



# Community College Funding 2008–09

## Enrollment Growth Outpaces Resources

California’s community colleges are expected to provide a broad range of affordable educational opportunities to everyone who wants access. Fulfilling that mission in 2008–09 will be especially difficult given the state’s dire fiscal situation and an increasing demand.

*The number of community college students is swelling, but the system does not have the funding to serve them all well*

In response to today’s challenging job market, many people are enrolling in a community college to upgrade their skills. They are part of a diverse set of students with a variety of goals. Some recent high school graduates without clear direction hope community college classes will help them define their interests. Other graduates who are determined to earn a bachelor’s degree from the outset take their first two years of coursework at a community college. And people looking for

“enrichment” classes want to take them at their local community colleges.

The 2008–09 state budget assumes that California’s 72 community college districts and their 110 colleges will serve about 2.7 million students, many of whom will attend part time. Altogether, these individuals constitute about 1.2 million “full-time equivalent students.” (For example, two half-time students equal one full-time equivalent student or FTES.) This figure reflects an estimation, for funding purposes, of 2% growth compared with last year. But state budget analysts acknowledged when the budget was enacted that actual enrollment growth was likely to be higher.

Official enrollment numbers are not currently available. However, according to a survey by the Community College League of California—the primary advocacy organization for community college districts—the average growth rate among the districts this year is 10.2%. Whatever the official tallies eventually are, they will probably show widely varying rates of growth throughout the state.

Current economic problems are adding to more serious concerns about the community colleges’ ability to meet demand in the future. A recent announcement by California’s public four-year universities that they will likely reduce their enrollments will put pressure on community colleges to educate these displaced students next year. In addition,

enrollment at the colleges generally goes up when times are bad and unemployment rises.

Based on the funds provided in the enacted state budget, keeping up with the surge of students and their diverse needs is already difficult. Funding for the system increased only slightly and included just a partial cost-of-living adjustment. In addition, as already stated, “growth” funding appears to be well below actual increases in student enrollments. Furthermore, the 2008–09 budget contained enough funding to keep a small set of state mandates in force, but not enough to cover the cost of fulfilling those mandates.

Worse yet, since the 2008–09 budget was enacted in late September 2008, the state’s financial situation has deteriorated rapidly. Analysts are predicting that the current fiscal year could end with a \$14.8 billion state deficit, which could rise to more than \$40 billion by the end of 2009–10 if state leaders do not revise expenditure and revenue plans. Addressing this fiscal crisis could result in spending cuts during the current year, which would further affect the colleges’ ability to serve students. Policymakers will likely contemplate raising student fees, a move that would backfill the state General Fund. Higher fees would not, however, provide extra funds with which colleges could offer more course sections to students. Indeed, the magnitude of the state’s fiscal crisis may necessitate higher fees and overall net cuts that will lead to course reductions.

### HIGHLIGHTS

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*Nearly three-quarters of the colleges' funding comes from the state General Fund and local property taxes*

Based on the enacted budget for 2008–09, the California Community Colleges (CCC) are scheduled to receive total revenues of about \$8.8 billion, which is about \$312 million more than in the prior year, according to the Department of Finance. Those figures include revenues from the state General Fund, local property taxes, student fees, federal funds, state lottery funds, and miscellaneous other funds. (See Figure 1.)

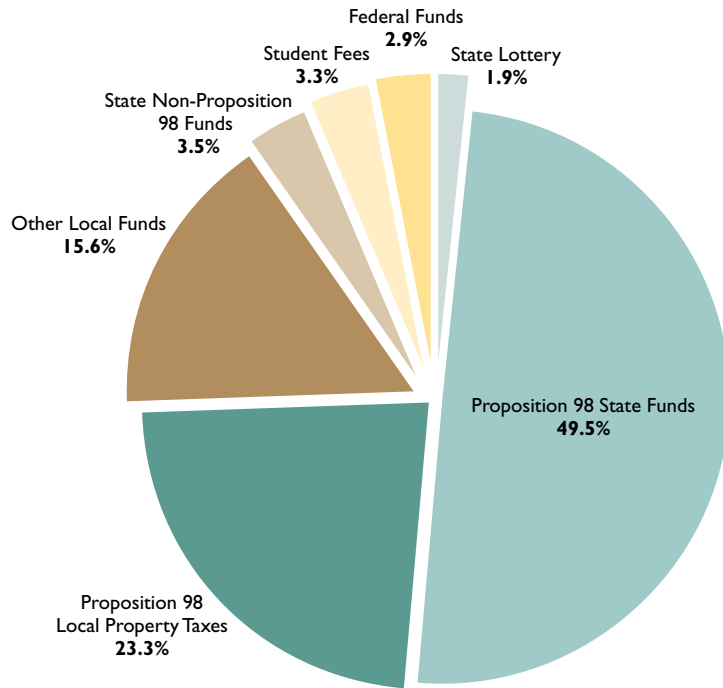
*Community colleges and K–12 education share Proposition 98 funds*

