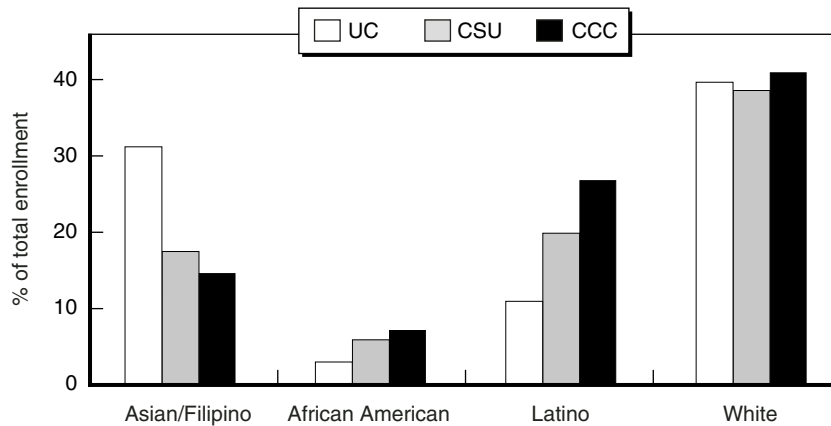
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<sup>3</sup>These figures are based on a total of 1.087 million FTES, as reported in tables prepared by the CCC chancellor's office.

work efforts (California Community Colleges Chancellor's Office, 2002a, p. 17). The system's Economic Development Program is designed to help local businesses and employees meet their workforce development needs. The community colleges also provide a number of remedial education functions. For some students seeking to transfer to a four-year institution, remedial work is a necessary part of their preparation. This function is formalized in a remedial program for students referred by the CSU system. The CCC system also offers instruction for those students who do not reach graduation standards in the K-12 system. Given the great variety of responsibilities that the state has assigned to community colleges, one may reasonably conclude that the system serves as the repository for missions deemed to be a poor fit with the CSU or UC systems, on the one hand, and inappropriate for K-12 on the other.

Perhaps the most important aspect of the CCC system mission is who it is intended to serve. One element of California's 1960 Master Plan for Higher Education that was codified into law was the state's commitment to "provide an appropriate place in California public higher education for every student who is willing and able to benefit from attendance" (California Legislative Counsel, 2003). However, separate statutes require that both the UC and CSU systems limit their enrollments and maintain specific admissions standards. The consequence of the enrollment caps at these institutions is to place the responsibility of providing access to higher education for all of the remaining "willing and able" individuals on the shoulders of the community colleges.

Enrollment figures reveal that African Americans, Native Americans, and Latinos are more likely to be among the state's "willing and able" residents who, for whatever reason, do not attend one of the UC or CSU schools. Latinos, for example, represented over one-quarter (27 percent) of the enrollment in community colleges but just 11 percent of UC students (Figure 2.2). Less than 3 percent of the students in the UC system were African American compared to 7 percent of the CCC system enrollment. Put another way, the CCC schools accounted for 74 percent of all public higher education enrollment in California. Of Latinos



SOURCE: California Postsecondary Education Commission (2003).

**Figure 2.2—Enrollment, by Race and Ethnicity, Fall 2001**

enrolled in higher education, 82 percent were attending a community college, and the system accounted for 81 percent of the African American and 79 percent of Native American college students (Appendix E). Those identified in the state reporting system as nonresident aliens were more likely to be attending either the UC or CSU system.<sup>4</sup> Less than half (49 percent) were enrolled in a community college and these individuals represented only 2 percent of the CCC system’s total enrollment.

### **An Institutional Hybrid**

As with the missions ascribed to the state’s community colleges, the organizational structure of the CCC system similarly exists in a space somewhere between the K–12 system and the other higher education institutions. And as with many public institutions, its current structure is more a product of historical evolution than any single plan or design.

<sup>4</sup>Interpretation of these figures should be qualified by questions regarding self-reporting. Undocumented, nonresident aliens may be reluctant to identify themselves as such. One might expect, however, that the incidence of underreporting would be relatively consistent across the three systems.

California's community colleges' organizational foundation is rooted in the K–12 system. Before 1967, the community colleges were an integral part of what were then K–14 school districts. When state legislation passed to create separate community college districts, many of the features of the K–12 governance structure were retained. Each district, for example, is an independent local government entity overseen by elected boards of trustees. The boards appoint a district chancellor or college presidents to serve as the chief executive officers. District boards set administrative policy, oversee in broad terms curriculum and program offerings, and negotiate collective bargaining agreements. The districts also maintain borrowing and taxing authority similar to that of school districts. The community college districts also are heavily unionized, another carryover from the K–12 system. Collective bargaining units represent most of the employees, with some policies (including tenure) and benefits closely resembling those of the K–12 schools.

These features stand in contrast to those of the UC and CSU systems. Appointed members of the UC Board of Regents are responsible for selecting a system president as well as the chief executives at the individual universities. The CSU Board of Trustees appoints the system chancellor as well as the presidents of the 23 campuses. Both bodies are responsible for developing broad administrative policy for the member schools and oversee management of their respective systems' resources. Although the individual campuses maintain considerable autonomy, their chief executive officers are ultimately responsible to their state governing boards.

By comparison, the CCC system is more decentralized, headed by an institutionally weak chancellor's office and state board of governors. The power of the board of governors does not extend far beyond Sacramento. The board appoints a system chancellor but maintains little direct authority over the executive officers in the districts. The CCC chancellor, consequently, has little leverage to direct the member institutions. Instead, the chancellor's office serves as a conduit between the districts and other government entities and ensures compliance with various state and federal mandates. The board of governors is unlikely to adopt a more assertive policymaking role and is, in fact, prohibited to some degree from doing so. State law requires that the work of the board

“shall at all times be directed to maintaining and continuing, to the maximum degree possible, local authority and control in the administration of the California Community Colleges” (California Legislative Counsel, 2003).

From the district perspective, the decentralized structure produces considerable local autonomy. Arguments for local control of community colleges echo many of the same sentiments expressed on behalf of primary and secondary schools. And, as with the case of K–12 schools, state funds have replaced local sources as the primary source of revenue for the community colleges. Therefore, the exercise of autonomy is limited by a district’s decreasing control over its resources.

Taken collectively, these characteristics form a unique type of institution in the provision of education in California. Organizationally, its structure closely resembles that of K–12 education with relatively autonomous, loosely coupled districts, financed primarily by state and local property taxes. Functionally, the CCC system provides services that are much more aligned to higher education. It is an institutional hybrid that combines a structure carried over from its K–14 origins attempting to fulfill a mission that has evolved and expanded over the past four decades.

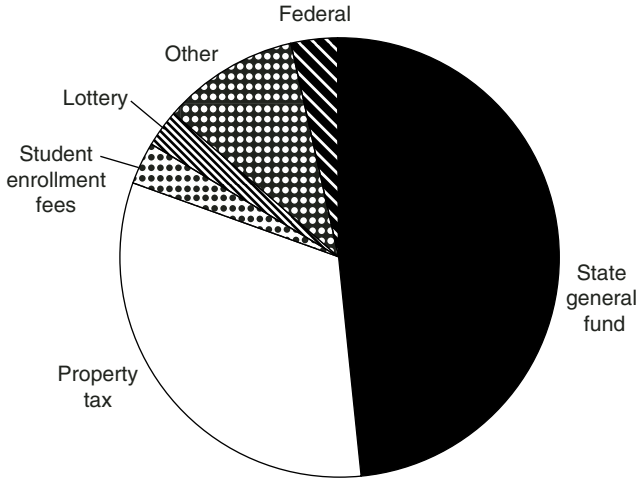
If the CCC system structure differs from that of other California education institutions, it also is unique relative to community colleges in other states. A review of how different states administer community colleges reveals that, like snowflakes, no two approaches are alike. Or, as one researcher observed, “fifty states, fifty systems” (de la Garza, 2000, p. 4). For example, the governance systems across the states vary in the degree to which they are centralized. Such states as Minnesota and Georgia have centralized oversight of the community colleges and have gone as far as to institutionally integrate them into their respective states’ university programs (Phillippe and Patton, 2000). Other states maintain separate oversight of community colleges, although oversight is centralized out of the state capitol. Such states as Texas and Wisconsin more closely resemble California’s structure, where decisionmaking authority is dispersed to the local level. It is also important to note that these different organizational structures are responsible for the administration of a variety of different organizational missions.

Community colleges in Minnesota, for example, provide a relatively narrow range of services relative to the CCC system, focusing primarily on vocational instruction and transfer preparation.

### Financing Community Colleges

Two sources generate most of the revenue for California’s community colleges: the state general fund and local property taxes. Together, these two have accounted for over three-quarters of all resources flowing to the program in 2000–02 (Figure 2.3), a pattern that has been sustained for over half a century. Federal resources provided less than 4 percent of total revenue in 2000–01; enrollment fees contributed 3 percent. State lottery revenue, several small state and local sources, and other charges account for the balance of the resources.

Whereas local property taxes continue to account for a large share of CCC system revenue relative to other states, the magnitude of their role has changed significantly over time. Similar to K–12 education resources, the sources of funding for the CCC system have shifted dramatically, as state general fund dollars have supplanted local property tax revenue.



SOURCE: California Community Colleges Chancellor’s Office (2002b).

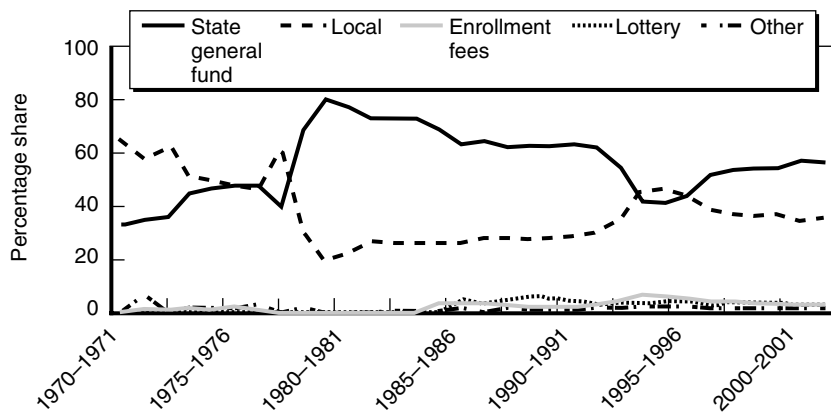
Figure 2.3—CCC System Sources of Revenue, 2000–01



Figure 2.4 tracks this change in the composition of revenues for the colleges.

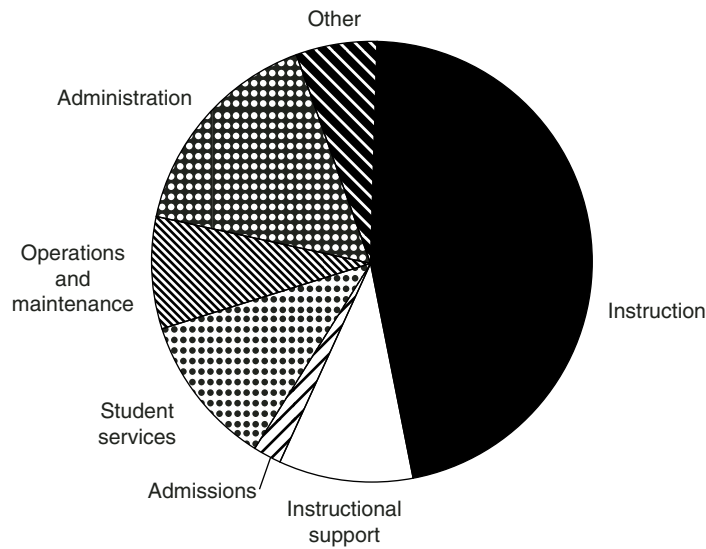
Thirty years ago, local property taxes accounted for nearly two-thirds of total community college revenues. Passage of Proposition 13 altered the equation dramatically. Soon after its implementation, the contribution of local property taxes fell to less than one-fifth of total revenues (19.4 percent in 1979–80). The relative share of local property taxes has climbed since that time, including a brief period in the mid-1990s when their contribution exceeded that of the general fund. Remarkable growth in overall state revenues during the latter half of the decade led to general fund resources, once again, exceeding the funds generated from local property taxes.

In terms of expenditures, the majority (56.6 percent) of community college funds are devoted to providing instructional services and instructional support (Figure 2.5). Student services and admissions expenditures account for 13.1 percent of system outlays. In total, almost 70 percent of community college funds provide direct services for students. The balance is devoted to running the college and the district. Administrative expenses and maintenance of the facilities are responsible for about one-quarter of total costs.



SOURCE: California Postsecondary Education Commission (2002, Display 27).

Figure 2.4—Relative Composition of CCC Revenue, 1970–02



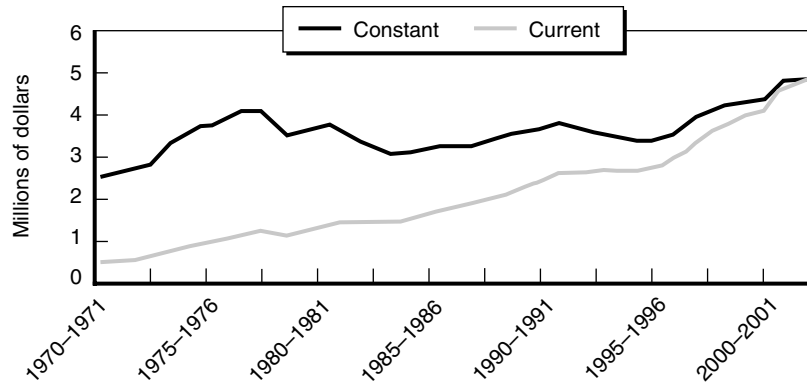
SOURCE: California Community Colleges Chancellor's Office (2002b).

**Figure 2.5—CCC System Expenditures, 2000–01**

Over the past three decades, the absolute level of funding has risen considerably. Figure 2.6 presents total revenue for the CCC system provided by the state general fund and local property taxes. During the 1970–71 fiscal year, these sources combined to provide the community college system with slightly less than \$0.5 billion dollars. By 2001–02, that amount had increased to nearly \$5 billion. Even after adjusting for inflation, the growth is impressive, with total revenues nearly doubling over the period as measured in constant dollars.<sup>5</sup>

Two periods account for most of the growth and reflect the boom-and-bust nature of the state's economy. During the first five years of the 1970s, community college revenue measured in constant dollars jumped 38 percent. The same phenomenon occurred during the latter half of the 1990s (a 38 percent increase from 1995–96 to 2000–01). In between

<sup>5</sup>The California Postsecondary Education Commission uses the Higher Education Price Index (HEPI) as its inflation deflator. For more information on the HEPI, see California Postsecondary Education Commission (2002, p. 135).



SOURCE: California Postsecondary Education Commission (2002, Display 15).

**Figure 2.6—Total CCC System Revenue, in Current and Constant (2001–02) Dollars, 1970–02**

these periods, system revenue had a difficult time keeping pace with inflation. Total resources actually fell in real terms during the two decades spanning 1975 to 1995, dropping 12 percent.

Taken together, California’s community colleges represent a vast educational institution, serving a large number of students and a wide variety of missions. The cost of the system is equally impressive. A combination of state and local sources provide the majority of the funds. As the system has grown over time, so has its price tag, growing to nearly \$5 billion. In isolation, however, it is not clear how to interpret these numbers. The next chapter places these figures in some context, normalizing them relative to changes in enrollment and comparing them to other California education institutions and to community colleges in other states.



## 3. CCC Funding in Perspective

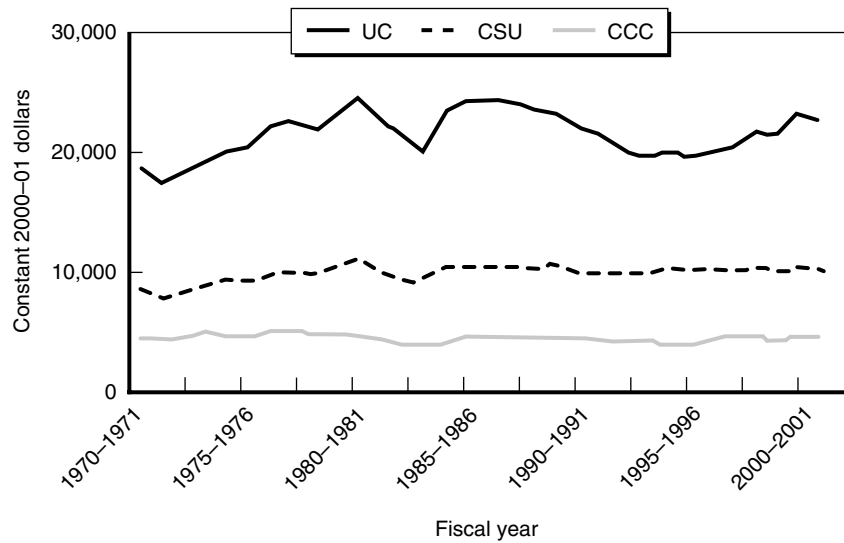
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In some ways, the California Community College system has no peers. Its size dwarfs similar programs in other states. In California, it shares some qualities with both K–12 and the other higher education institutions but is distinct with a broadly mandated mission. Attempting to provide some perspective on CCC system financing, then, presents something of a challenge. This chapter compares funding for California’s community colleges to that of other California educational institutions and to other states. The comparisons are qualified for a many of the reasons just stated. But even with those qualifications acknowledged, a distinct pattern emerges. Although total resources for the CCC system are substantial and have risen over time, its funding is low relative to both state and national metrics. The CCC system appears to be California’s lowest priority when it comes to financing public education.

