

## **Summary of the Strengths & Weaknesses of the Existing Community College Funding Mechanism**

The Assembly Higher Education Committee met on Tuesday, December 9, 2003, to review the existing California Community Colleges (CCC) finance mechanism. The objective of that hearing was to develop a shared understanding of (1) the strengths and weaknesses of the existing approach to funding for California's community colleges and (2) the options available for revising and improving state level finance policy for the community colleges.

During 2003, Assemblymember Liu convened a Working Group of Assemblymembers to review the Community College funding mechanism. The Working Group agreed on the need for:

- A simplification of the funding mechanism
- State funding incentives that contribute to a focused community college mission rather than competition among the several community college districts; and
- Treatment of the community colleges as an equal partner to the California State University (CSU), in California's system of higher education.

The Working Group also agreed on the following principles to guide the development of a new community college funding mechanism:

1. **Adequacy of funding** -- provide sufficient revenues to allow institutions to fulfill the mission assigned to them by law, at high levels of quality.
2. **Equity of funding** -- all institutions treated fairly relative to their different needs.
3. **Stability of funding** -- provide funding levels that are predictable from year to year.
4. **Link to state priorities** -- provide state funding to colleges linked to the attainment of state priorities and consistent with the mission of the community colleges.
5. **Easy to understand** -- implement a funding mechanism that is transparent and easily understandable.
6. **Affordability for students** -- the net price for students (price of attendance less student aid from all sources) is reasonable relative to their personal or family income. Create and maintain financial aid mechanisms that ensure that college attendance remains affordable for all citizens of the state.
7. **Limit taxpayer costs insofar as possible** -- promote institutional efficiencies to assure maximum utilization of existing capacity and fiscal responsibility.

8. **Cost sharing** -- ensure that costs are shared appropriately by students, families and taxpayers.
9. **Accountability** -- provide state level performance information to inform state policy and budget decisions and ensure the colleges are producing the outcomes expected by the funding.
10. **Accessibility** -- provide opportunities for all eligible students to enroll in college programs and complete these programs in a timely fashion.

In contrast with the UC and the CSU, the community colleges are financed through an elaborate formula referred to as “Program-based” funding. Program-based funding determines how all general apportionment funds will be distributed to the 72 districts.

The major strength of the current approach to funding the community colleges is that it has been used and built upon for several years. Local administrators involved in the finance and administration of the colleges have a reasonably good understanding of its operations.

The major weaknesses of the current approach are:

- Funds are not allocated to respective districts with sufficient sensitivity to the real costs of providing instructional services;
- Extensive bureaucratic restrictions are placed on the expenditure of funds;
- Unjustifiable differences exist in revenues among the districts;
- Local districts have limited flexibility to raise additional revenue;
- While the student fee revenue is kept by each of the community college districts, this revenue serves as an offset to General Fund apportionment funding rather than as an enhancement; and
- The state-level statutory mission of the community colleges is so broad that the institutions, by necessity, are under funded.

The major conclusion of the December 2003 hearing of the Assembly Higher Education Committee was that, given the significant weaknesses in the existing community college funding mechanism, it is clear that legislative action should be initiated to revise and strengthen the policies that guide community college finance. A comprehensive reform effort should address the following issues:

1. State priorities -- current statute does not clearly express state priorities among the several elements of the community college mission. The primary mission of the

community colleges (Education Code Section 66010.4(a)(1)) is to "offer academic and vocational instruction at the lower-division level." Another primary mission of the community colleges is to "provide education, training and services that help to continuously improve California's workforce." The "essential and important functions" of the community colleges are to provide (a) remedial education for those in need of it, (b) instruction in English as a Second Language, and (c) adult non-credit education in areas defined as being in the state's interest. It is difficult to determine appropriate State funding levels for the community colleges without a clear understanding of the State priorities. In short, State policy makers need to specify the highest State priorities and direct the limited State resources to the achievement of these priorities.

2. Integrate the community colleges with the CSU and the UC, as equal partners in the public system of California postsecondary education -- many of the statutory provisions that regulate the operations of the community colleges are a carry-over from the K-12 educational system. In addition, the detailed provisions of the community college funding mechanism are more similar to K-12 funding than the approach used to fund the public universities. Existing statute for the community colleges should be reviewed and revised as needed to facilitate the operation of the community colleges as equal partners with the CSU and UC.
3. Cost Sensitivity -- the costs of providing various educational programs vary greatly. For example, programs in nursing and other health care disciplines are considerably more expensive than liberal arts programs in Political Science and English. Currently, since all programs are funded at the same level, there is little fiscal incentive at the campus level to initiate high cost programs. The formula should provide different amounts of funds per student for different kinds of programs.
4. Equalization -- instructional activities should be funded at similar rates at community colleges throughout the State. Equal revenues for equivalent activities should be a central tenet of State funding for the community colleges.
5. Review and eliminate inefficient and excessive statutory provisions -- the existing statutory structure for the community colleges is a carry-over from K-12 education, with many inconsistencies and unnecessary restrictions that limit the flexibility needed by public postsecondary institutions.
6. Student fee policy -- Currently, community college student fees are the lowest in the country, by a large margin. However, the existing "boom or bust" approach to setting fee levels assures that students in bad economic times experience dramatic increases in the price of attendance.

The community colleges and their students would be served much more effectively by (1) establishing a statewide fee level for all credit students, (2) adjusting this amount annually based upon increases in the Consumer Price Index (CPI), and (3) allowing each district to charge additional program fees to support local community

priorities. All student fee revenue should remain with the districts and not be used as an offset to the State appropriation. In addition, student financial aid should be available for all low-income students to ensure that the cost of attendance is not a barrier to enrolling in the community colleges.

7. Proposition 98 -- This Constitutional Amendment established a formula for calculating the minimum funding level for K-14 education. Statutory language was added in 1989 specifying that the community colleges would receive approximately 11% of the Proposition 98 funding. Since 1989-90, the annual State Budget Act has included "in lieu" language, resulting in a reduction of the community college share to approximately 10% or less of the Proposition 98 allocation.