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ABSTRACT

In response to legislative mandate, this report on current methods used to fund capital outlay projects in the California community colleges discusses the major problems with existing funding methods, analyzes various alternatives for improving these methods, and offers recommendations for legislative approval. Part 1 of the report traces the history of capital outlay funding in the community colleges, describing the major legislation that established the present system of capital outlay review. Part 2 describes five problems with the state's present method of funding community college construction, while part 3 analyzes seven different alternatives to the present system. Finally, part 4 proposes principles that should guide selection of specific methods; offers conclusions about the present system, and presents the following recommendations: (1) the state's method of funding capital outlay in the community colleges should be considered by the legislature and the Governor as part of a comprehensive approach to make the overall finance system of these institutions more congruent with their governance structure; (2) some funds beyond those provided in the state's project-by-project review should be allocated as a "block grant"; and (3) the Chancellor's Office should develop a formula to distribute these grants in ways that would take into account the size of all districts, their relative needs for campus construction, and other factors that would assess campuses' needs for additional capital outlay. (RO)

ALTERNATIVE METHODS FOR FUNDING COMMUNITY COLLEGE CAPITAL OUTLAY

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

Summary

This report responds to the Legislature's request that the California Postsecondary Education Commission study the current methods used to fund capital outlay projects in the California Community Colleges, including "(1) a discussion of the major problems with the existing funding methods, (2) an analysis of various alternatives in improving this method, and (3) recommendations for legislative consideration."

- Part One of the report traces the history of capital outlay funding in the Community Colleges (pages 3-7)
- Part Two describes five problems of the State's present approach to this funding (pages 9-12).
- Part Three assesses seven different alternatives to the present system (pages 13-16).
- And Part Four states five principles that the Commission believes can be applied to State policy regarding Community College capital outlay; offers seven conclusions about the present system, and offers the following two recommendations:

  1. The State's method of funding capital outlay in the California Community Colleges should be considered by the Legislature and Governor as part of a comprehensive approach to make their overall finance system more congruent with their governance structure. Until that time, the approach to funding capital outlay in the 1980 Construction Act, as modified by Chapter 1347 of the 1985 Statutes, should be continued.

  2. Some funds beyond those provided through the State's project-by-project review should be allocated as a "block grant." The Chancellor's Office should develop a formula to distribute these grants in ways that would take into account the size of all districts, their relative needs to complete campuses, and other factors that would assess their need for additional capital outlay.

The Commission adopted the report on December 16, 1985, for transmittal to the Governor, Legislature, and other interested parties. Additional copies may be obtained from the Publications Office of the Commission. Further information about the report may be obtained from the Commission staff.

ALTERNATIVE METHODS FOR FUNDING COMMUNITY COLLEGE CAPITAL OUTLAY

A Report to the Legislature in Response to Supplemental Language in the 1985-86 Budget Act

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
Second Floor • 1020 Twelfth Street • Sacramento, California 95814

COMMISSION REPORT 85-42
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Introduction

CAPITAL outlay is fast becoming a dominant priority for institutions of higher education, as existing buildings visibly deteriorate and space needs change. Therefore, it is increasingly important that new construction and renovation assume major importance for the State, if California's educational system is to be maintained adequately.

Unlike the "support for current operations" budget, where California's two public universities differ fundamentally in their review process from its Community Colleges, all three segments approach the State in the same way for capital outlay funds. All participate in the Capital Outlay Fund for Public Higher Education (COFPHE), which receives annual revenues from the lease of tidelands to oil companies, and all spend considerable sums for capital outlay from non-State sources.

However, as is true for their current operations formula, the State capital outlay process for the Community Colleges has become seriously flawed, in ways that pose difficulties for both the State and the 70 Community College districts. Recognizing this, Supplemental Language to California's 1985-86 Budget Act states:

> The California Postsecondary Education Commission shall conduct a study of the current methods used to fund community college capital outlay projects and to report its findings and recommendations to the Legislature by November 1, 1985. At a minimum, the study shall include (1) a discussion of the major problems with the existing funding method, (2) an analysis of various alternatives in improving this method, and (3) recommendations for legislative consideration. Among alternatives to the current funding system that should be considered are:
>
> - Adoption of a constitutional amendment to permit local property tax increases for investment in capital improvements;
> - Fixed state and district matching shares;
> - Full state funding; and
> - Block grant funding.

This report responds to that Supplemental Language by considering the fundamental problems in the relationship between the State and Community College districts regarding the funding of capital outlay. As such, it does not consider the need for more private funds for capital outlay, the appropriateness of space and utilization standards, whether temporary buildings should be taken into account during the process, and other operational problems which have cropped up over the years.