### **CCC Revenue Relative to That of Other State Educational Institutions**

Total revenues for California’s community colleges have grown over time, but they have essentially kept pace with growing enrollment for the system. Figure 3.1 presents state general fund and local property tax revenue per FTES. Over the past 30 years, revenue per FTES in the CCC system has grown from \$4,402 to \$4,560 in constant 2001–02 dollars—an increase of 4 percent.

In contrast, funding per FTES for the state’s other higher education systems is much higher in absolute terms and has increased at a far greater rate. State general funds for the UC system were \$22,634 per FTES in 2001–02; the CSU system had \$10,191 available for each full-time student (California Postsecondary Education Commission, 2002). The revenue gap between the CCC and the other two systems has been growing over time. Although revenue per FTES for the CCC system



SOURCE: California Postsecondary Education Commission (2002, Displays 13-15).

**Figure 3.1—State and Local Revenue per FTES for California Higher Education, 1970-02**

grew 4 percent over the past three decades, revenue for the UC system increased 23 percent in real terms over the same period. CSU resources grew faster, with revenues per FTES rising 24 percent after adjusting for inflation. In other words, for every dollar community colleges spend to provide services to their students, the CSU schools have \$2.26; the University of California system has \$5.01. The gap will continue to widen if the historical pattern persists of increasing funding for the UC and CSU systems at a faster rate than that enjoyed by the CCC system.

One does not expect the absolute funding level of the CCC system and the UC schools to be equal. They provide different services, perform different functions, and do so at arguably different levels of quality. Yet it is more difficult to explain why the *rate* of funding growth of one would so dramatically outstrip the growth of the other. The missions of the UC and CSU systems have not changed so radically in the past 30 years, at least relative to the CCC system, that that would account for

such a large increase in proportional funding. Absent such an explanation, one is left to conclude that the state simply places a higher priority on the UC and CSU systems.

### ***Proposition 98, the CCC System, and K–12 Funding***

Different institutional elements emerge when comparing community college resources to those of the K–12 system, despite their common organizational ancestry. When it comes to financing California’s community colleges, the CCC system and K–12 schools remain, figuratively, joined at the hip. Because of the provisions of Proposition 98 and subsequent legislation, each year the state legislature divides what has become a set pool of resources between the two. Consequently, each additional dollar that the CCC system receives represents one less dollar going to K–12. The evidence suggests that when faced with this explicit choice, state elected officials possess a distinct preference for the K–12 system.

California voters approved Proposition 98 in 1988. The initiative amended the state constitution to guarantee a minimum level of funding for K–14 education based on overall state revenue levels. A decade of relative decline in education spending, even though California tax revenues were increasing, provided motivation for the proposition. The situation was a product of the combined effect of Proposition 13, as well as Proposition 4 (1979), which set expenditure limits for state and local governments (Rose et al., 2003). Education advocates had grown frustrated as they watched the state fall behind the rest of the nation in per pupil spending for K–12 schools. Their response was Proposition 98, which instituted a formula to establish a funding floor for California education each year.

As amended by Proposition 111 (1990), Proposition 98 applies three calculations to determine the minimum level of funding to be budgeted for education in the upcoming budget year.<sup>1</sup> Which test the state applies depends upon the current economic circumstances.

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<sup>1</sup>This description of Proposition 98’s provision is derived from the California Legislative Analyst’s Office (1995) and Ed-Data (2003).

- Test 1: Total K–14 funding will be at least 34.56 percent of the state budget.
- Test 2: Total K–14 funding will be at least its prior year amount, adjusted for changes in enrollment and increased by the same percentage as per capita personal income grew in the state.
- Test 3: Total K–14 funding will be at least its prior year amount, adjusted for changes in enrollment and increased by the same percentage as per capita state revenue changed, plus 0.5 percent. If state funding is to be reduced, the cuts to education can be no greater than the cuts to other state programs.

By providing three methods to determine the funding floor, the constitutional amendment attempts to balance the desire for financial stability for education, while acknowledging the effect of a fluctuating economy on state revenues. When state tax revenue is growing relatively rapidly, the first test generally applies. During economic slowdowns, Test 2 or 3 may apply.<sup>2</sup> Under extreme conditions, the state can suspend Proposition 98 altogether, and the legislature also has decided that it can spend below the minimum funding level as long as it promises to make up the shortfall in subsequent years.

The formulas used to calculate the total size of the Proposition 98 funding pool were accompanied by an even more complicated set of provisions to determine how those resources would be shared between K–12, the community colleges, and other educational service agencies. In 1989, the legislature established implementation legislation that simplified the process governing that split (Assembly Bill 198 and Senate Bill 98). Under that provision, each educational entity would calculate its potential share separately using 1989–90 as a base year. Should those amounts exceed the total funds available, each would receive a prorated share. The result was to essentially guarantee a relative distribution of Proposition 98 funds calculated on the base-year shares. In 1989–90, K–12 schools received 88.8 percent of Proposition 98 funds with a 10.9

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<sup>2</sup>Determining which test applies involves a complicated relationship between changes in per capita income, the consumer price index, and total state revenue. For a more detailed discussion of how these variables interact to determine Proposition 98 funding levels, see Rose et al. (2003).



percent share for the CCC system and the balance going to other educational service agencies (California Postsecondary Education Commission, 2002). For the next two fiscal years, the CCC system's share of these resources actually exceeded the distribution

Beginning with 1992–93, the legislature voted to suspend the statute guaranteeing community colleges a minimum share of Proposition 98 funds. It has suspended that provision every year since (California Postsecondary Education Commission, 2002, p. 9). Consequently, the CCC system's share has fallen below the 10.9 percent it received in 1988–89, fluctuating between 9.4 and 10.3 percent of the total Proposition 98 resources. The community colleges' loss has been the K–12 system's gain. K–12 has garnered its full share and then some over the same period, receiving between 88.8 and 90.3 percent of the total Proposition 98 revenues.

Although the differences in percentages appear small, relative to total CCC system funding, the disparity is significant. Table 3.1 calculates the CCC system's actual share of Proposition 98 funds since 1988–89

**Table 3.1**  
**Actual and Projected CCC Revenue from Proposition 98**  
**Resources (in billions of current dollars)**

Year	Actual	Projected	Difference	Percent
1988–89	2.103	2.111	0.007	0.3
1989–90	2.297	2.304	0.007	0.3
1990–91	2.505	2.317	-0.187	-8.1
1991–92	2.527	2.576	0.050	1.9
1992–93	2.273	2.603	0.330	12.7
1993–94	2.215	2.571	0.356	13.9
1994–95	2.534	2.758	0.224	8.1
1995–96	2.812	3.036	0.224	7.4
1996–97	3.063	3.289	0.226	6.9
1997–98	3.379	3.589	0.210	5.8
1998–99	3.632	3.892	0.260	6.7
1999–00	3.997	4.348	0.351	8.1
2000–01	4.375	4.688	0.313	6.7
2001–02	4.508	4.965	0.457	9.2

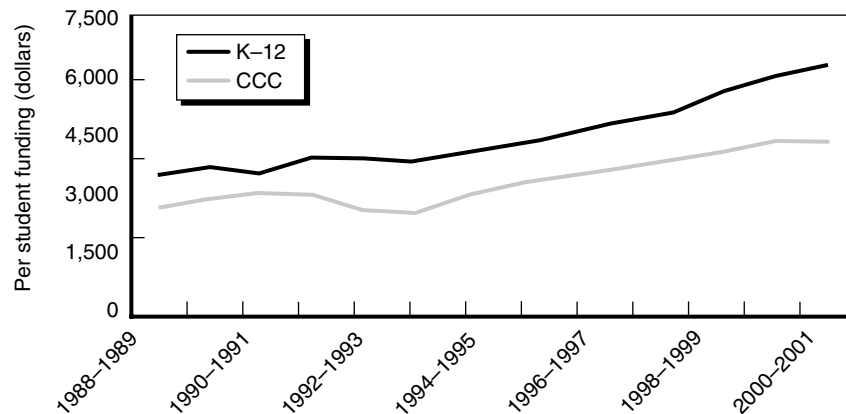
SOURCE: Calculated from California Postsecondary Education Commission (2002, Display 11).

and the projected share had its allocation remained constant at 10.9 percent share.

The gap between the actual and projected amounts represents, on average, 7.9 percent of the CCC system’s annual Proposition 98 resources. In 2001–02 alone, the difference translated into over \$456 million of revenue (or \$441 more per FTES) the community colleges would have received. Looked at another way, since the legislature began suspending the minimum-share guarantees in 1992, it has shortchanged the state’s community colleges almost \$3 billion.

The fact that in each of the past 10 years the legislature has acted affirmatively to give a greater share to K–12 than the guarantee offers suggests that elected officials in Sacramento simply place a higher priority on elementary and secondary education than on the state’s community colleges. A comparison of funding levels per student supports such a proposition. When Proposition 98 was passed, the CCC received \$2,765 for each FTES compared to \$3,534 per average daily attendance (ADA) in the K–12 system, a difference of 24 percent (Figure 3.2).

The effect of the legislature’s decision to suspend the guaranteed split of Proposition 98 funds has been to widen that gap. In 2001–02, the K–12 system, which many would argue has been underfunded in its own right, received 44 percent more resources than the CCC system on a per



SOURCE: California Postsecondary Education Commission (2002, Displays 11 and 79).

Figure 3.2—Proposition 98 Funds for the K–12 and CCC Systems

student basis. One may be able to explain why instruction at a UC school might cost more per student than at the community colleges, but it is less clear why that may be the case with K–12.

From the perspective of California’s community colleges, the combined effects of Proposition 98 and its implementing legislation offer the appearance of a guaranteed stream of revenue relative to the state’s total receipts. In practice, however, it has pitted the CCC against K–12 schools in a zero-sum competition over Proposition 98 funds, the largest source of revenue for both systems. It is a contest that the community colleges have lost consistently for the last 10 years.

The purpose of highlighting this observation is not to argue that K–12 education has been overfunded. California, even with these increases, remains near the bottom charts that examine per student expenditures state by state. According to one set of comparisons, the state ranked 37th in per student expenditures in 1998–99 (National Center for Education Statistics, 2002). The analysis here suggests that maintaining even this modest position in the national rankings has come, in part, at the expense of the state’s community colleges.

### ***The 2003–04 State Budget***

All of California’s education programs faced a significant test in 2003–04 as elected officials in Sacramento grappled with a deficit of unprecedented scale. From the perspective of the community colleges, many of the funding patterns described above continued, although there were some important exceptions. First, total revenue for the system was essentially unchanged from that of the prior year.<sup>3</sup> With a total funding level of \$4.967 billion and allowance for a 1.5 percent increase in enrollment, funding per FTES fell slightly, from \$4,532 per FTES in the 2002–03 (revised) budget to \$4,495 in 2003–04 (Lay, 2003).

Compared to the community colleges, the K–12 system fared slightly better despite pressures to reduce spending. Total K–12 funding increased 4.1 percent over the revised 2002–03 levels. On a per student basis, funding is projected to increase 4 percent, from \$6,624 to \$6,887

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<sup>3</sup>This change is relative to the 2002–03 budget after midyear revisions. Compared to enacted levels, the 2003–04 funding total represented a slight decline.

(California Legislative Analyst's Office, 2003, p. 6). Once again, the legislature chose to suspend the statutory requirement to provide 10.9 percent of Proposition 98 funds to the CCC system and the community colleges received only 9.6 percent of these resources.

The 2003–04 budget represented a departure from historical funding trends for the UC and CSU systems, however. The new budget cuts state-supplied resources for all three systems and requires them to offset the cuts, in part, with increases in student fees. The net effect of these cuts and fee increases raised the total revenue for the community colleges slightly, whereas available funds for the UC and CSU systems declined 1 and 2 percent, respectively (California Legislative Analyst's Office, 2003, p. 11).

## National Comparisons

Using data from the NCES, it is possible to make relative comparisons of community college funding levels across states. When the funding for California's community colleges is compared to that of similar schools in other states, the CCC system, again, is found to have relatively fewer resources at its disposal.

The use of the NCES data is accompanied by a number of caveats, however. First, the NCES uses methods that differ from state agencies in calculating the number of full-time students as well as total revenue. The absolute numbers, therefore, do not track directly to those reported by the CCC chancellor's office.<sup>4</sup> Second, not all of the nation's community colleges participate in the data collection effort. The 1999–00 data include financial information for only 79 of California's 108 community colleges. Overall, data from 84 percent of the country's two-year public colleges are used for this analysis.<sup>5</sup> Finally, the NCES data do not take into account the different missions served by the institutions. As already

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<sup>4</sup>Differences in per student expenditures are explained by the fact that the NCES figures significantly understate total FTES relative to the numbers reported by the chancellor's office. For the 1999–00 year, the chancellor's office reported 1,039,090 and the NCES reported 706,814 FTES for the same year.

<sup>5</sup>NCES reports that nationwide there are 1,212 public, two-year colleges. A total of 1,024 reported financial data that could be used for this analysis.

noted, state community college systems vary in the types of services provided.

Despite the limitations of the NCES data, it is possible to develop a method of comparison that calculates total revenue per full-time student for 49 of the 50 states (Figure 3.3).<sup>6</sup> By this metric, California ranked 45th in revenue per FTES (\$7,979).<sup>7</sup> Its revenue levels were ahead of the levels in Arkansas, Tennessee, Nevada, and Virginia. Wisconsin led the list, providing almost twice the level of funds for its community colleges (\$14,409 per FTES) as California. The national average for revenue for public, two-year colleges was \$9,810 per FTES, or 1.23 times the level in California.<sup>8</sup>

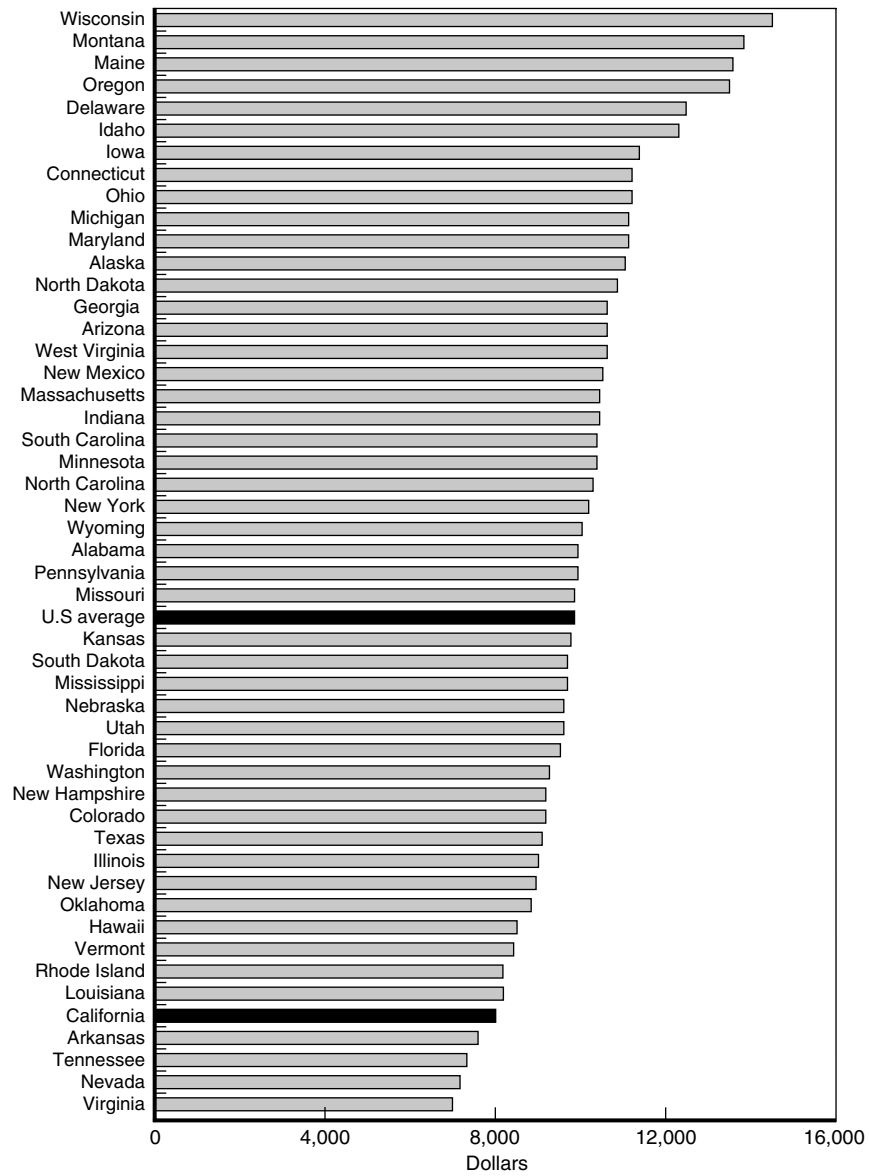
As already noted, the comparisons used here are intended to provide a context for understanding the financing of California's community colleges. Rankings such as these provide only a portion of the story. Because Wisconsin spends nearly twice as much as California on a per student basis, it does not necessarily translate into a system that is "twice as good" as the CCC system. Left unanswered is the question of what benefit these states receive in return for these investments. California may be incredibly efficient at providing these services and, if so, it should serve as a model for the nation. An alternative explanation may be that the mix of services California provides costs far less than those in other states. Both of these explanations are worthy of investigation but extend beyond the scope of this project. What one can conclude is that most states have decided to spend more for their community colleges on a per student basis than has California.

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<sup>6</sup>Only one of Kentucky's 15 community colleges completed the financial data portion of the survey. Given this extremely low response rate, that state was dropped from the analysis.