Most of the revenues that the colleges receive from the state General Fund and local property taxes are counted toward Proposition 98's minimum funding guarantee, which was established in the state constitution by voters in 1988. The intent of that measure is to ensure that total spending on K–12 schools and community colleges (together known as K–14) at least keeps pace with growth in the K–12 student population and the personal income of Californians, and at best increases the amount K–14 receives.

Although changes in K–12 attendance (a slight decline in 2008–09) help drive the Proposition 98 minimum spending level, growth in community college attendance does not affect the state's funding obligation. (For more on Proposition 98, see [www.edsource.org/pub\\_prop98.html](http://www.edsource.org/pub_prop98.html).) Statute specifies that the CCC receive the same share of annual Proposition 98 spending that they received when voters approved that measure—which was 10.9%. Although policymakers have frequently suspended the requirement and provided the colleges with a slightly smaller portion of Proposition 98 spending, the CCC are receiving 10.9% this year. Of the \$58.1 billion Proposition 98 spending in the enacted 2008–09 budget, the CCC are receiving about \$6.4 billion.

The Chancellor's Office of the CCC distributes the General Fund monies that the state's 72 community college districts receive. Funding for the operation of the Chancellor's

**figure 1 | California's community colleges receive funding from multiple sources**



**Total estimated revenues for community colleges in 2008–09 from all sources are about \$8.8 billion,\* including:**

**State funds \$4.7 billion** includes \$4.4 billion from Proposition 98 General Fund sources

**Local property taxes \$2.1 billion**, all of which counts toward the Proposition 98 minimum funding guarantee

**Other local funds \$1.4 billion**

**Student fees \$290 million**

**Federal funds \$258 million**

**California State Lottery funds \$167 million**

\*The subtotals do not add up to \$8.8 billion due to rounding.

DATA: CALIFORNIA DEPARTMENT OF FINANCE

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Office itself does not count toward the Proposition 98 minimum spending level. The law does not require that a specific amount be spent on the Chancellor's Office, and state policymakers have cut funding for the office in recent years as they have sought ways to reduce state spending overall. In the 2008–09 budget, lawmakers cut about \$200,000 in General Fund support for the Chancellor's Office, reducing that funding to \$9.8 million. Subsequently, another \$436,000 was eliminated from the Chancellor's Office support budget through the governor's line-item vetoes and an executive order.

In recent years, policymakers have also elected to support certain statewide activities through contracts with local district offices instead of directing the Chancellor's Office to perform them. For example, the state created a process in which districts competed to conduct a statewide financial aid outreach campaign and a major research and professional development effort. When the state provided funding to district offices to implement those programs, it counted that spending toward the Proposition 98 minimum guarantee. One could argue that those activities are more appropriately done by the

Chancellor’s Office, with the Proposition 98 funding that districts receive reserved for providing direct services to their local students.

*Colleges receive mostly “discretionary” funding*

Most of community colleges’ Proposition 98 funding is known as “apportionment” funding, which pays for items such as faculty salaries, equipment, and supplies. Although apportionment funds are often called “discretionary,” the colleges must follow certain rules as they conduct their programs so the use of the funds is somewhat restricted. For example, districts must spend at least 50% of their operating budgets on instructors’ salaries and benefits each fiscal year. As another example, districts face financial penalties if they do not have specific numbers of full-time faculty members.

The remainder of Proposition 98 funding—11% in 2008–09—is “categorical” funding, which is dedicated to specific purposes, such as instructional support for students with disabilities.

The state generally provides a cost-of-living adjustment (COLA) on apportionments and selected categoricals. The Board of Governors, which sets policy and provides guidance for the state’s community colleges, makes an annual budget request to the state. This includes a COLA that is typically based on a government inflation index. In 2008–09, policymakers chose to fund a 0.68% COLA for apportionments only (not for any categoricals). If the state’s finances had been healthy, policymakers would most likely have provided a 5.66% adjustment in accordance with the inflation index.