This report describes the major legislation that established the present system of capital outlay review for the Community Colleges; identifies basic problems with the existing method of funding Community College construction; analyzes several different methods of funding; proposes principles that should guide selection of specific methods; and recommends certain methods for legislative consideration.

Numerous individuals have been involved in discussions about this report, and the Commission is grateful for their help. Commission staff held a meeting with Community College representatives and state agency staff on October 25 to discuss the first draft. On the basis of this exchange, the draft was revised and submitted, without conclusions or recommendations, to the Legislature on November 1 -- the date specified in the Supplemental Language. Staff then transmitted draft conclusions and recommendations to numerous individuals interested in this issue and allowed time for their response. This final report incorporates changes made as a result of this process of consultation.

1 History of Capital Outlay Funding in the Community Colleges

The evolution toward "matching"

In his 1932 study for the Legislature in California, Henry Suzzallo of the Carnegie Foundation for the Advancement of Teaching recommended that the State provide one-half the costs of capital construction in California's junior colleges, a radical departure from then current practices. Nearly 30 years were to elapse, however, before the State began to aid local districts with any capital funds. As testament to the peripheral nature of State aid, neither the "Strayer Report" of 1949 nor the McConnell *Restudy of the Needs of California in Higher Education* of 1955 -- landmark investigations of the educational enterprise -- found it necessary to discuss junior college capital construction.

In 1960, however, the Survey Team that prepared the Master Plan for Higher Education noted that junior college capital outlay had increased greatly during the past ten years and proposed that the State "undertake a program of sharing in the construction funds necessary to expand the junior colleges" (p. 169). In order to emphasize "local" district control, however, the Survey Team recommended that the maximum proportion of State subsidy never exceed 50 percent of total expenditures. The team also recommended that:

> All the territory of the state not now included within districts operating junior colleges be brought into junior college districts as rapidly as possible, so that all parts of the state can share in the operation, control, and support of junior colleges. Pending the achievement of this objective, means be devised to require areas that are not a part of a district operating a junior college to contribute to the support of junior college education at a rate or level that is more consistent with the contributions to junior college support presently made by areas included in districts that maintain junior colleges (p. 171).

In 1961, the Legislature established a temporary program under the Junior College Tax Relief Act and appropriated $5 million to local junior college districts that, among other uses, could fund construction on a matching basis of not more than 25 percent State funds.

In 1962, the Legislature appropriated an additional $5 million for this program and proposed a bond issue of $270 million for higher education capital construction, of which $20 million would be reserved for the junior colleges. Voters defeated the bond proposal (Proposition 3) in the June primary but approved a revised version (Proposition 1-A) in November.

To distribute this $20 million, the Legislature enacted a temporary measure known as the Junior College Facilities Construction Law of 1963. In that Act, the Legislature stated:

> SEC. 2. In adopting this act, the Legislature recognizes that it does not constitute a satisfactory means of providing continuing state assistance . . . for the construction of junior college facilities and that its sole purpose is to provide for the allocation of bond funds reserved for junior college construction in Proposition 1-A. . . .

The statute thus directed the State Department of Education, in cooperation with other agencies and associations, to recommend a satisfactory means of providing State assistance to junior college capital outlay on a continuing basis. Meanwhile, Proposition 2, a $380 million Bond Construction Act, was approved by the voters in November 1964, and it contained $50 million to the junior colleges.

The Junior College Construction Act of 1965

The Department of Education submitted its recommendations for funding junior college capital outlay at the beginning of the Legislature's 1965 Session.

Several of the cooperating groups filed statements indicating their reservations with one or more parts of the proposal, but the Department's plan was enacted into law as the "Junior College Construction Act of 1965."

This statute created what was basically an "entitlement" program, under which the Department of Finance made annual three- and four-year enrollment projections for each district, expressed in terms of "weekly-student-class hours" between the hours of 8 a.m. and 5 p.m. If these projections indicated enrollment growth from the third to the fourth year, each unit of growth was multiplied by a cost factor for junior college facilities which then became a district entitlement that was adjusted to equalize district financial abilities. The State's share was generally less than 50 percent of total project costs.

In 1966, the Legislature attempted to correct some of the problems associated with the 1965 Construction Act. As part of this effort, the Legislature directed the Coordinating Council for Higher Education to study the program of State aid for junior college construction. In June 1967, the Coordinating Council presented an alternative to the Junior College Construction Act of 1965 in its report, *Financing California's Public Junior Colleges*. This plan was next adopted as the Junior College Construction Act of 1967, which remained in effect until 1980.

The Junior College Construction Act of 1967

Although much has changed for California's two-year colleges since 1967, the Construction Act of that year defined many terms still in use, such as "capital construction plans," "allocation of funds," "weekly-student-contact hours," and "project proposal." Most important, it formalized a ten-step project development and review process for funding junior college construction and introduced the concept of "relative district ability," which has been so important in determining a match required for "local" funds.