<sup>7</sup>This total revenue per FTES estimate is considerably higher than that reported by California state agencies. The difference between the Integrated Postsecondary Education Data System (IPEDS) number and the estimates calculated by the CCC chancellor's office can be attributed to a number of factors, including how FTES are calculated, which districts participated in the IPEDS survey, and the accounting of revenue.

<sup>8</sup>The relative figures are comparable to those found in other studies. The Education Commission of the States (2000) reported that California ranked 41st out of 44 states in per student expenditures in 1996–97.



SOURCE: National Center for Education Statistics (1999–2000).

Figure 3.3—Total Revenue per FTES for Public Two-Year Colleges, 1999–00

Nationally, the states exhibit considerable variation in the composition of these resources. State revenues account for the largest share, 40 percent, of total community college revenue.<sup>9</sup> Student tuition and fees contribute the next largest share at 22 percent. Federal and locally generated revenues account for 12 and 14 percent, respectively. The balance of funds comes from other sources such as gifts, service fees, and other activities.

The composition of revenues in individual states deviates significantly from these averages and represents the different dimensions and approaches to community college financing. The role of local tax revenue in financing community colleges represents one such point of variation. In 18 states, the community colleges derived less than 1 percent of their total revenue from local sources in 1999–00. Ten more states received more than 1 percent but less than 10 percent of their funds from local revenue. In all, more than half of the states in the nation look to sources beyond local tax revenue to provide the majority of community college funding.

California is part of a group of seven states where locally generated taxes represent more than one-quarter of the total community colleges' budget. Wisconsin leads the list, with more than 44 percent of its community college revenue generated locally. Appropriately, the states that rely more on local revenue for funding tend to administer the colleges in a more decentralized fashion. The other five states are Arizona, Illinois, Kansas, Maryland, and New Jersey.

The degree to which states rely on student tuition and fees to finance community colleges represents another significant area of variation in how states approach community college financing. Whereas the national average suggests that one out of every five dollars is derived from tuition, such states as Vermont (57 percent from student tuition), New

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<sup>9</sup>See Appendix B. Calculations regarding the composition of community college resources are derived from the 1999–00 National Center for Education Statistics IPEDS database. Although not all of the state's colleges participated in the financial data portion of the IPEDS that year, the national data and definitions are used in an effort to provide comparable estimates for other states. State sources, such as the CCC chancellor's office and the California Postsecondary Education Commission, indicate that the contribution of student fees and tuition is less than 5 percent.

Hampshire (43 percent), and New Jersey (33 percent) generate a far greater share of revenue directly from students. This approach could be characterized as *high fees/high aid*, as the systems often fund student financial aid aggressively in an effort to maintain access.

California represents the other end of the spectrum, representing the state that generates the smallest share of its community college revenue (less than 7 percent in 1999–00) from student tuition and other charges. New Mexico (10 percent) and Mississippi (13 percent) are the next two lowest states in this category. In theory, the lower a state keeps its fees, the greater the access to education. The high rate of adult participation in California suggests that this is the case. Low fees also reduce the need for financial aid. If these revenues are not offset by other sources, however, the effect of California's low community college tuition is to reduce the revenue available to the colleges. Resident student fees are discussed in greater detail in Chapter 5.

## Summary

Overall funding for California's community colleges has grown significantly, but only slightly faster than the rate of inflation. The UC, CSU, and K–12 systems, in contrast, have enjoyed much more substantial growth. Of the three, the K–12 system has emerged as the state's highest education funding priority. Although there could be some debate as to whether the UC or CSU system represents the second highest priority for the state in terms of education resources, a strong argument can be made that community colleges are at the bottom of the list. The 2003–04 budget represents an exception to this pattern, although it is difficult to determine whether such a shift is an aberration or the start of a new trend.

Further supporting the notion that the state places a relatively low priority on the community colleges is the fact that the state legislature has consistently acted to fund the CCC system below the level required by statute every year since the 1992–93 budget. The low level of financial support on a per student basis for the community colleges, then, is not the product of some formula or regulation that places a ceiling on their appropriation. Instead, it represents an expression of the priorities of state lawmakers.



The level of per student community college funding in California also is low relative to that of other states, ranking 45th out of 49 states. California derives a greater share of its community college resources from local sources than most other states do.



## 4. Funding Across Districts

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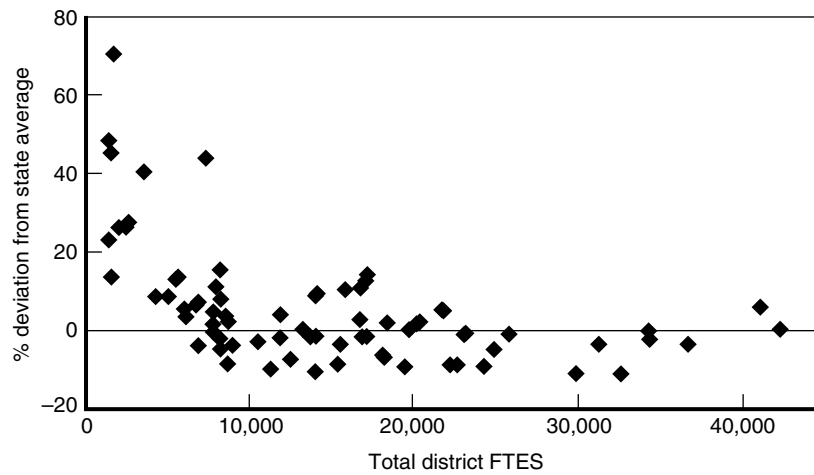
The analysis in the previous chapter examined the level of funding for California’s community colleges as a whole. Public education financing, particularly in systems that rely on local property taxes for a major portion of their revenues, has a long history of disparate funding at the local level. An analysis of funding levels across districts can reveal whether disparities exist in the resources available to serve students. This chapter examines per student revenues across districts and does find significant disparities.

The funding differences found, however, are not the product of local variation in property tax bases, as one might expect. Instead, a centralized allocation process neutralizes most of the disparity that variations of local property tax bases create. What accounts for the variation in the revenue across districts is the allocation formula itself.

This chapter first presents community college funding levels per student and the variations across districts. It then describes the allocation process, in theory, identifying its statutory and regulatory foundation and outlining the steps necessary to determine a district’s allocation. Finally, the chapter examines the allocation formula in practice and how its different components produce variation in the distribution of funds.

### District Level Revenues

Data for 2000–01 show that California’s 72 community college districts received a total of \$5.306 billion in total revenue. Those colleges reported providing services to the equivalent of 1.087 million full-time students. Total revenue per student averaged \$4,882. The amount of revenue received by individual districts varied—at times significantly—from this average (Figure 4.1). The Rancho Santiago District in Orange County represented the low end of the revenue spectrum, receiving \$4,318 per FTES, or 11.6 percent below the state



SOURCE: California Community Colleges Chancellor's Office (2002b).  
 NOTE: For presentation purposes, the Los Angeles District is not included. Los Angeles enrolled more than 90,000 FTES and its revenue was less than 0.1 percent above the state average.

**Figure 4.1—Deviation from State Average Revenue per FTES, by District Size, 2000–01**

average. At the high end, the West Kern District received \$8,305 in total revenue per FTES (70.1 percent above the average).

Overall, most community college students in the state attend schools that are close to the state average. In 2000–01, community colleges whose revenues were within 10 percent of the state average represented 82 percent of the students. The number of students who fall outside of this band could be considered small in terms of percentages, although the absolute numbers they represent are substantial. The 18 districts that enjoy more than 110 percent of the state average per FTES revenue represent over 104,000 full-time students (10 percent of the system's total). At the same time, 87,000 students from four districts were enrolled at schools receiving less than 90 percent of the average revenue.

Funding disparities in and of themselves are not necessarily problematic. These differences, however, can raise equity questions if the funds appear to be distributed in an irrational or inequitable manner. Race and class factors are often associated with differences in education

financing, particularly when property taxes constitute a significant share of the funding. This does not appear to be the situation in the case of the CCC system. By centralizing the distribution of resources at the state level, California appears to have avoided funding disparities on the basis of race or class.<sup>1</sup> Although the CCC system appears to have steered clear of this situation, its distribution formula has introduced its own, nonrandom variations.

One can imagine several justifications for less than perfectly equal funding, including different costs of living in different parts of the state and curricula that are costlier to deliver. Instead, the current funding formula and its disparate effects appear to be more the result of incremental decisionmaking and political compromise than of the differential cost of providing education. The consequence is an apportionment formula that is overly complicated, opaque, and inefficient in the distribution of funds. If the funds in question represented a small, categorical grant, the variation would not be of great concern. But, apportionment resources represent the largest portion of all community college resources and the differences are driven by a formula as opposed to forces beyond the control of the state government.

To distribute these resources across districts, the state legislature introduced program-based funding in 1988, constituting the framework for the current apportionment process.<sup>2</sup> To understand how the allocation process produces this disparate effect, it is necessary to delve into the minutiae of the program-based funding formula. The following discussion offers a description of the apportionment process. Although simplified,<sup>3</sup> this description highlights the most relevant components of the formula and explains how it drives disparities in funding levels.

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<sup>1</sup>Per student expenditures were regressed against race and ethnicity composition variables and the percentage of students receiving tuition waivers, but no systematic relationship was found.

<sup>2</sup>Program-based funding was one element of Assembly Bill 1725 (Chapter 973, California Statutes of 1988) that revamped management of the CCC system along a number of dimensions.

<sup>3</sup>The details of the CCC distribution formula have obtained an almost mythical status among observers of community colleges. Some have suggested that the number of individuals who truly understand the process could be counted on the fingers of one

## Program-Based Funding in Theory

Conceptually, program-based funding (PBF) represents a rational approach to the distribution of funds. The overall process is an explicitly incremental one. Prior year base revenues serve as the starting point to calculate a district's resource needs for the upcoming year.<sup>4</sup> The method then makes adjustments to the base to account for increases in the cost of providing the current level of services (i.e., inflation) and, if necessary or desirable, the costs of expanding those services. That target allocation is then adjusted for differences in property tax revenue to arrive at the amount the state will provide each district. In theory, it is a sensible, nearly textbook, approach to the distribution of resources. What follows is a brief description of that three-step process.

### *Calculating the Base: Workloads and Standard Rates*

To calculate a district's funding base, PBF begins by dividing the work of community colleges into six program categories: instruction, instructional services, student services, maintenance and operations, noncredit instruction, and institutional support.<sup>5</sup> Each program area has a corresponding workload measure designed to quantify the relative level of activity or need in each institution. The instruction program, for example, is measured by FTES.<sup>6</sup> The amount of square footage owned

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hand. The CCC chancellor's office's own *Handbook for Managers* devotes 18 of its 50 pages to explaining the apportionment process.

<sup>4</sup>From a pragmatic perspective, an incremental process may be easier than other methods. The shortcomings of incremental budgeting are also well documented. See the seminal work on incremental budgeting, Wildavsky and Caiden (1997).

<sup>5</sup>Strictly speaking, noncredit instruction is not an official PBF program. Legislation that preceded PBF distinguished between credit and noncredit instruction for funding purposes. Senate Bill 851 (Chapter 565, California Statutes of 1983) directed that noncredit instruction be funded at a common, constant rate in real terms (California Community Colleges Chancellor's Office, 1999, p. 14). Program-based funding retained this feature and treats noncredit instruction accordingly. For example, the PBF calculation contains provisions to deduct from the Maintenance and Operation and Institutional Support program funding levels an amount that is, in theory, already covered by the noncredit funding. By backing out these amounts, the constant rate for noncredit instruction is retained.

<sup>6</sup>The calculation of FTES is based on an enrollment census as of the fourth Monday of instruction in each term. Not surprisingly, a relatively complicated process (involving

or leased by institution is used to measure maintenance and operations needs. Program-based funding treats institutional support slightly differently from the other categories. The process essentially treats institutional support as an overhead category, representing a percentage of total allocation computed for the other program categories.

The underlying principle of PBF is that the community services should meet standards detailed in Title 5 of the California Code of Regulations. The standards for instruction in credit courses, for example, include such benchmarks as maintaining a “student/faculty ratio of 25 to 1,” and providing “statewide average faculty salaries equal to those paid by the California State University.”<sup>7</sup> Some standards are even more specific. Under the instructional services category, minimums are provided for the number of periodicals, books, and films that should be maintained in the college library.<sup>8</sup>

PBF is just as specific as to the estimated cost of achieving these standards. Standard cost rates for each program area, therefore, are also codified. California code established a standard rate of \$3,196 per FTES for credit instruction for the 1991–92 fiscal year.<sup>9</sup> The chancellor’s office adjusts these rates annually to account for rising prices. For the 2001–02 fiscal year, the standard rate for credit instruction was \$4,472. Table 4.1 summarizes the programs, workload measures, and standards for the 2001–02 fiscal year.

Program-based funding makes an additional adjustment for economies of scale, recognizing the different sizes of the districts and colleges. The rationale for this distinction is that the costs associated with running a small college, even if it is part of a large district, are higher than those of a large college in a large district. Similarly, the fixed costs of running a small district must be spread over fewer students than in the larger districts.

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the application of four different formulas) is used to calculate FTES figures. Each FTES represents 525 instructional contact hours.

<sup>7</sup>California Code of Regulations Title 5, section 58712, paragraph (a).

<sup>8</sup>California Code of Regulations Title 5, section 58724.

<sup>9</sup>The standard rates presented here are rounded to the nearest dollar. The 1991–92 rate for instructional services was calculated to the penny, at \$3,195.85. California Code of Regulations Title 5, section 58712, paragraph (b).

Table 4.1

Program-Based Funding Categories, Workload Measures, and Standards

Program Category	Workload Measure	2001–02 Standard Rates
Instruction (credit)	FTES (credit)	\$4,472/FTES
Instructional services (credit)	Three-tiered scale <sup>a</sup> :	
	Total FTES < 1,003	\$85/FTES
	1,002 < FTES < 3,304	\$255/FTES
	FTES > 3,303	\$282/FTES
Student services (credit)	Credit headcount	\$307/new student
		\$246/continuing student
Maintenance and operations	Square footage (owned) and FTES assigned to leased space	\$10/square footage \$442/FTES in leased space
Instruction and services (noncredit)	FTES (noncredit)	\$1,574/noncredit FTES
Institutional support	Percentage of total computed standard allocation	16.55 % added to sum of programs

SOURCES: California Community Colleges Chancellor’s Office (1999) and Harris (2002).

<sup>a</sup>The calculation of funding for instructional services is based on the size of the district. For the first 1,003 FTES, the school PBF calculates \$85 per FTES with the amount increasing at different increments. This scale was part of the original statute governing PBF and runs counter to notions of economies of scale. It is not clear what the rationale was when it was first instituted, but it has been carried forward in subsequent years nevertheless.

The economies of scale provisions are governed by a formula that distinguishes between colleges and districts. Small districts are considered to be those with fewer than 10,000 FTES; small colleges are those with fewer than 5,000 FTES. As with the standards, the multipliers to adjust for economies of scale are part of the California Code of Regulations. The scale multipliers are designed to increase as the size of the institution decreases below the defined thresholds and have a relatively small effect at the higher end of the scale. A district with 9,500 FTES, for example, would have its standard rates increased by less than one-half of a percent. (The scale factor is 1.0028.) A very small district,



one with 1,000 FTES, however, would have its standard rates adjusted upward by nearly one-third (a 1.3140 scale factor).<sup>10</sup>

With knowledge of its current workload levels and the relevant standard, a district can begin to calculate its funding base—the program-based funding formula’s estimate of the cost of providing its particular mix of services—for a given year. Multiplying a district’s credit FTES by the instructional standard, for example, would represent the cost of providing credit instruction. A district would then sum the amounts for each program and multiply by 1 plus the institutional support standard (overhead) to arrive at the base funding total. Equations (4.1) and (4.2) summarize the calculation of a district’s funding base total under the PBF apportionment process.

$$\text{Program base}_1 = (\text{workload}) \times (\text{standard rate}) \times (\text{scale factor}). \quad (4.1)$$

$$\text{Base total} = (1 + \text{institutional support \%}) \times (\text{sum of program base amounts}). \quad (4.2)$$

### ***Target Allocation: COLA and Growth***

Once the base funding costs for a current year have been estimated, the next step is to project the costs of providing the same level of services in the upcoming budget year. The cost of living adjustment (COLA) and projected growth are the most significant factors in this projection.<sup>11</sup> The COLA, or inflation factor, acknowledges that prices typically increase from one year to the next. The inflation factor used in this case is an index based on the cost of purchasing government goods and services.<sup>12</sup> A single COLA rate is applied statewide.

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<sup>10</sup>These scale factors apply to the credit instruction program. The regulations even provide one set of scale factors for credit instruction with different adjustments made for student services (California Community Colleges Chancellor’s Office, 1999, p. 13).

<sup>11</sup>Program-based funding also includes provisions for program improvement funds, equalization funding, and stability (California Community Colleges Chancellor’s Office, 1999, p. 16). The state legislature has not always provided funds for these purposes.

<sup>12</sup>The U.S. Department of Commerce implicit price deflator for the state and local government purchases of goods and services in the United States (California Code of Regulations Title 5, section 58773).

The growth factor incorporates changes to funding levels that result from a change in the demand for the services provided by the community colleges. The CCC chancellor's office calculates an allotted rate of growth using yet another formula. This formula is a function of changes in (1) the overall adult population covered by the district, (2) the number of high school graduates, (3) the size of "underserved populations," and (4) the capacity of facilities (California Community Colleges Chancellor's Office, 1999, p. 24).

