RESEARCH BRIEF

Public Policy Institute of California

JANUARY 2004 ISSUE #81

Community College Financing in California: Ripe for Reform?

The California Community College (CCC) system is a mainstay in the state's system of higher education. For many of the 1.6 million residents served by CCC, its colleges represent the only higher education option available to them. Yet even as other branches of California's education system have attracted intense public scrutiny in recent years, many observers believe that CCC has been neglected, and its financing has become an urgent concern.

In *Financing California's Community Colleges*, Patrick J. Murphy describes funding trends for the CCC system and assesses its ability to meet its future challenges. He finds that CCC revenue growth has fallen behind that of other systems in both California and the rest of the nation, and that CCC's complicated allocation system is ripe for reform. After reviewing a variety of alternative funding sources, Murphy also identifies two major ways to improve the system's resource picture. The first is to fund CCC at the level the legislature guaranteed following the passage of Proposition 98, which dedicated a portion of the state's total revenue to K–12 schools and community colleges. The second is to raise community college tuition and fees, currently the lowest in the nation, while maintaining broad access to the system through the increased use of grants, tax credits, and financial aid programs.

Funding Trends, Processes, and Sources

In 1999–2000, California community colleges ranked 45th out of 49 states in per student revenue and trailed the national average by 23 percent. Although CCC revenues have grown over the years, that increase is far outstripped by growth in others parts of California's higher education system. Between 1971 and 2001, for example, real revenue per student grew 23 percent for the University of California system and 24 percent for the California State University system. The corresponding figure for CCC during this period is 4 percent.

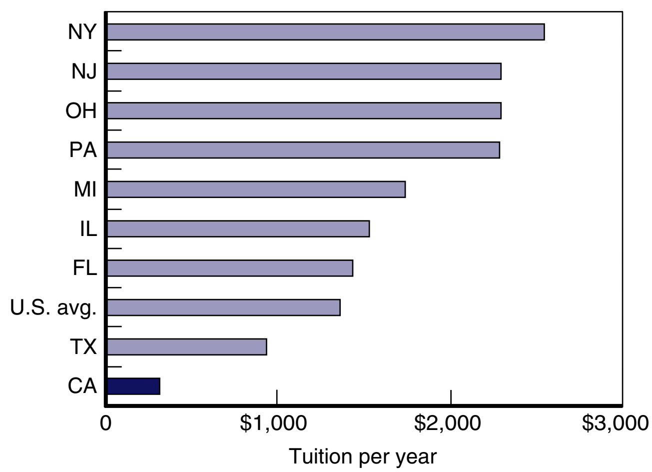
CCC's revenue growth also trails that of California's K–12 public schools. In 1988–1989, K–12 schools received 24 percent more funding per pupil from state and local sources than did CCC; by 2001–2002, that gap had grown to 44 percent, despite the fact that both systems receive most of their revenue from the same pool of Proposition 98 funds. Following the passage of that proposition in 1988, the legislature guaranteed that 10.9 percent of those funds would be directed to CCC, but it has suspended that guarantee over the last decade. As a result, Proposition 98 pitted CCC against K–12 schools in a zero-sum competition that CCC has been losing.

Murphy's report also reviews CCC's allocation process, which is governed by Program-Based Funding (PBF). PBF appears to be a sensible attempt to allocate resources based on the cost of delivering services at a particular standard. An examination of its details, however, reveals a needlessly complicated and unrealistic process. PBF calculates a district's base funding by dividing its operations into six program areas, applying standardized workload measures to quantify each area's activity or need, and codifying standard cost rates. It then applies a single statewide cost-of-living adjustment and calculates the growth rate for each district based on four factors: the district's adult population, the number of high school graduates, the size of its "underserved populations," and the capacity of its facilities. However, PBF does not guarantee extra funds to districts or colleges whose enrollments exceed their growth estimate. Oddly, it also excludes these extra students from the district's base calculation for the subsequent year; instead, one year's estimated (not actual) enrollment determines the next year's base allocation. The PBF formula also assumes a standard of service delivery that bears little relationship to the actual funding CCC receives from the state. In 2000–2001, for example, the legislature funded only 54 percent of what the PBF formula assumes is necessary to meet CCC standards. The large gap between the formula's assumptions and CCC's actual revenues weakens the rationale for PBF.

Although alternative funding sources for community colleges exist—some colleges charge local businesses for services and raise alumni money, for example—only a few districts have generated significant revenues through these channels. The use of special taxes and bond issues to raise revenue has also been limited. Between 1986 and 2000, California voters approved bond measures in nine CCC districts. Only one district proposed a parcel tax during this period, and that measure failed.

Given these facts, Murphy maintains that tuition and fees remain the funding source with the greatest potential to augment revenue. In 2000–2001, tuition fees in California were by far the lowest in the nation (see the figure). The state with the next lowest fees that year, New Mexico, charged twice as much as California but still received less than one-quarter of the national average. As California grappled with its huge fiscal deficit, its 2003–2004 state budget raised the full-time annual enrollment fee to $594, or $18 per unit. But even with this 63 percent increase, CCC tuition remains the lowest in the nation.

Average Annual Tuition at Public Two-Year Colleges for Selected States, 2000–2001



In 2000–2001, community college students in California paid the lowest tuition in the nation. That remains the case even after this year's 63 percent tuition increase.

Compared to students in the CSU and UC systems, too, CCC students pay for only a small share of their overall educational costs. In 2000–2001, community college students paid for 3 percent of those costs, CSU students paid for 15 percent, and UC students paid for 22 percent. Even after the recent tuition hike, enrollment fees are expected to account for only 5 percent of total CCC system revenue in 2003–2004.

Policy Recommendations

The report proposes a series of reforms for raising and allocating revenue. Murphy recommends replacing PBF with a simplified allocation formula based on total enrollment and adjusted for annual growth. For state policymakers, this formula would clarify the effects of marginal changes in the general fund apportionment. At the local level, it would also spare administrators countless hours now devoted to collecting and analyzing the data required by PBF. After providing base funding according to this simplified formula, the state could provide extra funds to colleges on the basis of their ability to hit specific performance targets, such as expanding nursing programs or increasing the number of students who transfer to four-year institutions.

Murphy also proposes raising resident student tuition. He notes, however, that in many cases these increases would be partially offset by federal grants and tax credits. For example, CCC's current tuition is so low that California students are ineligible for Pell Grants and the Hope scholarship tax credit. If more California students received these grants and tax credits, raising tuition would generate much needed revenue without passing the full burden of the tuition increases to students or California taxpayers. Not all students are eligible for these de facto federal subsidies, and Murphy therefore recommends that a portion of any new revenue be directed to student services and financial aid.

Finally, Murphy recommends that the legislature follow its own statutory requirement that 10.9 percent of Proposition 98 funds go to the community colleges. So far, California's community colleges have managed to pursue their multifaceted mission with a relatively low level of funding, but providing more resources is likely to be necessary if the state expects CCC to perform the role assigned to it in the state's Master Plan for Education. Murphy warns that a failure to perform that role could weaken California's higher education system and render the state less responsive to the changing demands of the global economy.

This research brief summarizes a report by Patrick Murphy, Financing California's Community Colleges *(2004, 126 pp., $12.00, ISBN 1-58213-078-7). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.*

PUBLIC POLICY INSTITUTE OF CALIFORNIA
500 Washington Street, Suite 800 • San Francisco, California 94111
Telephone: (415) 291-4400 • Fax: (415) 291-4401
info@ppic.org • www.ppic.org