The Ten-Step Planning Process

The planning process, which remains basically in effect today, includes the following components:

1. *Long-Range Planning:* Each junior college district was required to develop a continuing ten-year plan (reduced in 1970 to a five-year plan) for capital construction. The plan had to relate to:

- The district's academic plan;
- Enrollment projections provided by the Population Research Unit of the Department of Finance;
- The district's capacity as determined by the space and utilization standards developed by the Coordinating Council; and
- An inventory of district facilities.

2. *Review of Long-Range Plans:* In an effort to coordinate statewide planning, the Coordinating Council and the Department of Education (later, the Office of the Chancellor) annually reviewed and evaluated each district's capital outlay plan.

3. *District Submission of a Construction Project Proposal:* For each project that a district desired State approval, the district submitted a "project proeposal" that contained all necessary specifications for review within the framework of its educational program.

4. *Coordinating Council and Department of Education or Chancellor's Office Review:* At this step, the Coordinating Council and the Department of Education (later, the Chancellor's Office) reviewed each district's proposed projects for compatibility with its educational program, the need as established by capacity and utilization standards, projected enrollments, project eligibility, and proposed costs.

5. *Department of Finance Review:* The Board of Education (later, the Chancellor) forwarded approved proposals to the Department of Finance for review of the need, size, and timing for the project. If approved, the district was requested to prepare preliminary plans for the Department of Education.

6. *Preparation of Preliminary Plans by the District:* The district then prepared preliminary plans for the project, such as architectural drawings and detailed cost estimates, for submission to the Department of Education.

7. *Department of Education or Chancellor's Office Review of the Preliminary Plans:* This review of the preliminary plans, in which the Coordinating Council assisted, was divided into four sub-steps: (a) a review of architectural plans, costs, and time schedule; (b) determination of the amount of federal funds

available, if any; (c) calculation of State and local shares of total project costs; and (d) identification of the amount of funds needed for current and subsequent budget requests.

8. *Department of Finance Review of Preliminary Plans and Development of Funding Schedule:* Following review of the preliminary plans by the Department of Finance, an estimated State/district funding proposal was developed and proposed to the Department of Education or Chancellor's Office. Following its approval, the project was normally included in the Governor's budget

9. *Legislative Review:* The Legislature reviewed those proposed projects recommended for construction along with the amount of State/district shares proposed by the Department of Finance and the Department of Education or Chancellor's Office. Approved projects were scheduled for funding over the time period required for their completion.

10. *Provision for Obtaining District Funds:* The final step in the approval process was legislative authorization for district governing boards to levy a district tax sufficient to cover the district share of the cost of a project without requiring a vote of the district electorate, when such funds were not otherwise available.

This tenth step was vitally important in the pre-Proposition 13 system of financing construction. Districts could not levy the local tax without State approval, even when the State's participation in funding was minimal. Therefore, even before the State assumed a large portion of construction finance, its influence in the project-by-project review was considerable.

Definition of "relative district ability"

Under the 1967 Act, the term "relative district ability" determined the respective shares of project costs to be borne by the State and by the district after the total cost of the project, minus any federal funds, was determined. The Act defined "relative district ability" as:

> the quotient obtained by dividing (1) the assessed valuation of the district for the academic year in which an application for a project is submitted to the Department of Education [later the Chancellor's Office], divided by the annual average weekly student contact hours in the district for the same academic year, by (2) the total of assessed valuation for all junior college districts in the state for the same academic year, divided by the total annual average weekly student contact hours in all junior college districts for the same academic year (*Education Code* Section 20081).

If the quotient was "one," the State and the district shared the cost equally. If it was less than "one" (indicating that the district's assessed valuation per weekly student contact hours was less than the statewide average), the State bore more of the cost than the district. If it was greater than "one," the district bore more of the cost than did the State.

In 1970, minor amendments were made in the determination of relative district ability that allowed the use of five-year rather than ten-year plans and projections of weekly student contact hours, but the basic concept and the ten-step process for funding remained essentially intact throughout the decade.

The Community College Construction Act of 1980

The Community College Construction Act of 1980, which is currently in effect, except for the recent changes in Senate Bill 375 (Carpenter), revised the 1967 method for determining "relative district ability" in ways that recognized the realities of finance after Proposition 13. The major change, of course, was in response to the constitutional prohibition against property tax overrides to support the "local" share of projects. As a result, some new measure of "district ability" was needed if a non-State share was going to be required. So, in order to determine the match, the 1980 Act substituted a method based on each district's net ending balance of all budget funds for the prior year:

> **Section 81838.** Determination of district's matching share; excluded funds.
>
> In determining a community college district's matching share, the chancellor's office shall do the following:
>
> (a) Determine the average statewide ending balance per weekly student contact hour according to the following procedure:
>
> (1) For each district divide the total prior year's net ending balance of all budget funds

established and maintained, minus excluded funds as defined by subdivision (c), by that district's annual weekly student contact hours for the same fiscal year.