The calculated growth rate is an allocation, not an estimate. In other words, it represents the amount of additional services that the formula will fund in the upcoming year. Districts that exceed their allocated growth cap are not guaranteed additional resources to cover these *unfunded* FTES.<sup>13</sup> Instead, they must spread their apportioned resources across more students. Should a district exceed its cap in a given year, those additional students do not become part of its base calculation in the subsequent year, either; that is, the PBF formula applies future growth figures to *allocated* enrollment levels, not actual ones. Equation (4.3) summarizes the adjustments made to calculate the target allocation.

$$\text{Target allocation} = (1 + \text{COLA}) \times (\text{base}) + (\text{sum of program growth})$$

where

$$\text{program growth} = \text{growth rate} \times \text{workload} \times \text{scale factor} \times \text{base}^{14} \quad (4.3)$$

### ***State Apportionment: Property Taxes and Student Fees***

The final step in the PBF process is to calculate what share of a district's target allocation will be provided by the state's general fund. To determine the state's contribution, the formula first nets out local property taxes and student fees.

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<sup>13</sup> Each year, some districts do not meet their growth allocation and therefore do not receive full funding. Systemwide, these funds are redistributed to those institutions that have unfunded FTES over their caps. This redistribution typically represents only a fraction of a district's total unfunded FTES.

<sup>14</sup> Growth for maintenance and operations is treated slightly differently, depending on whether new square footage has been brought into use.

As already noted, one element of the CCC system's prior relationship with K-12 education is that it still receives nearly one-third of its overall resources from local property taxes. A combination of slightly different tax rates and significantly different tax bases could lead to a great deal of variation in the relative contribution of these revenues at the local level. By first subtracting property taxes from a district's target allocation, this element of the apportionment process has a leveling effect on per student revenues across districts.

The second adjustment the PBF formula makes to the target allocation is to subtract 98 percent of student enrollment fees. Because tuition is waived for low-income students, this adjustment also exerts a leveling effect, but it is a marginal one relative to the property taxes. Netting out student tuition from the target allocation provides a powerful disincentive for individual districts to raise their fees, even if the law allowed it. For every dollar of tuition increase a district might try to raise, it would realize only 2 cents in additional revenue. Because the state legislature determines a single rate, statewide fee schedule, such a possibility is remote, even without the take-back. Finally, it is not entirely clear why 98 percent is used. Equation (4.4) summarizes the state apportionment calculation.

$$\begin{aligned} \text{State apportionment} &= \text{target allocation} \\ &\quad - \text{property tax revenue} - .98 \times \text{fees} \end{aligned} \quad (4.4)$$

### **Program-Based Funding in Practice**

In some ways, the formula-based funding process is the epitome of rationality. It first establishes quality standards and determines what it would cost to provide services at that level. It then makes adjustments for enrollment growth and the cost of living in determining a district's future funding needs. Finally, it attempts to negate the disparate effect of local wealth on available revenues by subtracting property taxes from each district's target allotment. Given the level of detail and limits on discretion in the formula, one would expect it to produce adequate levels of funding that reduce many funding inequities that otherwise might emerge. In practice, the state general apportionment process fails on

both counts. It has not provided the funds required to reach the standards it defines and is responsible for much of the variation in revenue levels across districts. To understand how these outcomes are possible, it is necessary to examine the practical effect of the minutiae comprised by program-based funding.

### ***Calculating the Base: Standard Rates and Percentage of Standard***

What is impressive about the PBF process in practice is how quickly and significantly its most important principle is violated. The allocation process is designed to provide funding that achieves particular standards. The reality is that the state has never provided sufficient funds to reach that level. More impressive is just how far short of the mark the appropriated resources fall. Since PBF's inception, funding levels have hovered at slightly more than 50 percent of the amount deemed necessary according to the stated standard rates. For 2001–02, this adjusted share, or “percentage of standard” in PBF parlance, was 54.2 percent statewide (Harris, 2002, p. C-8).

The percentage of standard figures into the apportionment equation early in the process and its consequence is significant. The standard rates presented above in Table 4.1 illustrate this effect. For 2001–02, the standard rate for credit instruction was \$4,472 per FTES. Applying the statewide percentage of standard of 54.2 percent for that year reduces the rate to \$2,424 per FTES. Few other elements of the PBF formula better illustrate its irrationality. On paper, the process purports to provide the resources to reach certain benchmarks of service. In reality, it has provided about half of what its own regulations and formulas suggest is necessary to achieve that standard. With the exception of noncredit instruction, the percentage of standard is applied to all program standard rates (e.g., a funding rate of \$10.33 per square foot for maintenance and operations became \$5.60 per square foot). Because separate legislation fixed the rate for noncredit instruction, that standard rate is not affected by the percentage of standard (i.e., the \$1,574 per FTES stayed the same in 2001–02).

The funding shortfall does not affect all districts equally. Because the allocation process is based on the prior year's apportionment, not all

districts receive the statewide percentage of standard. Instead, because funding differences existed when the PBF was initiated, some of those disparities are carried forward. Combinations of changing enrollment and elements of the formula itself can also contribute to differences.

The consequence of this feature is that individual districts' percentage of standard is different from the statewide standard.<sup>15</sup> Going into the 2002–03 fiscal year, the Copper Mountain District begins to calculate its base using a district percentage of standard of 44.0 percent. In contrast, San Francisco City College's 2001–02 base represented 59.1 percent of standard (Harris, 2002, p. C-7). These two districts represent the extremes with regard to the range of district percentages of standard. Sixty-five of the 72 districts fell within 3 percentage points of the statewide standard.

Comparing Copper Mountain to the Feather River Community College District illustrates the effect that different percentages of standard can have on revenue. Both districts are relatively small (1,373 and 1,471 FTES, respectively). Feather River's percentage of standard of 54.6 percent, however, was slightly higher than the statewide average and nearly 10 percentage points above that of Copper Mountain. As a consequence, Feather River's total revenue from the apportionment process was over \$7.3 million, or \$4,985 per FTES. Copper Mountain's apportionment share was \$5.6 million or \$4,080 per FTES (California Community Colleges Chancellor's Office, 2002c). Of the \$900 less per student Copper Mountain realized from the PBF formula, over \$500 can be attributed to its lower percentage of standard. Total revenue per FTES for both districts, it should be noted, is well above the state average.<sup>16</sup>

The purpose behind the quality standards articulated in Title 5 of the California Code of Regulations is difficult to ascertain as the state does not fully fund the standard rates. One could argue that, by extension, a goal of a student/faculty ratio of 25:1 would become 46:1,

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<sup>15</sup>A district's percentage of standard is calculated as the inflated base year funding divided by what the base *would be* if the standard rates and workloads were applied.

<sup>16</sup>Feather River maintains a facility that is larger than Copper Mountain's by almost 50,000 square feet. The PBF formula, therefore, provides almost \$250,000 more in maintenance and operations funds to Feather River.

given that only 54.2 percent of the funds deemed necessary to realize that goal have been provided. In discussions in Sacramento about accountability and performance with regard to California's community colleges, these sorts of calculations do not emerge. Further reducing PBF's credibility as a rational method to manage resources is the fact that the chancellor's office is not required to hold districts accountable for spending the allocated resources within the categories set out in the formula. Once the funds are apportioned, districts are unrestricted as to the level and distribution of funds across their various programs.

Given that the PBF standards have never been fully funded and districts are unrestricted in how they use their allocation, it is difficult to understand why the state spends so much time maintaining the fiction of the standard rates. One might argue that the rates represent a commitment to the type of high-quality educational services the state would like to provide. In reality, they serve as a convenient metric supporting an argument that the community colleges are chronically underfunded. The state's own standards have estimated the cost of providing credit instruction for a full-time student to be \$4,472 in 2001–02.<sup>17</sup> The apportionment process fell short of that mark by more than \$2,000. The cumulative number is even more impressive. Had community colleges been funded at the full amount of the standard rates in 2001–02, they would have received approximately \$3 billion more in state revenue (about \$3,000 more per FTES).

In addition to supporting the argument that community colleges represent a low funding priority in California, the variables used to calculate the base program skew the incentives districts face when considering the expansion of programs. Districts receive funding for credit instruction at the same rate regardless of the actual cost of particular programs. Some courses of instruction, however, simply cost more than others. Nursing is a notoriously expensive program with more than one of the administrators interviewed putting the cost at about \$9,000 per full-time student. Technical vocational programs and natural

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<sup>17</sup>It is fair to question whether the state standards represent the "right" amount of resources required to tertiary-level education services. Compared to the CSU and UC systems, however, they do not appear to be overly ambitious.

sciences also tend to require more resources than average because of the investment in laboratories, equipment, and materials.

From a district's perspective, there is little incentive to expand high-cost programs. The decision as to whether to expand a college's nursing program illustrates the point. Across the state, there has been an acknowledged shortage of qualified nurses, with some areas particularly hard hit. The CCC system seems particularly well situated to respond to such a problem. Some of the schools have expanded their nursing programs recently, but it was likely over the objections of their financial officers. If a district were to use its growth allotment to expand or add a nursing program providing services to an additional 25 FTES a year in 2002–03, it would have received an additional \$61,000 in revenue via the PBF formula.<sup>18</sup> This general apportionment would cover only 27 percent of the program cost, however, leaving the college to look elsewhere in its budget to cover the additional \$164,000 in program costs. At a time of constrained resources, covering costs of this magnitude would be a difficult task.<sup>19</sup>

The incentive that the apportionment process does create is a bias toward expanding credit instruction that costs less to deliver. Large credit classes that employ part-time adjunct faculty would appear to be the most desirable. This type of course would generate large numbers of FTES but cost less per unit to deliver.

One would hope that colleges would resist the temptation to “chase cheap FTES,” but some have given into the temptation. In December 2002, the *Orange County Register* investigated so-called “phantom classes” (Ried, Fisher, and Shulyakovskaya, 2002a). The articles reported that some Orange County community colleges were employing high school coaches as instructors for physical education (P.E.) courses. The coaches would, in turn, encourage their players to register for the courses. One high school football coach described it as a “win, win, win situation.”

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<sup>18</sup>Calculated at a standard rate of  $\$4,472 \times 25 \text{ FTES} \times .542$  percent of standard = \$60,600. This calculation assumes no scale adjustment.

<sup>19</sup>The state recently has instituted a program that provides some additional funding for districts that increase the capacity of their nursing programs. The additional funds do not cover the shortfall, however, and do not become part of the base calculation in future years.

“The kids get (college) credit, the high school coaches get paid. And obviously, the junior colleges pick up the numbers they need in terms of enrollment.”<sup>20</sup>

The investigation into the P.E. courses raised questions about the practice of coaches double-dipping into public funds and whether the courses were sufficiently rigorous enough to merit college credit. These concerns acknowledged that some college administrators turned a blind eye to the practice, which may be disappointing, but not necessarily surprising. In response to the *Orange County Register* articles, the state Department of Finance instructed the CCC chancellor’s office to determine the extent to which concurrent enrollment was being abused. That report determined that 24 districts had seriously violated the requirements for claiming apportionment funding and estimated that these courses overstated total system enrollment by as many as 5,500 to 11,200 FTES (0.5 to 1.1 percent) (California Community Colleges Chancellor’s Office, 2003). Given the incentive structure of the PBF process, promoting growth in low-cost programs can free up resources to subsidize more expensive instruction.

Although the apportionment process does not differentiate among programs for which credit is given, it does distinguish between credit and noncredit programs. For 2002–03, the PBF formula allocated, on average, \$2,424 for each full-time student enrolled in credit courses in districts larger than 10,000 FTES. The comparable rate for noncredit instruction was \$1,574, more than one-third less. The vice chancellor for finance and administration of the City College of San Francisco (CCSF) maintained that in his district, there was very little difference in the cost of delivering noncredit versus credit courses.<sup>21</sup> Although some instructors in noncredit courses may earn slightly less than their counterparts in the credit courses, the pay scale was not a full one-third lower, and the other costs of instruction (registration, scheduling, administration, etc.) were the same.

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<sup>20</sup>Newport Harbor High School coach Jeff Brinkley quoted in Ried, Fisher, and Shulyakovskaya (2002a).

<sup>21</sup>Interview with Peter Goldstein, April 11, 2003.



The effect of the program-based funding formula's credit/noncredit distinction is that districts have little incentive to provide noncredit instruction if it is at the expense of credit courses. And, if one assumes a minimal difference in the cost of providing these types of instruction, the apportionment process penalizes some districts for providing noncredit courses when they could otherwise use the resources to provide credit instruction. CCSF is the poster child for this predicament. The district, the state's fourth largest, reported a total of 34,660 FTES for 2001–02. Of these, 37 percent were accounted for by noncredit courses. Without a differentiation in the apportionment formula between credit and noncredit instruction, CCSF's allocation for 2001–02 might have been \$129 million, or 12 percent more than the \$116 million it was allocated (California Community Colleges Chancellor's Office, 2002c).

From the state's perspective, offering a disincentive to districts that serve more students taking noncredit courses may make sense when one compares the potential societal benefit of a credit-bearing biology course to a noncredit adult enrichment course in ceramics. The potential value added in economic terms, however, is less clear when one realizes that English as a Second Language (ESL) and GED courses constitute a significant share of noncredit offerings, as is the case at CCSF. Although such courses carry the noncredit label, they could be playing a critical role in contributing to the human capital of the state's labor force.

### ***Scale Factor***

The effect of the scale factors is significant and many districts benefit from it. The small districts that do receive more funds as a result of the scale factor do so at a cost to the larger schools. The average district size in 2001–02 was 15,329, meaning that those districts with enrollments almost two-thirds of the average size qualify as being small under PBF. Compared to the economies of scale factor used for K–12 education, the PBF definition of “small” is more restrictive. The revenue limit formula for K–12 schools defines small districts as those 5 percent of the size of the average high school district in the state (Holmes and Walrath, 2002, p. 8). Using 10,000 FTES as the cutoff, 44 percent of the districts (32 of the 72) are considered small and qualify for an adjustment for economies

of scale. These districts represent 17 percent of the system's total enrollment (Harris, 2002).

At the smallest institutions, the scale factor translates into a generous boost to the state apportionment. For Copper Mountain and Feather River, the state's two smallest districts (both fewer than 1,500 FTES), the factors used for credit instruction increased their program allotment by more than 25 percent (Harris, 2002). For a district closer to the 10,000 cutoff, the effect is more modest. The Antelope Valley district reported more than 8,600 FTES in 2001–02, which qualified it for an instructional credit scale factor of 0.8 percent.

Of the 18 districts shown in Figure 4.1 with per FTES revenue greater than 10 percent of the state average, 15 are considered to be "small" according to the PBF formula. The other three are multicollage districts with at least one college meeting the criteria of being a "small" school. All of them, therefore, have their base amounts adjusted upward during the apportionment process.

### ***Target Allocation: COLA and Growth***

The application of the cost of living adjustment has a minimal effect on differences between districts in terms of per FTES revenue. A single, statewide COLA is applied to the base when calculating a district's target allocation for the upcoming year. For 2002–03, the applicable adjustment was 2 percent.<sup>22</sup>

The growth allocation has a much more significant effect on funding levels per student. As noted above, the growth percentage is an assigned allocation looking forward into the next year and is treated as a hard cap. From a practical perspective, this factor creates a powerful incentive for colleges to manage their enrollments. A college can increase the number of students served up to the growth cap, but should it exceed its allocation, no additional funds would be forthcoming from the state. The district over the cap must spread its funding that much further to

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<sup>22</sup>In districts where the percentage of standard falls below the statewide percentage of standard, the COLA is adjusted upward in something of an equalization attempt. The effect is fairly small, however. A district whose percentage of standard is relatively low (a 0.51 as opposed to a 0.54 statewide percentage of standard) would see its COLA increase from 2 percent to 2.12 percent.

cover the unfunded FTES. In the 2000–01 year, districts reported serving 17,000 more FTES than were allocated for by the state formula. These unfunded FTES were primarily concentrated in growing districts, with Los Angeles accounting for most of them (California Community Colleges Chancellor’s Office, 2003).

On the other side of the growth equation, colleges lose money should they fall short of their growth allotment. Final apportionments to the college are based on actual enrollment figures calculated at the end of the school year. A district that falls short of its allotted growth will receive a smaller apportionment from the state. As one business officer described it, “The game is to try to get as close to your growth number as possible without going over it.”<sup>23</sup>

From a budgeting and resource management perspective, maintenance of a hard cap on growth is understandable. Without some control, the system as a whole could conceivably grow well beyond the state’s capacity to finance it. Or, more likely, the state would simply cap resources, forcing the CCC system to spread dollars even more thinly. High growth areas could begin to garner larger and larger slices of the revenue pie, squeezing out low-growth districts.

The issue of growth illuminates a central concern in community college financing in California. The decision of how to handle it pits the need for responsible fiscal management against the mission of the system to provide access to higher education for all. The growth issue, therefore, causes the hybrid nature—part K–12 and part higher education—to surface. The CSU and UC systems have long imposed strict caps on their enrollment and managed their growth conservatively. As a result, those institutions have become more selective in their admissions. This selectivity has been enabled, at least in part, by the community college system’s open admission policies. As Table 4.2 indicates, the CCC is the only higher education system in the state whose enrollment has actually grown faster than the number of residents in the state.

Providing access to higher education for the state’s residents is a worthwhile goal. The incentives created by the growth allocation,

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<sup>23</sup>Interview with Scott B. Miller, Vice President for Business and Finance, Napa Valley College, February 12, 2003.

**Table 4.2**  
**California Higher Education Enrollment**  
**per 1,000 State Residents**

	CCC	CSU	UC	Total
1970–71	41	12	5	58
1980–81	58	13	6	77
1990–91	51	13	5	69
2000–01	46	11	5	62

SOURCE: Calculated from California Postsecondary Education Commission (2002, Display 88).

however, come into conflict with this sense of access. The need to manage enrollment means that the supply of seats in certain courses may not always meet demand. Instead, colleges must weigh the costs of adding sections against the effect (or lack thereof) on revenues. In a similar fashion, courses with low enrollment receive extra scrutiny and are often in danger of being cancelled before the start of the semester.