*General apportionment funding is based on fixed and variable costs and the types of courses provided*

Enrollment numbers do not drive CCC systemwide funding, but they do help determine the general apportionment to individual districts. A district’s general apportionment has two components—one based on the number of colleges and off-campus centers of a certain size (at least 1,000 FTES) that a district runs, and another, much larger one based on the number of FTES it serves.

figure 2 | Community colleges’ categorical programs funded at \$20 million or more in 2008–09

Major programs	Funding in the Enacted 2008–09 Budget (all dollar figures are in millions)
Disabled Students Programs and Services	\$115
Extended Opportunity Programs and Services (EOPS)—support for disadvantaged students	107
Matriculation—helping students complete courses and achieve their educational goals	102
Financial Aid Administration	51
Part-time Faculty Compensation	51
Economic Development—job-related training and technical assistance to businesses and organizations	47
Special Services for CalWORKS (“welfare”) Recipients	44
Basic Skills	33
Physical Plant and Instructional Support	27
Telecommunications, Technology Services, and California Virtual University	26
Nursing	22
Career Technical Education (CTE)	20*

\* This does not reflect \$38 million provided as part of the second year of the settlement of *CTA vs. Schwarzenegger*, a lawsuit over Proposition 98 funding.

DATA: COMMUNITY COLLEGE LEAGUE OF CALIFORNIA

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The first component recognizes the fixed costs of operating each facility. The second component takes into account varying district costs based on the number of students served and the type of courses offered. For this second component, there are two major types of course offerings:

- “Credit”—Coursework leading to an associate’s degree, certificate, or transfer to a four-year college/university, plus some basic skills courses. These are funded at \$4,596 per full-time student in 2008–09.
- Noncredit, career development, and college preparation courses, for which the state is providing \$3,254 per FTES this year.

In addition, about 40 of the state’s 110 campuses offer noncredit courses that provide students with “skills that are critical to their ability to become or remain independent and to contribute to the economy of California,” according to the Chancellor’s Office website. Examples are courses in parenting and home economics. The state is funding these classes at \$2,764 per FTES in 2008–09.

*Categorical funding helps the colleges meet the expense of providing specific services*

The state has created 22 categorical programs for the community colleges, which provide a total of \$699 million in the 2008–09 enacted budget. Twelve of these programs are funded for \$20 million or more, and most will receive the same amount as was provided in last year’s enacted budget. (See Figure 2 above.) Exceptions are due to changes made midyear last year or technical changes this year.

The other 10 smaller programs, not listed in Figure 2, range in size from \$467,000 to \$16 million. These are generally funded at the same level as last year; the one exception is a decrease because of a technical change to one program.

*State officials acknowledge that funding falls short of actual enrollment growth*

As part of its Proposition 98 allotment, the community college system also receives “growth” funding to accommodate an increasing number of FTES. The system’s annual request for growth funding is based on the

state's population growth and is adjusted according to a set of formulas if unemployment in the prior year exceeded 5%. The 2008–09 budget provides \$114 million to fund enrollment growth of 2%, or about 23,000 FTES. State policymakers acknowledged that that level of growth funding may be insufficient to match the actual demand for classes.

How individual districts are affected depends on local growth patterns. Each district has a “maximum” number of funded FTES or an enrollment “cap.” However, the cap is on funding, not the number of students a campus accepts. State law requires community colleges to enroll any California resident with a high school diploma or equivalent who wishes to attend and would benefit from instruction. Although many of the state's college districts have declining enrollments, others will experience enrollment growth in 2008–09 that is beyond their caps.

Districts with declining enrollment do not receive growth funding, but they maintain base enrollment funding for the first year they experience a decrease. This is called “stability funding,” and it is intended to smooth out funding changes caused by a temporary enrollment drop.

In contrast, when districts have more students than they received funding for, they cannot expand the number of courses they offer to meet the increased demand. Instead, they generally must scale back on what is available to any individual student in order to provide some level of service to all who enroll.

### *The enacted budget did not provide funding to reimburse districts fully for complying with specific state mandates*

Since 1979, the California Constitution has required that the state reimburse local agencies for the cost of implementing new programs or levels of service mandated by the state. For example, the state has required community college districts that provided their students with health services in 1986–87 to maintain those services, and it is supposed to reimburse those districts for the cost of doing so.

During the past few years, however, policymakers have not provided enough funding for the state to cover college districts' costs of complying with mandates. In 2008–09, the state set aside \$4 million for mandate reimbursement—enough to keep the requirements in force but nowhere near the \$30 million needed to cover this year's costs. The Legislative Analyst's Office (LAO) estimates that the accumulated debt by the end of 2008–09 will be \$300 million.