(2) Compute the mean average district ending balance per weekly student contact hour for the prior fiscal year by dividing the total of ending balances statewide by the total statewide weekly student contact hours for the same fiscal year.

(b) Determine the state-local matching shares for each community college district according to the following procedure:

(1) For each district compute a factor by dividing the amount calculated in paragraph (1) of subdivision (a) by the statewide average district ending balance per weekly student contact hour computed pursuant to paragraph (2) of subdivision (a).

(2) The district local matching share shall be equal to 50 percent of the project cost multiplied by the factor.

(c) As used in this chapter, "excluded funds" means any of the following:

(1) District moneys designated for specific projects which received state funds in a prior Budget Act and which are included in the district's five-year plan.

(2) Moneys designated for 100 percent locally funded projects which were approved by the chancellor's office prior to July 1 of the previous year without qualification as to the effect on district eligibility for future state funding.

(3) Restricted and committed revenues such as those moneys collected for community service programs, student health activities, food services, book stores, parking, district self-insurance, California State Teachers' Retirement System, Public Employees' Retirement System, and others as certified to by the district governing board and approved by the chancellor's office (*Education Code*, Reorganized, Section 81838).

Despite the revolution wrought on local finance by Proposition 13, the State's approach to capital outlay remained much the same in the 1980 Construction Act. Other than moving from assessed valuation to ending budgetary balances, the process for determining each district's matching share remained essentially the same. District ability was -- and still is, although modified somewhat by Senate Bill 375 in 1985 -- derived by dividing the total prior year's ending balance of all net budget funds, minus the excluded funds, by the district's annual weekly student contact hours for the same fiscal year. Then a statewide average of district ending balances is computed and divided by the total statewide weekly student contact hours for the year. The district's matching share was equal to 50 percent of the project cost, multiplied by the ratio of the district's ability factor divided by the statewide average factor. The rest of the 1967 Construction Act procedures, including the ten-step process, continued as before.

The Tidelands Revenue Redistribution of 1980

Since the 1960s, the State of California has leased its mineral and oil lands to private parties after bids. These leases, negotiated and monitored by the State Lands Commission. typically guarantee a certain percentage of the value of well-head oil to the State. Beginning in the early 1970s, the "tideland oil revenues" were committed by statute to the Capital Outlay Fund for Public Higher Education (COFPHE) as a pay-as-you-go source of revenue for major construction. Until 1976, when California voters defeated a $150 million Construction Bond Act for the Community Colleges, the Capital Outlay Fund was devoted exclusively to the four-year public institutions.

Since 1970, the segments have relied on several other public sources besides the Capital Outlay Fund (COFPHE): the University of California's Health Sciences Facilities Construction Bond Act in 1972, the local property tax override for Community College projects before Proposition 13, State bonds for the Community Colleges in the early 1970s, bonds for High Technology and Related Fields since 1983, and self-financing facilities such as dormitories and student union buildings.

During the 1970s and the early 1980s, revenues from these sources -- including the Capital Outlay Fund -- declined steadily. The University's Health Sciences Bond expenditures went from a high of $65.6 million in 1973-74 to $0.5 million in 1982-83. Proposition 13 eliminated the permissive override which had provided millions for a local match in the Community

Colleges. Finally, the Legislature diverted funds from the tidelands revenues to support the State General Fund during the 1981-1983 recession, thus limiting State- supported capital outlay even further.

As available State funds became more scarce, the Department of Finance asked the public segments to draw up priority categories for ordering their major capital projects. In general, the categories are as follows:

A. Funds to correct structural, health, safety, and code deficiencies.

B. Funds to make new and remodeled facilities operable.

C. Funds to correct deficienc .n existing buildings.

D. Funds to provide energy conservation and better energy use.

E. Projects where enrollment exceeds space and utilization standards for instructional facilities.

F. Projects where support facilities are deficient.

G. Funds to provide for land acquisition.

H. Funds to provide a complete or "balanced" campus.

As the Capital Outlay Fund diminished during the 1970s and the Community Colleges became participants in it, only those projects in categories A to D were usually funded. Although this was justified by the need to reserve scarce dollars for safety projects and instructional space, the policy has meant that the development of some new campuses has been stunted in large measure. This impact has been particularly negative in areas where colleges are within driving distance of each other. Often, the lack of a full array of structures normally associated with "college life" has meant that newer campuses are not as appealing to potential students as are older colleges with a full complement of educational and recreational facilities.