Enrollment management, then, means that the CCC system will certainly fall short of the Master Plan vision of providing educational services to all who need or desire them. Access to instruction also is not controlled by an application process where prospective students are assessed relative to certain criteria, as is the case in the UC and CSU systems. Instead, in community colleges, access to education is essentially the product of a formula-driven growth figure that caps the number of seats available in a given term. Access to those seats is a function of whoever is savvy, lucky, or quick enough to register for the course.

Although the application of the growth factor creates a financial incentive for districts to come as close to their enrollment allocation as possible, not all districts succeed. The Los Angeles Community College District (LACCD) represents the most extreme case in this regard. The LACCD finished 2001–02 having served 13 percent more students than the apportionment process allocated for it (83,000 FTES). In the language of program-based funding, the district had 11,000 unfunded FTES. Had the district not served these students, it would have had an

additional \$650 more revenue per student available (from \$4,885 to \$5,540 per FTES).

To some degree, districts can simply choose to serve additional students and spread their resources across greater numbers.<sup>24</sup> There is a practical limit, however, to how far a fixed pool of resources can reach. The severe cuts proposed by Governor Davis for community colleges in the 2002–03 year and beyond forced LACCD administrators to confront an extremely unpleasant dilemma. The LACCD chancellor noted that, from an educational perspective, the choice ran counter to many of his principles. “The [apportionment] system drives us into what is essentially unethical.”<sup>25</sup> The magnitude of the cuts forced them to choose between denying access to some students or reducing even further the resources available to all students. Concluding that it was not possible to spread its dollars more thinly, the district began to pursue the unpalatable path of purposefully driving down enrollment. At Los Angeles City College, administrators cut 400 courses from the upcoming semester’s offerings.<sup>26</sup>

A final observation regarding the practical effect of the PBF’s growth factor is to note that the assigned growth rate is not guaranteed. Community college administrators described in interviews how the chancellor’s office updates the growth figures throughout the year. Should the state legislature underfund the system, or if statewide property taxes fall short, growth rates are adjusted downward, on a proportional basis. One district’s business officer noted that it is typical to have periodic adjustments to growth allotment throughout the year, as shifting system enrollment numbers as well as amendments to the current year budget cause the chancellor’s office to recalculate the growth

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<sup>24</sup>There are some provisions in the PBF formula to redistribute funds “left over” as a result of districts not meeting their growth allocations. These funds are then allocated to offset a share of the unfunded FTES. Those FTES do not become part of a district’s base, however, going into the following year.

<sup>25</sup>Interview with LACCD Chancellor Mark Drummond, February 27, 2003.

<sup>26</sup>Interview with Arthur Q. Tyler, Vice President for Administration, February 28, 2003.

numbers. Final numbers are not released until the February following the close of the prior fiscal year.<sup>27</sup>

In projecting a district's allocation for the upcoming year, the PBF process includes two provisions designed to introduce a degree of stability and address inequities. For districts with declining enrollments, PBF phases in the financial effect of that decline over time. The PBF process also includes an equalization provision intended to address any inequities caused by the formula. Historically, the state has not provided equalization funds in most years. When they were provided, the funds were distributed in a manner that had little effect on closing the gap between high- and low-revenue districts (Holmes and Walrath, 2002).

### ***State Apportionment: Property Taxes and Student Fees***

To determine the state's contribution to the general apportionment, the PBF formula first deducts student fees and locally generated property taxes. Subtracting student fees from a district's target allocation does not have an effect on per student revenue, as the provision applies to all districts equally. By netting out property taxes, however, the PBF process mitigates inequities that otherwise might have emerged.

Given that property taxes constitute a major share of total CCC revenue (32 percent systemwide), and that the property tax base varies considerably across the state, there is the potential for wide disparities in the resources available to individual districts. Property taxes in the Palo Verde District (Blythe), for example, generated \$422 per FTES in 2000–01; the state average was nearly four times that amount (\$1,577 per FTES). Property taxes in the Mira Costa District (Oceanside) were \$4,851 per FTES, three times the state average and 10 times larger than Palo Verde's. By decreasing the state's contribution to a district's general apportionment in direct proportion to the funds generated by property taxes, much of the potential gap is eliminated. Mira Costa received no state money and Palo Verde was provided with \$3,443 per FTES. Although it did not result in equal per student revenues, the disparities created by differences in the property tax base were reduced substantially.

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<sup>27</sup>Interview with Thomas Brundage, Vice President for Business Services, Antelope Valley College, April 30, 2003.

It is possible for a district to receive more property taxes than its allocation and, therefore, be categorized as a *basic aid* district. For the 2000–01 fiscal year, only three districts fell into this category: Marin, Mira Costa, and South Orange.<sup>28</sup> The effect of property wealth on revenue differences across districts is significant in terms of the resources available to the basic aid schools. These districts, however, represent a small share of the overall system. As with K–12 basic aid districts, these districts receive categorical funds calculated on the same basis as other districts. These three districts, however, did not receive state general apportionment resources (California Community Colleges Chancellor’s Office, 2002c). Not surprisingly, all three districts exceed the state average in terms of total revenue per FTES (Table 4.3). Taken as a group, these three districts had 13 percent more revenue per student than the state average. In absolute dollar terms, basic aid status meant that \$23.4 million, or \$650 per FTES, was available to these districts. Relative to the system as a whole, the three represented only 3.3 percent of the total students in the system and accounted for 3.7 percent of total resources.

**Table 4.3**  
**California Community College Basic Aid Districts, Fiscal Year 2000–01**

District	FTES	Total Revenue (\$ Thousands)	Revenue per FTES (\$)	% Above State Average
Mira Costa	7,285	51,135	7,019	43.8
Marin	6,888	35,957	5,221	6.9
South Orange	21,752	111,689	5,135	5.2
All basic aid districts	35,925	198,781	5,533	13.3
Statewide	1,086,775	5,305,572	4,882	—

SOURCE: California Community Colleges Chancellor’s Office (2002b).

<sup>28</sup>For comparison, of the state’s 1,000 K–12 districts, 59 were basic aid, representing about 145,000 students.

## Summary

In theory, program-based funding appears to be a sensible, albeit intricate, attempt to allocate resources based on the cost of delivering services at a particular standard. It also makes adjustments for different sized districts and allowances for rising costs. The degree of specificity applied to the program standards that constitute the formula even suggests a sense of accountability for how these public resources are being utilized. Implicit in the structure is a sense that districts will be funded at a level necessary to reach a particular performance standard. Schools, unable to realize that level of performance, then could be taken to task for underperforming.

In practice, PBF emerges as an opaque and needlessly complicated process that apportions funds through a series of incremental adjustments to funding patterns dating back to 1991 (Scott, 2002). Because the state has funded only a fraction of what the formula itself estimates to be necessary to meet its stated standards, PBF has little to do with providing the necessary resources to reach those benchmarks. That fact, combined with the reality that districts are not required to spend their apportioned resources within the PBF's categories, strips away the veneer of accountability that the process might imply.

The other practical effect of program-based funding is to create an inequitable distribution of resources and a skewed incentive structure. Table 4.4 summarizes these incentives.

For the district seeking additional resources to expand its offerings or improve the quality of its services, the PBF process presents a significant constraint. Much of the variation in a district's allocation is determined by factors beyond its control (e.g., the base level of funding it had when PBF was implemented and the calculation of its growth allotment). These variables have little or nothing to do with more relevant management concerns such as the past performance of the institution or average labor costs in a particular region of the state. As for the variables that a district can control, the PBF formula creates incentives that may be unrelated to, or in conflict with, the CCC mission or the needs of the communities. Absent "chasing cheap FTES," a district seeking to free up revenue for new initiatives is faced



**Table 4.4**  
**Summary of Effects and Incentives Associated with the Program-Based  
 Funding Process**

PBF Formula Factor	Condition That Maximizes Amount of Revenue or Discretion over Revenue
Percentage of standard	Possess a relatively large funding base when PBF initiated; maintain that base
Scale factor	Small district or small colleges within a district
Growth	Grow at a rate that meets, but does not exceed, growth allotment
Credit vs. noncredit	Offer credit classes over noncredit classes whenever possible
Instructional program mix	Minimize high cost programs (e.g., sciences, nursing, and technical programs); maximize low-cost credit programs

with either turning away some students by canceling courses or looking beyond the apportionment for other sources of funding.



## 5. Other Revenue Sources

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The community colleges' general apportionment accounts for almost two-thirds of their total revenue. Several other sources of funds collectively constitute the balance. This chapter identifies some of these other revenue streams, describes how they are disbursed, and discusses their potential for augmenting the resources available to the system.

### **Categorical Programs**

Categorical programs accounted for \$484 million or 9.1 percent of the CCC system's 2000–01 budget (California Community Colleges Chancellor's Office, 2002b). The chancellor's office identifies 24 categorical programs being funded by the state, excluding some capital outlay and student financial aid programs (see Appendix C).

Both the scale and focus of these activities vary considerably. Some categorical programs are quite substantial. The Disabled Students Programs and Services (DSPS) appropriation, which totaled \$72.3 million in 2000–01, provides colleges with additional funds to help them accommodate students with disabilities. The services include making interpreters available for hearing impaired students and providing tutors or specialized instruction for students with learning disabilities. The funds are distributed according to a formula that includes the number of students each college is serving and their disabilities. Total funding for DSPS is based not on the cost of providing the services but rather on an allocation from the state legislature. The CCC chancellor's office estimated that the program funding represented only 88 percent of the total costs to the colleges (California Community Colleges Chancellor's Office, 2002b).

The Extended Opportunity Programs and Services (EOPS) categorical program provided districts with \$62.8 million in 2000–01 to give additional support services to students who may be disadvantaged by economic and social conditions or by language. Districts receive EOPS

funds based on the number of students enrolled who meet specified criteria. The program maintains a target of providing an additional \$600 for each EOPS student enrolled. As with the other categorical programs, however, the governor and state legislature determine the amount of the final appropriation, which typically falls below the targeted amount. This smaller figure is then divided proportionally among the colleges.

DSPS and EOPS are among the largest categorical programs. Smaller ones have been included in the budget to address particular issues and have been carried forward. The Part-Time Faculty Health Insurance appropriation, for example, spread \$1.0 million (\$0.92 per FTES) across the 72 districts to offset the health insurance costs for part-time instructors. The program exists as a separate budget line item, distinct from two other categorical programs—the Part-Time Faculty Compensation and Part-Time Faculty Office Hours programs.

Two major issues emerge regarding the role of the categorical programs in financing California's community colleges. First, given the size and number of some of these separate line items, it would seem that efficiencies could be gained by consolidation. The LAO proposed such a move in its analysis of the 2002–03 budget. Under that proposal, 11 accounts would be grouped into two broader categories: Student services and faculty support (Legislative Analyst's Office, 2002, p. E-254). Consolidation would provide the colleges with a degree of flexibility in how funds are used across a number of different activities and would probably reduce administration costs. Because these programs do not reflect the actual cost of providing the services to the students, such flexibility would appear to make sense.

The second issue speaks to the transparency of the budget process as a whole. For services such as those provided under DSPS, colleges do not have a choice as to whether they should be provided. The chancellor of the City College of San Francisco maintained, however, that the governor and legislature give the appearance that districts possess a degree of discretion in offering these services.<sup>1</sup> He suggested that in light of recent proposals to cut funding for some categorical programs, an

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<sup>1</sup>Interview with Philip Day, Chancellor, City College of San Francisco, April 25, 2003.

observer unfamiliar with the system would assume that services simply would be reduced in these designated areas. The reality is that the colleges continue to provide the additional services to the students who need them, with the necessary resources being shifted from base funding. The net effect, then, is to reduce the base and, consequently, access.

## **Partnership for Excellence**

A quasi-categorical program, the CCC system's Partnership for Excellence (PFE), instituted in 1998, was designed to improve the performance of the community colleges. The funds appropriated for PFE have been substantial, beginning with \$100 million in the first year and growing to \$300 million by 2002–03, with a plan to reach \$700 million by 2004–05 (California Legislative Analyst's Office, 2002). The premise behind the program was that funds would be used to supplement the general apportionment and thereby assist the colleges in working toward established performance measures (e.g., transfers, degrees and certificates conferred, and course completion). Progress toward these goals would be somehow tied to future funding.<sup>2</sup> That was, at least, how the PFE was presented publicly.

Administrators at all five districts contacted for this project described how officials in the chancellor's office communicated a different description of the PFE program to them. District officials had been led to believe that PFE was simply a vehicle to provide more funding to the colleges overall, with the accountability language added to make it more palatable for some legislators. These local administrators all interpreted the message from Sacramento to be: Treat PFE funds as part of your funding base. Such an interpretation is not surprising given each district's desire for maximum discretion over the use of its funds.

Given this backdrop, few observers of the CCC system were shocked to discover that the PFE program was doing little to introduce accountability. Initially, there was some difficulty in defining the performance measures to be used. Once established, performance goals,

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<sup>2</sup>The language the chancellor's office used was that the new investment was in exchange for a "credible commitment" from the system to specific outcomes. See California Community Colleges Chancellor's Office (2001).

representing improvement relative to specified baseline measures, were set for 2005–06. With the measurement and reporting system in place, one would expect that PFE funding could now be linked to performance. It is not. Total PFE funding has been negotiated by the governor and legislature and distributed to the districts based on their allocated FTES. In other words, the implementation of the program comported with the less-public notion of the program. Consequently, the accountability implied by PFE has been, in the words of the LAO, “elusive.” As of 2002 in fact, the CCC system was losing ground relative to two of the five goals it had established for itself (California Legislative Analyst’s Office, 2002).

Although a failure perhaps in terms of accountability, the PFE program can claim success as an augmentation to the CCC system base funding. Its \$300 million constitutes 6 percent of the community colleges’ total revenue, representing more than \$250 per FTES. The colleges have used some of these additional resources to purchase instructional and library materials, upgrade technology, and redesign courses—all one-time, nonrecurring expenses. Given their interpretation of the message put forward by the chancellor’s office, they also have used PFE funds to hire full-time faculty, counselors, and other student-support staff—expenses that recur from one year to the next. In short, the districts have built PFE into their base.

Given its track record in terms of introducing accountability to the system, it is difficult to envision the PFE program as a source of additional revenue in the future. As the state enters a period of unprecedented budget deficits, the PFE program emerges as an attractive target for spending cuts. The 2003–04 budget cuts the program 25 percent, from \$300 million to \$225 (Lay, 2003). As with some of the categorical programs discussed above, however, the PFE program is not a supplemental activity, operating on the periphery of the services the system provides. Instead, it has been subsumed into the core program, and the cuts are likely to result in a proportional reduction in services.

## **Local Taxing Authority**

Proposition 13 curtailed the authority of local education jurisdictions to raise revenue locally, but community college districts

retain a minimal degree of power to tax their own residents. With the exception of bond issues, however, the use of local taxing authority to augment a community college district's resources has been minor. Overall, revenue from local taxing powers contributed approximately 1.6 percent (\$83 million out of \$5.3 billion) for the CCC system in 2000–01.<sup>3</sup>

One vehicle by which community college districts could generate a revenue stream in a post-Proposition 13 environment is the parcel or special tax. For some K–12 districts, parcel tax revenue can provide as much as 20 percent of the district's total resources. Even for K–12 districts, the use of the parcel tax is not widespread across the state, however. Rueben and Cerdán have noted that from 1986 to 2000, only 123 parcel tax measures were approved by voters. Parcel taxes are primarily a Northern California phenomenon, with the Bay Area accounting for 84 percent of the measures passed over that period (Rueben and Cerdán, 2003, p. 39). For community colleges, their use is even rarer; over the period examined by Rueben and Cerdán, only the Los Angeles Community College District proposed a parcel tax. The measure, which was on the ballot in 1996, did not pass.<sup>4</sup>

County authority to impose local sales taxes represents another alternative for raising revenue for community colleges. Although district boards do not have direct authority over their imposition, it is possible for county governments to earmark a portion of sales tax revenue for the local community colleges. The revenue generated can be substantial and, unlike a parcel tax, sales taxes do not have to be renewed. Despite such appeal, implementing a sales tax increase is a difficult proposition; only one of the state's 72 community college districts is reaping the benefits of a local sales tax. Eight percent (\$14 million) of the total revenue for the City College of San Francisco was derived from sales tax revenue in

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<sup>3</sup>Calculated from California Community Colleges Chancellor's Office (2002b). It is possible only to estimate the contribution of local taxes here, as the chancellor's office categorizes them as "other local revenue."

<sup>4</sup>The LACCD placed a \$12 per parcel tax on the ballot officially as an "advisory" measure. Regardless, it received 48.4 percent of the vote, suggesting that support for the tax was well below the required two-thirds supermajority.

2000–01.<sup>5</sup> Passed by San Francisco voters in 1993, the measure imposed an additional one-quarter of one cent sales tax with the proceeds going to local education. The total amount generated is divided between the community college district and the San Francisco Unified School District on a formula based on enrollments.<sup>6</sup>

Local bond issues are the most common alternative for community college districts to exercise their local taxing powers. General obligation bond assessments on property taxes provide revenue to pay for specific capital expenses and have the potential to free up resources for operating costs. The Yosemite Community College District, for example, currently is servicing debt for recently completed capital projects out of its operating budget. The district has considered the issuance of general obligation bonds that would be used to pay off the certificates of participation and thus shift the debt service to the newly imposed bond assessment revenue. From 1986 to 2000, voters in nine districts approved 11 bond issue ballot measures to support capital projects in community colleges (Rueben and Cerdán, 2003, p. 20).