### *Student fees remain relatively low—for now*

California's community college fees are the lowest in the nation. According to the College Board, the average annual published price for tuition and fees for two-year public colleges in 2008–09 in the rest of the country is \$2,761. In contrast, a year's full-time course load of 30 units at a California Community College costs \$600. And low-income Californians who meet eligibility requirements have their enrollment fees waived. A March 2007 study of the CCC by The National Center for Public Policy and Higher Education reported that about 52% of full-time students have fee waivers.

California's low fees make it relatively easy for students to attend a community college, but they also mean that students do not have much incentive to make sure that all their classes serve their needs well. In addition, California's fee policy results in taxpayers' covering significant portions of the education costs of middle- and upper-income students who could pay for a larger share of their college education.

Student fees may be relatively low in part because elected officials in Sacramento are responsible for setting them, in contrast to the tuition and fees of the California State University (CSU) and University of California (UC), which are set by appointed officials. Fee increases for the CCC are thus a highly politicized decision. Any action on the part of legislators that can be construed as curtailing access to the colleges has typically created a great deal of controversy for a relatively modest financial return to the state.

However, the Legislature's fiscal and policy adviser, the Legislative Analyst's Office,

recommended during the November 2008 special legislative session that the state raise student fees 30% beginning Jan. 1, 2009, and an additional 15% starting on July 1, 2009. The proposal would have maintained fee waivers for low-income students. The LAO argued that the increased fee levels would still be extremely reasonable as seen from the national context. In addition, the LAO said the increase would bring in some additional money and could also prompt students to choose their courses more wisely. However, the special session ended with no action.

Any potential fee increase must be understood in the context of how the CCC are funded. Revenues generated from fees currently account for about 3% of total revenues for the system. Those fees are used to offset state aid to community college districts and do not directly improve funding for individual campuses. In today's fiscal climate, however, fee increases would generate much-needed revenue for the state, helping to mitigate General Fund cuts that are likely to come.

### *Tough times are ahead for the CCC*


Due to the state's calamitous fiscal situation, state leaders may cut 2008–09 spending in many policy areas. Gov. Arnold Schwarzenegger already proposed such midyear reductions for the CCC. During the November 2008 special legislative session, the governor proposed cutting \$332.2 million from the colleges' budget—including \$39.8 million for the partial COLA and \$292.4 million in apportionments—but allowing college districts to transfer funds from categorical programs to apportionments.

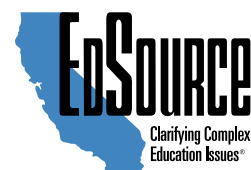
In response, Democratic legislators proposed a more targeted set of reductions for the colleges totaling \$92.6 million. The Democrats' plan would have decreased funding for the physical plant, instructional support, career technical education, the partial COLA, and mandate reimbursements. In addition, their proposal would have reduced funding for the Puente program, which seeks to boost the academic achievement and college-going rates of Hispanic youth, but would have also given the Chancellor's office

access to other funds to offset that cut. As previously stated, the special session ended with no policy action.

As this report went to press, state leaders were discussing another set of midyear budget proposals. Thus, the colleges must remain prepared to alter their spending plans for 2008–09—plans they just finalized in late September 2008.

Next year will almost certainly be more challenging than this year has been. With the California State University announcing in November 2008 that it is considering reducing its 2009–10 enrollment by 10,000 and the

University of California contemplating a similar move, more students planning to attain a bachelor's degree may enroll in the community colleges beginning next year. And most economic projections for 2009–10 hold that the current recession will deepen. All of that can be expected to increase the demand for community college services even as the state's revenues drop substantially. State policy-makers will face difficult choices as they allocate especially scarce resources and attempt to adequately support a system that is one of California's largest and most cost-effective education and training institutions. 



**Trish Williams**  
*EdSource Executive Director*

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## To Learn More About California School and Community College Finance

The EdSource website provides additional information related to this report:

- For background information on California's community college system, go to: [www.edsource.org/iss\\_secondary\\_cc.html](http://www.edsource.org/iss_secondary_cc.html)
- A report on K–12 school finance can be ordered at: [www.edsource.org/pub\\_cat.html](http://www.edsource.org/pub_cat.html)

Additional resources from official state agencies:

- To view the 2008–09 state budget, go to the California Department of Finance (DOF) website: [www.dof.ca.gov](http://www.dof.ca.gov)
- To see the analysis of the budget by the Legislative Analyst's Office (LAO), go to: [www.lao.ca.gov](http://www.lao.ca.gov)
- To view the governor's proposed budget for 2009–10, go to: [www.dof.ca.gov](http://www.dof.ca.gov)

## Acknowledgments

*This report was researched and written by:*

**Brian Edwards**  
**Julian Leichy**