In 1979, the federal government deregulated the price of oil and so increased the potential funds for the Capital Outlay Fund from a low of $96.3 million in 1977-78 to a then projected $680 million for 1982-83, an amount considered far in excess of the funds needed for construction in higher education.

As a result, the Legislature adopted Assembly Bill 2973 (Vasconcellos, 1980), which contained the following provisions:

- A new account called the "Tidelands Oil Revenues Fund" was created;
- The Capital Outlay Fund would have first draw on the Tidelands Fund up to $125 million each year. This amount would be distributed to the institutions of higher education on the basis of a project-by-project review; there were no equal "shares" promised or implied;
- Other funds from the Tidelands Fund would be apportioned in the following order:

  State School Building Lease Purchase Fund ($100 million in 1980-81; $150 million for five years starting in 1984-85)

  Energy and Resources Fund ($120 million annually)

  Transportation Planning and Development Account ($25 million annually)

  The Special Account for Capital Outlay (all funds not allocated to the above)

Although the arrangement of "Tidelands" recipients has changed since 1980, the Capital Outlay Fund target remains at $125 million and the Special Account for Capital Outlay (SAFCO) continues to be filled by revenues not allocated to others. Ironically, the Special Account has become an increasingly prominent source of capital-related funds in the support budgets of higher education.

2 Problems with the Existing Method of Funding Community College Construction

FIVE problems are now predominant in the State's approach to funding capital outlay in the Community Colleges: (1) the discontinuity between their finance and governance systems; (2) the long-range impact of "free flow" on a district-oriented capital outlay process; (3) the restricted ability of districts to provide matching funds; (4) the pressures against building year-end balances; and (5) the long lead time in determining districts' ability to provide matching funds.

The discontinuity between finance and governance

Fifteen years ago, the two-year colleges in California were basically *local* institutions, with only the most tenuous connections to each other or to the State. The vast majority of funds for both their support and capital outlay came from property taxes raised within the boundaries of each district and in amounts determined by the Boards of Trustees. In most cases, these Boards could raise additional funds on their own and routinely restricted their residents from attending colleges in other districts. They directed their educational programs within very broad parameters and were able to establish personnel policies and compensation levels much to their own choosing. "It must be emphasized," the Dean of the Facilities Planning Division in the Chancellor's Office told a legislative hearing on capital outlay, "that the local boards of trustees have the basic responsibility for establishing new colleges, centers, and operations; for formulating educational requirements; and for planning adequate facilities . . ." (Rogers, 1979, p. 2).

The key element of this older method of finance was the ability of local taxing authorities, including Community College districts, to set their own tax rates on property within their territory. Proposition 13, however, limited any *ad valorem* tax on real property to 1 percent of its full cash value and made the Legislature responsible for distributing these revenues. In effect, the "local" property tax -- the fiscal and symbolic foundation of each district's independence -- had been transformed into a State tax with the focus of authority in Sacramento. Further, Proposition 13 prohibited any "permissive overrides" which removed the source of local funds for capital outlay. This prohibition also put the burden of capital outlay finance squarely onto the State.

Proposition 13 and many *Education Code* provisions have thus created a hybrid for the Community Colleges: a State-determined finance and capital outlay system that is locally governed and administered. There even exists a contradiction between their "support" and "capital outlay" budgets. Basically, the State provides the vast majority of "support" funds for the Community Colleges through general apportionments based on enrollment (units of average daily attendance), but imposes few of the budgeting and accountability processes typical of the University and the State University, which are classified for budgeting purposes as "State Operations." For capital outlay, however, the project-by-project review and approval process is similar for all three segments. This disjuncture between the finance and governance systems of the Community Colleges is a prime topic before the Commission to Review the Master Plan for Higher Education and the Legislature's Joint Committee to Review the Master Plan.

The long-range impact of "free flow" on a district oriented capital outlay process

Community College finance after Proposition 13 was changed in ways that encouraged districts to drop their attendance restrictions and allow students to enroll where they wished. Now, the "free flow" of students -- the ability of people to attend any college regardless of where they reside -- is common throughout most of California and is defended as an appropriate policy for a State-funded segment that educates adults.

Regardless of whether "free flow" will be mandated by the State or not, its practical effect has been to change the pattern of capital outlay needs by increasing enrollment pressures on some colleges while others serve far fewer students than they were designed to accommodate, especially in some urban areas. Despite this reality, the State's capital outlay review is still based on a district-by-district analysis, and enrollment projections do not adequately take "free flow" into account. Especially in urban areas, the shifts to popular or "magnet" campuses and programs has the potential for disrupting capital outlay planning if the resident population of districts remains the central focus of the projections. Although the decline of enrollments statewide between 1981 and 1984 has temporarily relieved the problem of enrollment pressures on "receiving" campuses, the long-range effect of allowing maximum student choice suggests that a district-oriented analysis of capital outlay needs may no longer be appropriate in many areas.