In the broader context of community college financing, the imposition of local taxes has considerable appeal. First, they represent a source of significant revenue for a system that has been arguably underfunded. Second, these types of local tax revenues are not included in the program-based funding formula. As such, an individual district's apportionment is unaffected by funds generated in this manner.

Political realities, however, limit the use of local taxing authority. All options require some degree of voter approval, often a supermajority, and in some cases, the cooperation of other local governments. And, historically, community colleges have had a harder time than K–12 districts making their case. Rueben and Cerdán report that elementary, high school, and unified school districts passed 55 percent of their bond issues and parcel tax measures from 1986 to 2000. By comparison, community colleges passed only 42 percent of their bond issues and

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<sup>5</sup>Calculated from California Community Colleges Chancellor's Office (2002b). It is possible only to estimate the contribution of local taxes here, as the chancellor's office categorizes them as "other local revenue."

<sup>6</sup>Interview with Peter Goldstein, Vice Chancellor for Finance and Administration, City College of San Francisco, April 11, 2003.



failed to pass the one parcel tax proposal put on the ballot (Rueben and Cerdán, 2003, pp. 20, 37). Proposition 39, which passed in 2000, lowered the voter approval requirement from two-thirds to 55 percent and may make the issuance of obligation bonds even more attractive. Of the 26 bond issues put before the voters during the period examined by Rueben and Cerdán, 23 garnered at least 55 percent of the vote.<sup>7</sup>

The individualistic political culture of the state's electorate also could present a significant barrier to community colleges' efforts to convince voters to support a parcel tax, sales tax, and even bond issue. One selling point for local taxes for primary and secondary education is that the children of the district will be the primary beneficiaries of the new funds. Community colleges have a difficult time making such an argument. Unlike K–12 districts, where enrollment is regulated, California residents are free to register at any of the state's community colleges. Added to the challenges of getting voter approval, then, is the fact that benefits will not be confined to local residents.

## **Contract Education**

Although the provision of education is the primary focus of California's community colleges, there are opportunities for the schools to generate revenue by marketing their services beyond the student population. Providing education or training services for local institutions has the potential to produce additional funds for the district. Specialized training programs for new or current employees working for local businesses represent the typical contract education activity. Some districts may be particularly well situated to take advantage of this type of opportunity, although the degree to which these activities can provide a significant revenue supplement is likely to vary.

Statewide, the contribution of contract education services is modest given the size of the system. In 2000–01, revenue from contract services totaled \$18.9 million, or 0.4 percent of total revenue.<sup>8</sup> This figure

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<sup>7</sup>Based on data provided to the author by Kim Rueben.

<sup>8</sup>Contract instruction revenue calculations are based upon California Community Colleges Chancellor's Office (2002b).

translates into \$17 per FTES. By comparison, parking and transportation fees produced \$42.9 million in revenue that year.

A small number of districts account for the majority of the system's contract services revenue. The top 10 districts in terms of providing contract educational services provided 60 percent of the CCC system revenue in 2000–01. Data from the chancellor's office indicated that 20 of the system's districts did not produce any contract education dollars. The Palomar Community College District (San Marcos) reported the most income from this source, totaling \$2.0 million, or \$112 per FTES. In terms of per FTES revenue, no district generates more revenue than West Kern (Taft) with \$292 per FTES. The district received a total of \$0.5 million in total contract education resources.

Two of the five districts visited for this project oversee substantial contract education programs. Contracted instructional services provided the Yosemite District with \$860,000 in additional revenue (\$55 per FTES), placing it 7th out of the 72 districts in contract instruction income. The president of the district's board of trustees explained that Modesto Junior College (MJC) had an established reputation with local businesses for providing quality training and instruction. The college's agricultural programs, in particular, were highly regarded by Central Valley growers.<sup>9</sup> Building on this success, MJC has begun to explore expansion into other fields, including programs to serve area restaurants and hotels.<sup>10</sup>

At City College of San Francisco, contract education brought in over \$700,000, ranking it 11th among districts in the state in 2000–01. Given the size of CCSF, the effect of these additional resources was minimal, however, amounting to just 0.4 percent of total revenue. As the district's chief business officer noted, for CCSF contract education is a break even proposition at best.<sup>11</sup> The relatively high cost of living in the Bay Area combined with intense competition from private entities

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<sup>9</sup>Interview with Paul Neumann, President, Board of Trustees, Yosemite Community College District, April 14, 2003.

<sup>10</sup>Interview with Dr. James Williams, President, Modesto Junior College, April 15, 2003.

<sup>11</sup> Interview with Peter Goldstein, Vice Chancellor for Finance and Administration, April 11, 2003.

providing similar services make it particularly difficult to generate discretionary income from contract instruction. The district's chancellor maintained, however, that providing instruction for area businesses had a positive economic effect for the community. As a result, CCSF planned to continue to seek more contract education opportunities but without any expectations that they will have an effect on the district's bottom line.<sup>12</sup>

Community college officials in both Napa Valley and Los Angeles acknowledged that their districts could do more in the area of contract education.<sup>13</sup> One college president went so far as to suggest that the state should require that counties purchase a portion of their training from the local community college.<sup>14</sup> Although it is unlikely that such a requirement will emerge from Sacramento in the near term, the suggestion does introduce the notion that certain community colleges would be particularly well-suited to serve substantive areas. Similarly, there may be regions outside the state's larger metropolitan areas where local community colleges could enjoy a comparative advantage. Given that some schools have been able to use contract education to supplement their total revenue, it may be worthwhile for all districts to explore what lessons could be learned from those with active contract education programs.

## Foundations and Gifts

As with contract education, contributions to community college foundations emerged as a revenue opportunity that administrators reported planning to "do more," but it currently plays a very small role in CCC system financing. Some institutions, however, report success in using foundations as a vehicle to generate additional funds, and there

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<sup>12</sup> Interview with Dr. Philip Day, Chancellor, City College of San Francisco, April 25, 2003.

<sup>13</sup> Interviews with Sandra Ericson, Trustee and former Board President, Napa Valley Community College District Board of Trustees, February 22, 2003, and Dr. Mark Drummond, Chancellor, Los Angeles Community College District, February 27, 2003.

<sup>14</sup> Interview with Dr. Daniel Castro, Interim President, Los Angeles Trade-Tech, February 27, 2003.

clearly is potential for gifts to constitute a larger share of total revenue in the future.

Foundations to collect charitable contributions for community colleges are hardly a new idea. In fact, the nation's first community college foundation was formed at Long Beach City College in 1922 (Schuyler, 1997). Many others were founded in the 1960s and 1970s. In a national survey conducted in 1997, 92 percent of the community colleges responding reported either having a foundation or planning to start one. Their average contribution to the college was a modest \$226,000 in the prior year (Phillippe and Eblinger, 1998). Despite their longevity, few foundations have established themselves as major revenue producers. In contrast to four-year colleges and universities, community colleges generally are not known for asking alumni and other supporters for money to augment their resources.

In California, 47 of the state's 72 districts reported some revenue from gifts and endowments. The total amount contributed to the schools was \$8.3 million, or \$177,000 per district reporting some revenue from private contributions in 2000–01.<sup>15</sup> Once again, this source of revenue was relatively significant for a few districts and does not play a role for many others. The top five districts in terms of total revenue from contributions accounted for over half of the entire system's income from this source. The San Mateo District reported the highest revenue—receiving \$1.3 million in gifts in 2000–01, or \$66 per FTES.

It is difficult to predict the potential for foundations to play a role in the future financing of California's community colleges. Although it would be unrealistic to expect the community college foundations to reach the level of support that some of the high-profile four-year schools enjoy, gifts could offer a significant revenue supplement. The Mira Costa District received \$148 per FTES (\$1.1 million total), for example. The likelihood that private gifts could provide a similar level of funding

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<sup>15</sup>Calculated from California Community Colleges Chancellor's Office (2002b). There is reason to believe that the gift revenue reported here is somewhat suspect. The Santa Barbara District, which a number of administrators identified as having a very successful foundation, reported no income from gifts. The Los Angeles District also reported no income from contributions even though the president of East Los Angeles College stated that the foundation at his school regularly provided financial support.

in other community college districts is likely to vary. Mira Costa is one of the few basic aid districts, providing services in an environment of relative wealth. Other districts will not have as favorable a setting in which to raise funds. Feeling the squeeze of state budget deficits, the colleges may turn to private donors with greater zeal. Presidents in two of the colleges visited for this project reported hiring full-time development coordinators in the past year. Both were new positions and represented a renewed commitment to supporting their local foundations. If contributions to community colleges do not increase in the upcoming years, it will not be for a lack of trying.

## Resident Student Tuition

California has long prided itself in maintaining a community college system accessible to its citizens, particularly those with limited resources. Toward this end, the system operated for many years without charging state residents for tuition. Fees were first introduced in the CCC system in 1984–85, and the state began charging full-time students the modest amount of \$100 per year. Since that time, the cost to students has more than tripled in nominal terms, to \$330 annually (\$11 per credit) representing a 70 percent increase after adjusting for inflation. For the 2003–04 year, fees will increase again, to \$594 per year, or \$18 per credit (California Legislative Analyst’s Office, 2003).

In absolute terms, however, community college fees remain low compared to those at the other California higher education systems: enrollment fees will be \$2,544<sup>16</sup> for CSU and will be \$4,629 for the UC schools (Atkinson, 2003). An examination of the contribution of these fees to the cost of instruction suggests that CCC students are getting a bargain. Table 5.1 presents figures generated by CPEC reporting average revenues per FTES compared to total revenues for “instruction-related activities.” The analysis reveals that CCC students’ tuition pays for, on average, only 3 percent of the cost of the services provided to them; CSU and UC students account for 15 and 22 percent, respectively, of their institutions’ total revenues.

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<sup>16</sup>Annual undergraduate state resident fee as reported by California State University (2003).

Table 5.1

**California Higher Education Instruction-Related Revenues  
and Student Enrollment Fees per FTES, 2000–01**

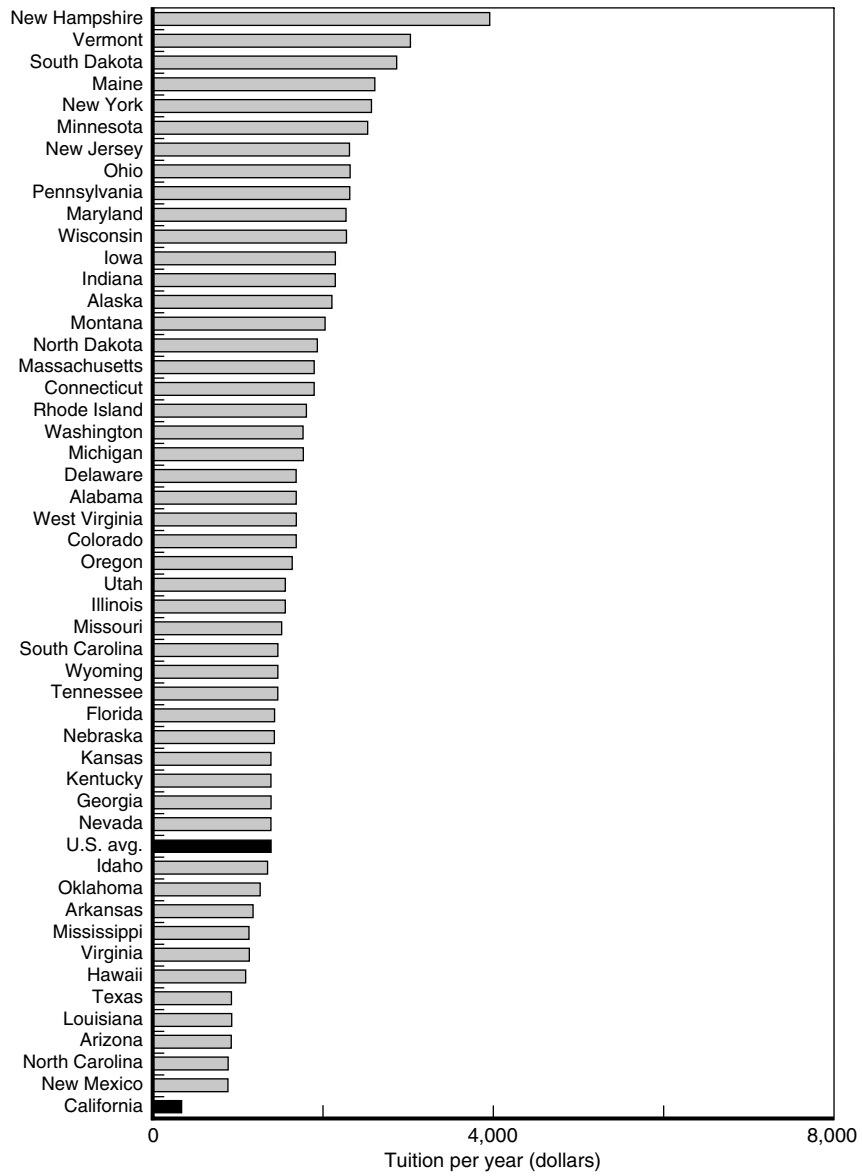
	UC	CSU	CCC
Total revenues per FTES (\$)	16,191	10,822	4,814
Student fees per FTES (\$)	3,587	1,646	157
Fees as a % of total	22	15	3

SOURCE: California Postsecondary Education Commission (2002, Displays 16–18).

An even more striking comparison emerges when resident tuition paid by California residents attending community colleges is examined relative to tuition paid in other states. Data from the National Center for Education Statistics reveal that California fees were the lowest in the nation for the 2000–01 academic year (Figure 5.1). The CCC system fees were so low in 2000–01, they represented less than one-half the cost of community college tuition in New Mexico (\$866 per year)—the state that ranks 49th in the country—and less than one-quarter of the national average (\$1,359 per year). Assuming that none of the states *decreased* their tuition rates recently, the newly enacted budget with its full-time annual enrollment fee of \$594 still enables California to maintain the distinction of having the nation’s lowest priced community colleges.

As noted above, the goal of maximizing access to higher education for the greatest number of individuals drives much of the effort to keep student fees low. Politically, maintaining low community college tuition rates is both symbolic and salient. Unfortunately, in the name of protecting access to higher education, state legislators may be costing the system millions of potential federal dollars that could be used to enhance the program. A 1998 LAO report highlights how the federal Hope Scholarship represents a potential federal subsidy to the state’s community colleges. It is a subsidy that is forgone, regrettably, because of the low level of tuition.

The Taxpayer Relief Act of 1997 established the Hope Scholarship and Lifetime Learning tax credits to offset the cost of higher education. The Hope Scholarship allows individuals to claim an annual credit of up to \$1,500 per year for student tuition and fees. The credit reduces the



SOURCE: National Center for Education Statistics (2002).

Figure 5.1—Average Annual Tuition at Public Two-Year Colleges, 2000–01

individual's final tax bill by \$1 for each of the first \$1,000 paid for higher education expenses. The credit offsets 50 percent of the next \$1,000 spent. The program begins to phase out at higher income levels.<sup>17</sup>

For the qualifying California taxpayer, the Hope Scholarship means that the after-tax cost of community college in 2002–03 was \$0 because the entire \$330 fee (\$11 per unit) was offset by the federal tax credit. Even with the increases included in the 2003–04 budget, enrollment fees for a full-time student would total \$594 per year (\$18 per unit) and be completely covered by the Hope credit for qualifying students or their parents.<sup>18</sup> In fact, this fee could be raised even higher, with little after-tax effect on many students. Raising enrollment fees to \$30 per unit (\$990 annually) would still mean that community college tuition would effectively cost nothing for taxpayers claiming the credit and would represent an opportunity for significant additional revenue to the system. Raising CCC fees to the 2000–01 national average (\$1,359 per year or \$41 per unit) would mean that tuition would cost the full-time student only \$180 per year after taxes if the student is eligible for the tax credit.

The potential revenue generated by such changes could be considerable. A \$30 per unit fee could result in \$100 million to \$200 million more in annual revenues available to the CCC system than in 2002–03.<sup>19</sup> From the state's perspective, the attractiveness of such a

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<sup>17</sup>The credit begins to phase out at \$80,000 adjusted gross income (AGI) for joint returns and \$40,000 for individuals. Joint returns over \$100,000 AGI and individuals reporting more than \$50,000 are not eligible for the credit.

<sup>18</sup>A single individual filing in 2002 would incur \$598 in total federal tax liability after earning \$13,650 in income. A family of four would have incurred a tax liability of \$598 on a household income of \$25,850. Even the individual earning \$10,700 in 2002 could have offset half of the current tuition rate by claiming the credit on a tax liability of \$298.

<sup>19</sup>Turnage estimated \$100 million in additional revenue generated by raising tuition to \$1,000 (1998, p. 6). That figure may be conservative. The 63 percent fee increase that is part of the recently passed 2003–04 state budget (from \$330 to \$594/year) is projected to net the community colleges an additional \$91 million. The governor's January 2003–04 budget proposed to raise fees 118 percent to \$792 a year (\$24/unit). The Department of Finance estimated that such an increase would generate an additional \$149 million in system revenue. Even taking into consideration that enrollment may fall and that a significant portion of students qualify for tuition waivers, it is not unreasonable to assume that annual tuition of \$1,000 would provide an additional \$200 million in revenue over 2002–03 levels.



move is that it would generate more spending for higher education with a negligible effect on other programs or California taxpayers.