The restricted ability of districts to provide matching funds

Under Section 81831(c) of the *Education Code*, one of the elements for review and evaluation of each proposed project by the Chancellor's Office is a district's matching funds:

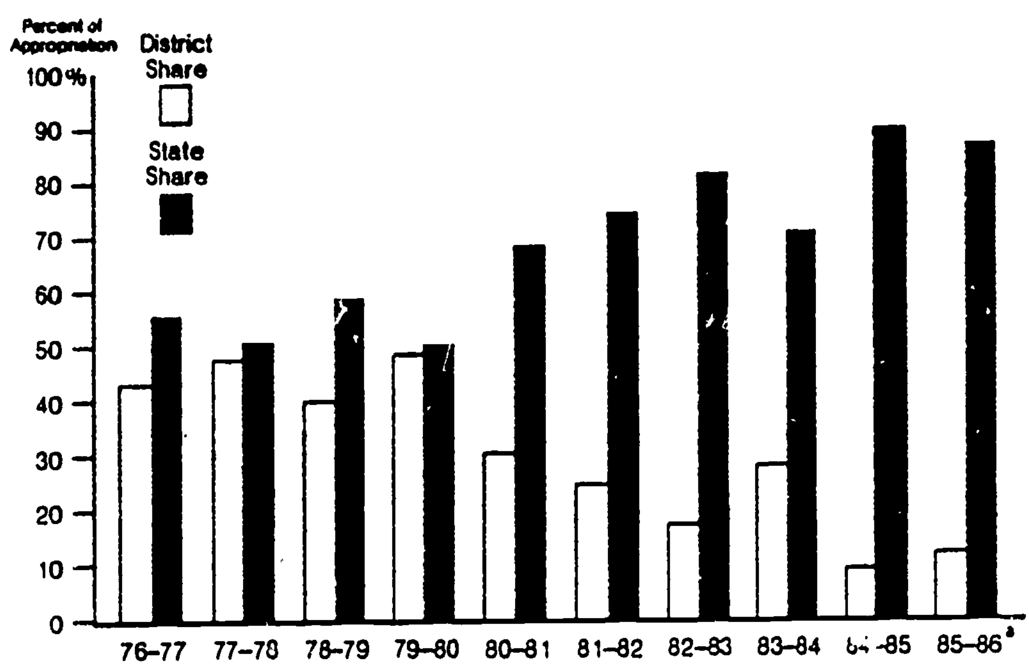
> Determining the total cost of the project, reducing the total cost by the amount of federal funds available therefor, and determining the remainder thereof to be borne of the state, or, *if the district has matching funds*, by the state and by the districts (italics added).

Over the years, funds available for matching have diminished especially since districts have had to rely exclusively on reserves or general support resources for their match since Proposition 13. Display 1 below demonstrates the dramatic reduction in districts' share of capital outlay costs over the past ten years, while Display 2 on page 11 shows the decline of total dollars available for State-supported capital outlay.

In his 1985-86 report, the Legislative Analyst noted that:

> In fiscal year 1981-82, six districts requested additional state funding for their projects-

DISPLAY 1 *District and State matching share ratios for Community College capital outlay, 1976-77 through 1985-86*



*As proposed in the 1985-86 Governor's Budget.

Source: Legislative Analyst, 1985, p. 1409.

DISPLAY 2 *California Community College Board of Governors requests for State funds for capital outlay and those finally approved in the Budget, 1976-77 through 1985-86*

Fiscal Year and Source	Number of Projects	District Share	State Share	Total
1976-77 COFPHE				
Requested	175	$72,964,809	$85,326,000	$158,290,809
Approved	57	32,591,080	41,757,300	74,348,380
1977-78 COFPHE				
Requested	135	57,588,722	63,905,400	121,494,122
Approved	81	30,692,474	32,967,200	63,659,674
1978-79 COFPHE				
Requested	115	35,123,081	36,954,000	72,077,081
Approved	67	6,789,993	9,860,500	16,650,493
1979-80 COFPHE				
Requested	65	16,074,684	37,445,400	53,520,084
Approved	32	5,237,100	7,877,700	15,531,700
1980-81 COFPHE				
Requested	64	11,802,900	23,162,800	34,965,700
Approved	45	5,384,950	11,926,850*	17,311,800
1981-82 COFPHE / Bond				
Requested	86	11,443,700	32,060,600	43,504,300
Approved	45	3,479,300	10,260,100 **	13,739,400
1982-83 COFPHE / Bond				
Requested	83	12,700,000	42,197,000	54,897,000
Approved	31	2,115,000	9,527,000	11,642,000
1983-84 COFPHE / Bond / Federal				
Requested	84	15,551,000	36,036,000	52,836,000
Approved	16	3,363,000	8,287,000***	11,650,000
1984-85 COFPHE / Bond				
Requested	66	4,103,000	37,400,000	41,503,000
Approved	41	2,707,000	24,947,000	27,654,000
1985-86 COFPHE				
Requested	47	3,995,000	55,210,000	59,205,000
Approved	41	3,749,000 (est.)	28,304,000	32,053,000

* Includes $4,523,250 in-State funds appropriated by AB 1171 (Mori), of which $2,169,300 was reverted and added to district share.

** Because of the shortage of COFPHE funds, $7,328,600 of the 1981-82 State funds were frozen and then reverted. This $7,328,600 was restored in the 1982-83 Budget Act and is a part of the $9,527,000 shown above.

*** Includes $804,000 of Federal Trust Funds which were reverted in June 1984 for six of the 16 projects.

Source: Chancellor's Office, California Community Colleges.

citing an inability to provide their required matching share. This number increased to 12 districts in 1984-85, and nine districts have requested additional state support for the budget year.

If this trend continues, district participation in the community college capital outlay program will become pro forma, and the state, for the most part, will have assumed full financial responsibility for the program. This will reduce the number of community college capital outlay projects that can be funded, leaving some districts with no state help at all. In addition, it will virtually eliminate local autonomy and local responsibility for community college capital improvements (p. 1408).

The pressures against building year-end balances

Most districts, except the handful that held large reserves in 1978, face difficulty in developing a net ending budget balance to be used as their share for capital outlay, since many demands, including those for salary increases, lay claims for "discretionary" revenues. This has been especially true during the difficult years of 1981-1984 when State support declined because of the recession. At the same time that the "purchasing power" of their revenues per student was declining (as shown in Display 3), the Legislature periodically debated the policy of recapturing "excessive" balances from the districts, which did not encourage the prudent marshaling of year-end balances. So, it is not surprising that the reserves of most districts fell during the early 1980s, and with that decline, their ability to match State funds for construction.

The long lead time for determining districts' ability to provide matching funds

A two-year time lag existed under the 1980 Construction Act in determining districts' ability to provide matching funds for capital outlay. For example, the Chancellor's Office developed its capital outlay program and priorities for the 1985-86 budget by determining the district's matching shares on the prior year's budget balances, in this case 1983-84. Some districts find, however, that unexpected circumstances can force them to spend these balances for other purposes before their capital outlay program is approved by the Legislature and the Governor. It is expected that Senate Bill 375 (Carpenter, 1985) will substantially solve this problem, but there still remains the possibility of unexpected emergencies which might eliminate the district's match.

Display 3 California Community Colleges State and local revenues per unit of average daily attendance (ADA), 1977-78 to 1984-85 (dollars in millions)

Year	Revenues per funded ADA	Constant dollar revenues per ADA
1977-78	$1,672	$1,089
1978-79	1,757	1,056
1979-80	1,827	1,001
1980-81	1,867	934
1981-82	1,966	912
1982-83	1,998	869
1983-84	2,145	878
1984-85	2,424	937

Note: Includes general apportionment and general use funds only. Excludes categorical funds.

Source: Department of Finance, 1984.

3 Alternatives to the Present Method of Funding Capital Outlay

THE problems identified in the last chapter with the current system for funding capital outlay at the Community Colleges suggest that alternatives must be examined. The Supplemental Report to the 1985-86 Budget directed the Commission to explore at least four alternatives:

- Adoption of a constitutional amendment to permit local property tax increases for investment in capital improvements;
- Fixed State and district matching shares;
- Full State funding; and
- Block-grant funding.

This chapter examines these and other alternatives.

1. Allow the Chancellor's Office to determine the required match

The Community College Construction Act of 1980 requires, in effect, a 50/50 match of State funds and local monies, but this requirement is modified by a calculation of each district's ability based on its net ending balance. *Education Code* Section 81838 describes the procedure for making this calculation which, in practice, has resulted in most districts being required to provide about 10 percent of major projects. Even so, many districts have found it difficult to maintain any significant year-end balance because of fiscal retrenchment and the pressures to direct funds into salaries and other support budget priorities.

Senate Bill 375 (Carpenter) of the 1985 Session (Chapter 1347) repeals Section 81838 and declares legislative intent to provide State funds for Community College capital outlay projects to the extent that non-State funds cannot be secured. The Community Colleges' Chancellor is to review and evaluate all preliminary plans for projects and (a) determine their total cost; (b) assess the effort of each district to secure non-State funds; and (c) establish the State share of each project's cost.