Any proposal to raise fees, of course, would continue existing exemptions for low-income students. Under the current structure, about two out of five students qualify for the exemption (Turnage, 1998, p. 6). Other students may not be eligible for the full tax credit simply because they lack enough of a tax liability. A portion of the additional resources generated by the higher fees could be used to increase existing financial aid and offset these effects. Business officers at two of the colleges visited for this project also noted that increased fees would be offset, at least in part, by increased federal Pell Grant awards to students.<sup>20</sup> Currently, the federal government adjusts these awards downward in light of the low rate of tuition being paid.

The problems caused by the low fees go beyond forgone federal subsidies. In 2000, the Little Hoover Commission recommended changes to the existing fee structure in an effort to create incentives for students to complete courses and programs while discouraging the repeated enrollment and dropping of courses (2000, p. 68). The assumption underlying this recommendation was that marginal changes in the costs of enrollment would affect the behavior of students. The current structure—low fees combined with the federal tax credit—affords little leverage in cost changes at the margin. For example, the system could institute a 20 percent surcharge for students who had enrolled in, and then dropped, two or more courses in the prior year.

The proposal to raise community college tuition was supported by 12 of the 18 district officials interviewed for this project, who averaged over 19 years of experience working or serving in some capacity in the CCC system. Most qualified their support for higher tuition by noting that the additional funds generated would have to stay with the districts.<sup>21</sup> Several also observed that, regardless of what support was provided to assist students with tax credits or financial aid applications, a

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<sup>20</sup>Interviews with Peter Goldstein, City College of San Francisco, and Arthur Tyler, Los Angeles City College.

<sup>21</sup>This qualification was raised in response to Governor Gray Davis's January 2003 proposal to raise community college tuition but reduce overall funding for the system one dollar for each dollar generated by the hike.

fee hike would be accompanied by some drop in enrollment. Three of the supporters for increased fees suggested that such a change was necessary to encourage students to appropriately value the services being provided. One board member and former community college instructor noted that she had students “wearing stockings that cost more than it did to take the course.”<sup>22</sup> Putting a higher price tag on community college courses, it was argued, would send a signal to some students to take the experience more seriously.

The goal of maintaining a community college system accessible to all state residents, regardless of their economic situation, is an admirable one. California has removed tuition costs as a barrier to attendance, and the low cost certainly is responsible for the state having one of the highest rates of adult participation in community colleges in the country. Previous research, however, has concluded that other factors (e.g., enrollment caps, course scheduling, insufficient counseling, and outreach) present more significant obstacles (Little Hoover Commission, 2000, p. 41). Ironically, additional resources could have alleviated some of the effect of these elements. In the name of access, the state has kept fees low, which reduces the total resources available to the system and, in turn, limits course offerings and the number of students who can enroll.

The combination of the current fee levels and the federal Hope Scholarship tax credit represents an opportunity for California to pursue its goal of accessible higher education with little additional cost to students or state taxpayers. By raising community college tuition and informing students about the advantages of the federal tax credit, the state could realize a de facto federal subsidy of tens, or even hundreds, of millions of dollars. The CCC system could then use the additional resources to improve and expand its existing services, making it possible for more students to attend.

## **Other Sources of Revenue**

In addition to the programs discussed so far, a number of other opportunities apply to a subset of districts or colleges. Visits to the five

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<sup>22</sup>Interview with Sandra Ericson, Trustee and former Board President, Napa Valley Community College District, February 20, 2003.

districts across the state did reveal a portion of the eclectic set of revenue alternatives that exist. Some colleges may be eligible for grants and contracts being offered by other government agencies or private institutions. Although a multitude of different grants are made available each year, some districts are better situated than others to pursue these opportunities. The LACCD, for example, has received some impressive grant awards. In the spring of 2003, the district learned that it would receive \$2 million in federal grant assistance to support ongoing or planned activities.<sup>23</sup> In addition to completing the standard application process, the district sought to improve its chances by sending a representative to Washington, D.C., to lobby on its behalf.

Not every community college district could imitate this strategy, but it may be possible for districts to compete successfully for certain grants, provided they have the right combination of faculty and institutional support. Similar to contract education, however, grant-writing can often be a “break even” proposition. Government agencies and foundations have little interest in providing resources for a community college to simply deposit into its general fund. More often, the conditions of the grant will require that the recipient take on a new activity. The new activity will require an additional investment in personnel or other costs, with the net effect of the grant award being a relatively small amount of marginal resources to supplement the district’s main programs.

Large districts in or near metropolitan areas may be better positioned to compete for these awards. Smaller districts outside the urban areas, however, have their own set of unique opportunities for raising revenue. Antelope Valley College (AVC), for example, takes advantage of redevelopment funds to increase the resources it has available for facilities. State development legislation enables some areas to redirect a portion of property taxes into a local redevelopment agency. Those funds are then distributed to local government institutions in an effort to enable them to provide additional services in response to growth.

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<sup>23</sup>Interview with Vice Chancellor Peter Landsberger, Los Angeles Community College District, February 27, 2003.

Although the money must be used for capital projects, AVC has an estimated \$600,000 that could be drawn down to fund expansion.<sup>24</sup>

One of the most lucrative prospects for increasing a district's total resources is through nonresident tuition income. The fees paid by nonresidents can represent a significant addition to a district's total resources, but they also provide another example of the skewed incentives of the program-based funding formula. Implementation of PBF requires that most resident tuition be subtracted from the state allocation. Nonresident tuition goes into a district's general fund. Consequently, community colleges have a stronger financial incentive to recruit nonresidents to their school than they do state residents.

City College of San Francisco enrolls a relatively large number of nonresident students. CCSF reported \$4.9 million in nonresident tuition revenue in 2000–01, 2.8 percent of its total income (Table 5.2).

Some districts have found nonresident tuition to be particularly lucrative. Santa Barbara City College, for example, reported that 5.3 percent of its revenue (\$3.2 million) was from nonresident tuition. Santa Monica College collected an impressive \$13.1 million in nonresident tuition that year, accounting for 11.3 percent of its resources. This figure translated into an additional \$528 per FTES that the district had at its disposal.

A final and admittedly untraditional approach to increasing a community college's revenue is to look beyond the realm of providing educational services. Napa Valley College has considered developing a portion of land it owns and leasing it for private retail space.<sup>25</sup> Although the idea of becoming a commercial real estate developer has not gone beyond a suggestion, the fact that it has entered the conversation at all is an indication of how creative the colleges are willing to be.

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<sup>24</sup>Interview with Thomas Brundage, Vice-President for Business Services, Antelope Valley College, April 30, 2003.

<sup>25</sup>Interview with Scott Miller, Vice President for Business and Finance, Napa Valley College, February 12, 2003.

**Table 5.2**  
**Nonresident Tuition Revenue for Selected Districts, 2000–01**

Community College District	Nonresident Tuition Revenue (\$ Millions)	Nonresident Tuition per FTES	Nonresident Tuition as a % of Total Revenue
Santa Monica	13.1	528	11.3
Foothill-DeAnza	10.1	293	6.0
Pasadena	5.6	251	5.6
Santa Barbara	3.2	229	5.3
Grossmont- Cuyamaca	3.5	203	4.2
Palm Desert	1.1	177	3.5
Peralta	2.9	167	3.0
Mira Costa	1.2	162	2.3
Citrus (Glendora)	1.8	161	3.7
South Orange County	3.5	160	3.1
Glendale	2.3	153	3.4
El Camino	2.5	136	2.7
Coast	4.7	136	2.9
Mt. San Antonio	3.3	135	3.0
San Francisco	4.9	134	2.8

SOURCE: California Community Colleges Chancellor's Office (2002b).



## 6. Policy Considerations

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A number of implications for public policy flow from this description of California community college financing. In some instances, they suggest changes in current practices that would be likely to improve the capacity of the CCC system to serve its students as well as to begin the process of improving accountability. To realize these improvements, this chapter proposes that funding for the CCC system be increased, in concert with changes to the way in which those funds are distributed. The goal would be to allocate funds to the colleges in a manner that was transparent enough that they could be held accountable for their progress toward specific goals.

Focusing only on the financing component overlooks the broader constellation of issues that form the CCC system's environment. Financing for the community colleges is interwoven with the broader institutional concerns of system governance as well as the overall state's budget process. These macro constraints will persist, but important benefits still can be realized by reforming community college financing.

### **Reforming the Apportionment Process**

Transparency, stability, and equity are basic principles of public finance. A transparent process is one for which public and elected representatives can be held accountable. Certainty and stability enable public administrators to manage their resources in a way that allows them to provide services efficiently in a changing environment. Equity requires that resources be distributed such that the playing field is level in terms of quality and quantity. Program-based funding, in practice, falls short in realizing most of these principles and, in fact, is responsible for a portion of the funding inequities that can be observed in the system.

Currently, the state distributes two-thirds of the system's total revenue through the program-based funding formula. The process does not match revenue to the cost of providing services, and administrators

are not required to spend the apportioned resources in accord with the program designations. PBF's most significant effect is to create disparities in per student funding across the districts—disparities that have little relation to the costs a district faces or the services it provides. It should be reformed.

Ending the fiction of the PBF process is not a new suggestion. Administrators in the chancellor's office have acknowledged the issue and taken some steps to begin the process of discussing changes, but changing the status quo is difficult.<sup>1</sup> Many smaller districts have a vested interest in maintaining the current process. Other districts may be reluctant to entertain thoughts of a new apportionment process for fear that they would fare even worse under a new system. Finally, those most familiar with the process—in the chancellor's office, at the district and college levels, and in other state offices—are preoccupied with budget crises and record deficits. They have little time, energy, or political capital left over with which to take on such a task. Yet the need to simplify the apportionment process and make it more transparent is important enough to overcome these obstacles.

The goal of an alternative apportionment formula would be to provide an equitable and rational distribution of base funding.<sup>2</sup> A district's allocation for an upcoming year could be as simple as a function of the prior year FTES, a projected growth rate, and a per FTES standard rate to calculate the target allocation. That state's apportionment would be the net of the target allocation and the contribution of local property taxes (Equation (6.1)).

$$\text{State general apportionment} = [(\text{prior year FTES} + \text{growth}_{t+1}) \times \text{per FTES rate}] - \text{local property tax} \quad (6.1)$$

A simplified growth calculation should accompany a revised apportionment formula.<sup>3</sup> The current growth calculation involves a

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<sup>1</sup>The chancellor's office has commissioned an external review of the apportionment formula and has also convened working groups to discuss the issue.

<sup>2</sup>Some work has already been done along these lines. See Holmes and Walrath (2002).

<sup>3</sup>This proposal draws on the recommendation for calculating growth found in Holmes and Walrath (2002).



blending of variables and percentages in a formula almost as inaccessible as the PBF process. An alternative would be for a district's estimated growth rate for the upcoming year to be a function of its average growth over the previous three years. A simple average could be used or more recent years could be weighted to reflect fast-moving trends (Equation (6.2)).

$$\text{Growth}_{t+1} = [(\text{growth}_{t-2}) + (\text{growth}_{t-1} \times 2) + (\text{growth}_t \times 3)] / 6 \quad (6.2)$$

Beyond these two equations, the inclusion of other variables could be considered, but only if their addition is based on a sound rationale. There may be some justification, for example, for inserting factors to account for varying district cost structures such as differential costs of living for different parts of the state or adjustments for economies of scale. Alterations such as these could be modeled and debated.<sup>4</sup> Any other variables added to Equations (6.1) and (6.2) would have to be justified on the grounds that they genuinely address cost differentials as opposed to being merely historical artifacts.

With the state setting a per FTES allocation rate based on Proposition 98 funds, calculating a district's upcoming apportionment would become a relatively simple exercise. From the state's perspective, a simplified formula also would clarify for legislators and executive branch officials the effect of marginal changes in the general fund apportionment. At a minimum, system administrators would no longer have to spend countless hours performing the data collection and calculations required to determine allocations based on the cumbersome PBF formula. Categorical programs would continue to be calculated based on factors relevant to the purpose of the particular program.

With base funding being distributed in a predictable and equitable fashion, the state can then begin to use marginal funding as a way to pursue specific priorities and hold districts accountable for their performance. The concept behind the underachieving Partnership for

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<sup>4</sup>It is conceivable that neither adjustment is necessary, however. Small districts tend to be in rural, low-cost areas whereas the largest districts operate in relatively high-cost labor markets. The effect of one may offset the other and their inclusion may complicate the process with little benefit. Modeling makes it possible to test the effects of different formulas.

Excellence fund was a good one but poorly executed. Instead of appropriating money and then asking the chancellor's office to develop goals and performance measurements, the process should be reversed. Budget submissions from the CCC system should include initiatives designed to address specific state goals. Accompanying the request for funds should be specific measures for monitoring progress toward the goals. Districts that make progress toward the goals would be rewarded with additional funds for use in the following fiscal year. In other words, the districts would receive additional marginal resources on the basis of their past performance. If the system as a whole is found to be making inadequate progress toward an objective, the legislature can reconsider its funding level. Initiatives included in such a reconfigured PFE program could have sunset provisions, allowing them to be renewed or replaced by a new program priority.

Taken together, these reforms would introduce more transparency to the financing of the community college system. The districts would be afforded relative certainty regarding their base funding and the flexibility to use those resources as they see fit. A separate pool of funds, tied specifically to performance measures up front, would enable the state to establish priorities and monitor the progress of the colleges toward those goals. Eventually, disparities in per FTES revenues may emerge across districts, but those differences would be the result of demonstrated progress toward established objectives rather than the product of a convoluted allocation formula.

## **Increases in CCC Funding**

Chapter 3 provides a number of perspectives on the funding level of California's community colleges. By any measure, however, the resources per student available to the system are low. No absolute dollar amount would magically transform the system into one capable of meeting California's future education needs. If California's community colleges are to play a significant role in its higher education, and by extension its economic future, making more resources available to the CCC system is likely to be necessary.

There are some starting points that would at least begin to ameliorate the fiscal neglect the CCC system has had to endure. The suggestions

described below are designed to increase the capacity of the system to take a step closer to realizing the vision of the Master Plan by providing access to higher education to those Californians willing and able to benefit from it. At the same time, they seek to balance the need to provide more resources for the community colleges with state priorities and fiscal pressures.

Student fees should be raised to increase revenue and enable students to take advantage of federal subsidies in the form of additional Pell Grant dollars and the Hope Scholarship tax credit. Although the state has raised per credit fees 63 percent, the cost of community college remains relatively low. The annual full-time cost of \$594 in 2003–04 is still less than one-half the national average and is expected to contribute approximately 5 percent of the total revenue for the system. Increasing resident student enrollment fees to as much as \$30 per unit (\$990 per year) would raise considerable revenue for the schools, transfer a significant share of the financing burden to the federal government, and continue to offer access to higher education at one of the lowest prices in the nation.

An increase in fees should occur only if three important conditions are met. First, all fees collected should stay with the districts, and the state should stop offsetting any additional tuition money raised by reducing state funds dollar for dollar. Governor Davis initially proposed raising CCC tuition to \$24 per unit while cutting system expenditures beyond the amount of revenue the fee increase was expected to generate in his January 2003–04 budget (Lay, 2003). Students should be asked to pay more for their education, not pay off the state's deficit. Second, a portion of the revenue generated by the higher fees should augment financial aid to reduce the effect of the hike on students not eligible for the federal programs. Undocumented immigrants and nonresident aliens, for example, would not be eligible for the federal programs. Low-income individuals also may not pay enough in federal taxes to be able to take advantage of the Hope credit. Third, some resources should be devoted to informing students about financial aid opportunities and improving the way qualified students access state and federal sources of higher education assistance.

Respecting the statutory requirement that 10.9 percent of Proposition 98 funds go to the community colleges also would increase the system's resources.<sup>5</sup> For better or worse, Proposition 98 guaranteed that the CCC system would receive a specific level of funding. The state legislature has repeatedly ignored that promise and shortchanged the community colleges, apparently with little political cost. The consequence of these choices is that some of the progress made in K–12 funding has come at the expense of grades 13 and 14. It is a short-sighted approach that has limited community college offerings and, in turn, access to those schools. It is not clear that being linked to funding for the K–12 system is in the best interest of the community colleges in the long run. Future research might explore alternatives to the Proposition 98 structure that would put decisions about its funding more on par with the UC and CSU systems.

It should be noted that any increase in spending for community colleges does not have to come at the expense of K–12 funds. The purpose of Proposition 98 was to establish a *floor* for education funding. It does not preclude the state from spending more on K–14 education should it so choose. To date, however, it appears to be easier to cut into the amount promised to the CCC system than to find other offsets in the budget and to appropriate more dollars for both systems.

Increased spending for the community colleges obviously would make the state face difficult decisions. To free up funds for the CCC system, the governor and legislature would have to either raise taxes or cut noneducation expenditures. As the most recent budget deliberations revealed, elected officials have been reluctant to do either. One hopes that the representatives will eventually find enough common ground to take action and address these tradeoffs. Nevertheless, it is unrealistic to expect a major influx of funds in the near term. The proposals here acknowledge these realities. Higher student fees, for example, are likely to depress enrollments to some degree, thus making more resources available on a per FTES basis. The proposed PFE-like pool of performance-related resources also would be appropriated to encourage

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<sup>5</sup>This proposal was included in the California State Legislature's Joint Committee to Develop a Master Plan for Education, issued September 2002 (Recommendation 49.1).

districts to pursue a set number of state priorities. The scale of such a program would depend upon the availability of resources.

It is possible to discuss tradeoffs within the CCC system as well. An alternative to increasing the resources available to the community colleges is to establish more selective admissions criteria. Enrollment in credit courses, for example, could be limited to students either concurrently enrolled in high school or to high school graduates. Such a requirement could serve to reduce the demand for some courses and introduce a more rational system for allocating access to classroom seats.

A more extreme option would be to set strict enrollment caps and require that students first apply for admission to the college before enrolling in credit programs. Such a change would ensure that the community colleges have adequate resources to serve the students they admit. Some would object to tightening admissions procedures on the grounds that this measure would figuratively shut the door in the face of individuals seeking access to higher education. The historical pattern of funding for the system, however, has already closed that door for some. Had the legislature simply observed the Proposition 98 split in 2000–01 and appropriated an additional \$313 million to the CCC system, over 60,000 more full-time students could have been served. Currently, some classes do not have enough seats to accommodate those seeking to enroll; other sections may be canceled because they do not meet a minimum enrollment threshold imposed because of budget cuts. Regardless of the form, the net effect is to reduce access. Establishing enrollment caps and stringent admissions criteria would enable community colleges to manage their enrollment in a manner similar to the CSU and UC systems. Unfortunately, it would also run counter to the stated goal of higher education that is truly open to all.

### **Maintaining District Autonomy over Resources**

One goal of this project was to identify the key decisionmaking points relative to the financing of California's community colleges. To some degree, only one key point emerges: the moment when elected officials in Sacramento decide how much money will be appropriated to the CCC system overall. After that, the distribution of funds goes on a bureaucratic version of automatic pilot, with formulas and regulations

determining how the pool of resources will be divided. Although the state's drawn-out budget process often leaves districts uncertain as to how much money they will receive, local officials know that districts will decide how those funds are spent.

District administrators interviewed for this project generally did not express frustration over state micromanagement of their resources. Even though categorical program funds are distributed with strings attached, individual districts exercise a considerable degree of discretion over how to spend two-thirds of their revenue. Given the decentralized nature of the system, combined with the challenge of having to stretch resources as far as possible, this level of autonomy seems appropriate and should be maintained. Some of the proposals here—e.g., a simplified apportionment formula and consolidating some of the categorical grants—will continue to provide districts with considerable autonomy. In exchange for this freedom, however, districts should be willing to cooperate with regular reporting procedures as well as regular audits of their programs. In this regard, it may be necessary to increase the program audit capacity of the chancellor's office.

This discussion is not intended to suggest that district officials found themselves making spending decisions free of restrictions. College administrators identified collective bargaining agreements as presenting the most significant constraint they faced in terms of district finances. Increasing CCC system resources while maintaining district autonomy runs the risk of simply funneling more dollars into collective bargaining agreements. It is conceivable that more could be spent on community colleges with little to show in terms of the number of students served or how well they perform. Tying marginal resources to performance, however, may provide the appropriate incentive for district administrators and union officials to work together in achieving program improvements.

## **A Broader Policy Context**

The suggestions here may strike the outside observer as marginal adjustments to an entirely incomprehensible and flawed process. Those familiar with the CCC system might find them to be grandiose and well beyond the realm of possibility given political realities. Both reactions

are understandable and reflect the link between how community colleges are financed and some of the other important challenges facing the system and the state. The issues raised here are connected to both broader management concerns and to the shortcomings of California's budget process in general.

To some degree, the CCC system's financing problems are but one product of its overall (and to some, dysfunctional) organizational structure. The chancellor of the Los Angeles District suggested that reforming the financing process in isolation of reforms to the governance system made little sense.<sup>6</sup> The system's split personality—part K–12/part higher education with power divided between local boards and the state government—is the root of the problem. Under this structure, state legislators are reluctant to fund a system over which they have limited oversight. Local trustees, who are better positioned to ensure accountability, have limited control over their revenue.

The connection between the funding process and the governance structure should not preclude financial reform efforts, but expectations about their effect should be adjusted accordingly. Changes to the current financing process would introduce more equity and transparency into the system. The overall effect of those changes, however, may be tempered by the limitations of the decentralized nature of the CCC system.

The problems associated with financing California's community colleges are also symptomatic of the problems plaguing the state's budget process more generally. Over time, constitutional amendments and state statutes have introduced new rules and formulas, all placing more constraints on the system. The first question on elected officials' minds when it comes to budgeting is not, "What level of resources does this agency need to provide a given level of services next year?" Instead, they look to the rules or formulas that govern that section of the budget as a starting point. If the proscribed level of funding is deemed inadequate, they tinker with those provisions to get closer to a desirable outcome. The net result is a collection of rules that have grown incrementally, constraining the options of elected officials during the best of economic

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<sup>6</sup>Interview with Dr. Mark Drummond, Chancellor, Los Angeles Community College District, February 27, 2003.

times. During times of declining revenue, they can lead to policy paralysis.

The CCC financing process is an opaque process with incentive structures that lead to inefficiencies. The above recommendations represent reforms to those structures when it is tempting to argue that the state should “wipe the slate clean” and start constructing a new system of community college financing from scratch. As with the connection between financing the system and its governance, however, budgeting for the CCC system is intrinsically linked with the rest of the state budget process. The community colleges’ slate can be wiped clean only if Californians are willing to overhaul significant elements of the state’s financing procedures.



## Appendix A

# California Community Colleges System Revenues and Expenditures, 2000–01

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**Table A.1**  
**Total Revenues and Expenditures, 2000–01**

	Millions of Dollars	Percent of Total
Revenues		
Federal		
Vocational and Technical Education Act	48.1	0.9
Higher Education Act	35.9	0.7
Workforce Investment Act	12.7	0.2
Student financial aid	8.5	0.2
Temporary Assistance for Needy Families	4.3	0.1
Other federal revenues	87.9	1.7
Subtotal, federal	197.5	3.7
State		
General apportionment (PBF)	1,709.1	32.2
Other apportionments	267.7	5.0
Extended opportunity program and services	62.8	1.2
Disabled Students Program and Services	72.3	1.4
Temporary Assistance for Needy Families	15.2	0.3
CalWORKs	55.1	1.0
Other categorical apportionments	278.9	5.3
State lottery proceeds	143.4	2.7
Other state revenues	195.7	3.7
Subtotal, state	2,800.1	52.8
Local		
Property taxes	1,713.4	32.3
Contributions, gifts, grants, and endowments	8.3	0.2
Contract services	26.3	0.5
Interest and investment income	61.9	1.2
Student enrollment fees	158.7	3.0
Nonresident tuition	118.1	2.2
Other charges and fees	118.2	2.2
Other local	103.0	1.9
Subtotal local	2,308.0	43.5
Total revenue	5,305.6	
Expenditures		
Instruction	2,314.5	46.7
Instructional support	491.2	9.9
Admissions	93.1	1.9
Counseling and student services	555.8	11.2
Operations and maintenance	404.8	8.2
Administrative services	787.4	15.9
Other expenses and transfers	304.1	6.1
Total expenditures	4,951.0	

SOURCE: California Community Colleges Chancellor's Office (2002b).

## Appendix B

# Revenue Sources for U.S. Public, Two-Year Colleges, 1999–00

**Table B.1**  
**Relative Composition of Revenue Sources, 1999–00**  
**(in percent)**

State	Tuition <sup>a</sup>	Federal	State	Local	Gifts and Endow.	Income and Fees	Other
Alabama	20.7	22.2	48.1	0.6	0.4	0.3	7.6
Alaska	13.5	0.9	44.8	17.5	14.5	0.3	8.6
Arizona	20.6	10.9	19.3	41.5	2.1	0.4	5.4
Arkansas	15.0	19.2	56.2	2.4	1.4	0.2	5.6
California	6.9	10.2	45.7	28.1	0.9	0.9	7.4
Colorado	28.2	13.7	38.7	7.6	0.8	1.1	10.0
Connecticut	23.9	6.9	64.8	0.0	0.1	0.1	4.2
Delaware	19.0	8.1	58.9	11.4	0.0	0.0	2.6
Florida	20.2	15.3	54.6	2.4	1.1	0.6	5.7
Georgia	16.6	10.1	66.1	1.2	0.4	1.2	4.3
Hawaii	25.7	13.5	51.0	0.1	0.5	2.5	6.6
Idaho	17.2	13.3	37.3	13.0	1.1	0.3	17.8
Illinois	19.0	9.4	28.5	30.4	0.3	0.4	12.0
Indiana	21.8	13.1	50.2	0.0	4.3	0.1	10.5
Iowa	24.6	12.1	31.9	7.3	0.8	2.4	20.9
Kansas	16.4	10.5	26.9	33.3	0.9	0.5	11.6
Kentucky	44.8	17.7	36.4	0.0	0.7	0.3	0.0
Louisiana	16.0	17.4	56.9	0.8	0.6	0.2	8.1
Maine	23.1	12.1	51.2	0.0	3.6	0.2	9.9
Maryland	29.8	9.8	23.8	27.9	0.6	0.0	8.0
Massachusetts	24.6	11.6	56.7	0.3	1.5	0.3	5.1
Michigan	22.6	8.5	29.6	24.6	1.1	1.4	12.2
Minnesota	27.5	10.4	52.5	0.0	0.8	1.6	7.2
Mississippi	13.1	18.5	48.9	7.7	0.6	0.6	10.6
Missouri	20.2	15.9	40.6	12.6	1.2	0.9	8.7
Montana	20.9	18.3	34.5	13.7	1.0	1.6	10.0
Nebraska	17.0	13.5	43.8	12.6	0.8	1.0	11.3
Nevada	22.8	7.9	63.4	0.3	1.0	2.4	2.3
New Hampshire	43.4	9.3	42.6	0.3	0.2	0.0	4.2
New Jersey	32.5	10.1	24.3	25.5	0.6	0.0	7.1
New Mexico	10.1	16.2	46.4	17.2	2.6	1.0	6.5
New York	29.5	12.6	31.6	20.6	1.5	0.1	4.2
North Carolina	13.6	11.7	55.4	10.9	2.0	0.3	6.2
North Dakota	24.2	11.9	40.3	0.0	3.1	2.6	17.8
Ohio	27.7	9.6	40.2	11.9	1.2	1.7	7.7
Oklahoma	15.2	13.5	46.6	7.2	1.5	0.2	15.8
Oregon	14.9	13.5	38.4	16.8	1.3	0.3	14.9
Pennsylvania	32.0	12.3	29.5	16.9	2.4	0.1	6.8
Rhode Island	27.3	8.0	54.9	0.0	1.8	0.0	8.1
South Carolina	21.4	16.3	44.8	8.1	0.7	0.5	8.2
South Dakota	31.0	16.6	40.2	0.4	0.4	4.1	7.4

**Table B.1 (continued)**

State	Tuition <sup>a</sup>	Federal	State	Local	Gifts and Endow.	Income and Fees	Other
Tennessee	21.7	22.8	49.6	0.2	1.5	0.3	3.9
Texas	19.3	15.1	40.4	14.6	0.9	0.4	9.4
Utah	21.9	10.3	51.1	0.3	2.1	0.6	13.7
Vermont	57.0	25.8	13.8	0.0	1.0	0.7	1.8
Virginia	25.3	13.9	55.6	0.4	0.9	0.2	3.8
Washington	21.7	9.4	51.2	3.4	4.1	1.7	8.5
West Virginia	18.3	15.6	53.4	1.8	0.2	1.5	9.2
Wisconsin	15.5	8.2	20.9	44.0	0.5	3.5	7.3
Wyoming	15.6	11.2	41.1	17.8	1.9	0.0	12.4

SOURCE: National Center for Education Statistics (1999–2000).

<sup>a</sup>NCES "tuition" figures encompass revenue in addition to enrollment fees, which may include such items as health insurance, parking, lab, material, and field trips fees.



## Appendix C

# California Community Colleges System Categorical and Restricted Programs

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### General Programs

- CalWORKs
- CARE
- Childcare Permissive Tax Bailout
- Child Development
- College Work Study
- Disabled Students Programs and Services
- Economic Development
- Employer-Based Training
- Enrollment Fee Administration
- Extended Opportunity Programs and Services (Parts A and B)
- Faculty and Staff Diversity
- Foster Care/Parent
- Instructional Equipment
- Instructional Improvement
- Matriculation
- Part-Time Faculty Compensation
- Part-Time Faculty Health Insurance
- Part-Time Faculty Office Hours
- Temporary Assistance for Needy Families
- Title 2, Parts A and B
- Title 3, Parts A and B
- Vocational Education Counselor In-Service Training
- Vocational and Technical Education Act
- Workability

## **Capital Outlay Programs**

- Construction Act
- Hazardous Substances
- Scheduled Maintenance and Special Repairs
- Telecommunications and Technology Information Programs

## **Financial Aid**

- Bureau of Indian Affairs Assistance
- California Board of Financial Assistance Program Administrative Allowance
- Direct Student Loans
- Extended Opportunity Programs and Services (Part C)
- Nursing Loans
- Pell Grants
- State Direct Aid to Students (excluding work study)
- Supplemental Educational Opportunity Grant



## Appendix D

# Revenue per FTES in California's Community College Districts, 2000–01

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**Table D.1**  
**District Revenue**

District	No. of FTES	Total Revenue (\$)	Revenue/FTES (\$)
West Kern	1,667	13,845,811	8,305
Feather	1,366	9,895,589	7,243
Lake Tahoe	1,634	11,590,106	7,093
Mira Costa	7,285	51,135,300	7,019
West Hills	3,517	24,093,169	6,850
Mendocino Lake	2,581	16,057,172	6,222
Siskiyou	2,500	15,408,154	6,164
Lassen	2,422	14,927,719	6,163
Barstow	1,909	11,753,729	6,158
Copper Mountain	1,321	7,932,706	6,004
San Luis Obispo	8,152	45,909,044	5,632
Peralta	17,146	95,270,450	5,557
Redwoods	5,698	31,628,470	5,551
Palo Verde	1,597	8,834,365	5,531
Napa	5,467	30,007,835	5,489
Yuba	7,942	43,162,443	5,434
Kern	16,745	90,748,116	5,419
Yosemite	15,712	84,667,956	5,389
San Jose/Evergreen	14,009	74,639,321	5,328
Gavilan	4,281	22,633,889	5,287
Imperial	4,963	26,225,291	5,284
Sequoia	8,228	43,384,457	5,273
Marin	6,888	35,957,061	5,221
Hartnell	6,686	34,687,749	5,188
San Diego	41,201	212,766,544	5,164
South Orange	21,752	111,688,502	5,135
Compton	6,029	30,843,816	5,116
Shasta	7,759	39,549,950	5,097
Sierra	11,809	59,912,207	5,073
Butte	11,821	59,934,643	5,070
Merced	8,524	43,127,662	5,059
Desert	6,135	30,909,531	5,038
West Valley Mission	16,679	83,510,067	5,007
Allen Hancock Joint	8,693	43,400,122	4,993
San Mateo	20,240	100,919,096	4,986
El Camino	18,364	91,290,772	4,971
Solano County	7,763	38,450,745	4,953
Long Beach	19,777	97,010,496	4,905
Los Rios	42,296	206,970,027	4,893
San Bernardino	13,250	64,796,706	4,890
Los Angeles	93,966	459,044,126	4,885
Foothill-DeAnza	34,389	166,709,880	4,848
State Center	23,155	111,974,235	4,836
Fremont-Newark	7,818	37,715,342	4,824

Table D.1 (continued)

District	No. of FTES	Total Revenue (\$)	Revenue/ FTES (\$)
Ventura County	25,862	124,553,324	4,816
Southwestern	13,692	65,825,152	4,807
Grossmont Cuyamaca	17,119	82,277,765	4,806
Cerritos	16,900	81,140,259	4,801
San Joaquin Delta	14,109	67,612,009	4,792
Rio Hondo	11,887	56,819,490	4,780
Coast	34,326	163,299,667	4,757
Antelope	8,229	39,135,726	4,756
Cabrillo	10,464	49,463,330	4,727
San Francisco	36,692	173,142,026	4,719
Chabot Las Positas	15,544	73,327,718	4,717
Contra Costa	31,300	147,218,177	4,704
Santa Clarita	8,933	41,868,325	4,687
Mt. San Jacinto	6,814	31,884,093	4,680
Santa Monica	24,881	115,768,649	4,653
Victor	8,263	38,296,105	4,635
Palomar	18,155	82,624,071	4,551
Chaffey	12,481	56,258,358	4,507
Pasadena	22,269	99,481,878	4,467
Glendale	15,251	68,060,754	4,463
Monterey	8,559	38,152,093	4,457
Riverside	22,645	100,797,809	4,451
Mt. San Antonio	24,284	107,966,945	4,446
Sonoma County	19,348	85,604,156	4,424
Citrus	11,245	49,366,463	4,390
Santa Barbara	13,916	60,606,324	4,355
North Orange	32,592	141,095,804	4,329
Rancho Santiago	29,877	129,005,008	4,318
Statewide	1,086,775	5,305,571,849	4,882

SOURCE: California Community Colleges Chancellor's Office (2002b).



## Appendix E

# Enrollment by Race/Ethnicity in UC, CSU, and CCC Systems, Fall 2001

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**Table E.1**  
**Enrollment**

	Asian/ Filipino	African American	Latino	Native American	White	Nonresident Alien	Other/ No Response	Total
UC	59,794	5,572	21,386	1,140	75,647	10,168	18,196	191,903
CSU	66,625	22,438	78,265	3,101	148,942	16,850	51,090	387,311
CCC	238,478	116,335	440,436	15,703	667,427	25,590	136,064	1,640,033
Total	364,897	144,345	540,087	19,944	892,016	52,608	205,350	2,219,247
Row %								
UC	31	3	11	1	39	5	9	
CSU	17	6	20	1	38	4	13	
CCC	15	7	27	1	41	2	8	
Column %								
UC	16	4	4	6	8	19	9	9
CSU	18	16	14	16	17	32	25	17
CCC	65	81	82	79	75	49	66	74

SOURCE: California Postsecondary Education Commission (2003).

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