Recently, the Chancellor's staff has drafted Title 5 regulations (California Administrative Code, Division 8, Chapter 1, Sections 57033 and 57034) to state that the district's matching share of a project's cost shall not be more than 10 percent or greater than 2 percent of the district's operating budget for the year prior to the Chancellor's review and evaluation. Further, the regulations provide that a district may request a matching share less than the 10 percent required in Section 57033, "by submitting documentation of its need for greater state funds to the Chancellor." The Chancellor then recommends some action to the Board of Governors which then has the option to "approve, approve in part, or deny the district request."

The advocates of Senate Bill 375 insist that it will provide more certainty in the capital outlay process and recognize the realistic limits on the ability of most districts to match State funds, while still retaining the basic structure of the 1980 Community College Construction Act. This is undoubtedly true, but several fundamental problems remain in the capital outlay process for the Community Colleges.

2. Raise local taxes for capital outlay by a constitutional amendment to permit property tax increases for capital outlay

Alternatives that address the fundamental problems would re-establish some means of raising local taxes for the Community Colleges because they are local institutions rather than "State operations." Until 1978, Community College capital outlay had been primarily a district responsibility, through "permissive overrides" on property taxes. That year, Proposition 13 limited *ad valorem* property taxes to 1 percent of actual values in 1975 and prohibited "permissive overrides," thus eliminating the ability of Community Colleges to raise funds through special as--

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sessments. An amendment to Article XIII (A) of the California Constitution would be necessary to remove this prohibition.

Those who would argue for this approach stress that the State's subsidy should be less than 50 percent "in order to safeguard local district control." In 1979, the Legislative Analyst's Office supported the approach that would allow the local electorate to approve, by a two-thirds vote, property taxes above the 1 percent limit, as "a clear alternative to state intervention in local governance . . ." (Testimony of the Legislative Analyst's Office at the Joint Interim Hearings on Tidelands Oil Revenues, November 14, 1979, p. 4).

An amendment to California's Constitution can be initiated in two ways: adoption of the amendment by a two-thirds vote of the Legislature or by a petition which receives 550,000 signatures from registered voters. Both approaches are then followed by an election where the amendment must receive a majority of affirmative votes. To date, there has been no apparent interest in the Legislature to initiate such an amendment, nor have any petitions been filed with the Secretary of State, the first step in soliciting signatures.

Moreover, even if such an amendment did qualify for the ballot, it is doubtful that such a change would be approved by the voters. Numerous polls indicate the voters' reluctance to tamper with Proposition 13, and most amendments to it over the past six years have been defeated. Further, elections conducted on specific tax increases reveal the public's reluctance to approve such local measures: only four of the 29 tax proposals that required a two-thirds vote were adopted in November 1984. One of seven school districts received a two-thirds approval on special tax levies and only three of seven districts even received a majority vote. Even if the "local contribution" is considered essential for the capital outlay program of the Community Colleges, obtaining it from property taxes is, at best, unrealistic.

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3. Raise local taxes for capital outlay by assigning some other source of local revenues to the Community Colleges

Proposition 13 does not require a constitutional amendment to raise other taxes besides *ad valorem* property taxes. It does require, however, that government entities can raise "special taxes" only by a favorable two-thirds vote of the electorate, and the Supreme Court has determined that "special" refers to specific purposes not related to the ordinary operations or the "general fund" of the taxing authority. This would seem to include capital outlay projects among the Community Colleges, although none has held an election for this particular purpose. However, the success rate for school districts and for the two Community College districts that have attempted "special tax" elections is quite low.

Currently, an array of assessments are available to local entities, some at their option:

- *Ad valorem* property taxes above the 1 percent level if raised for pre-existing indebtedness (Carmen *v.* Alvord, 1982)
- Sales and Use Taxes (1 3/4 cents of every sales dollar)
- Business License Tax
- Utility Users Tax
- Transient Occupancy Tax
- Others (admissions, parking, property transfer, severance, construction, etc.)
- The creation of Benefit Assessment Districts (Senate Bill 999, 1985 Session)

Through statute, the Legislature could authorize Community College boards of trustees to raise non-*ad valorem* taxes on their own accord, thus establishing a realistic source for all districts. While this would provide a source of local funding for capital outlay, the prospects for favorable action by the Legislature -- in terms of extending those taxes already levied by local governments or ones, such as the Personal Income Tax, levied exclusively by the State -- is unlikely for the following reasons:

- The philosophical basis for assessing additional property taxes for capital outlay was that attractive colleges enhanced the values of surrounding property. In terms of the people who pay most taxes now levied by local governments, such as the "transient occupancy tax" on hotels, this justification does not exist and the philosophical basis for charging it is undermined to that extent (see California League of Women Voters, 1976, pp. 62-71).
- Cities and counties would consider such an extension an unjustifiable encroachment on taxes that have traditionally been theirs.

- Such authority would mean that capital outlay would be supported by an entirely different tax than would the support budget.
- It is possible that the Supreme Court would determine that capital outlay was a "special" purpose under the meaning of the Constitution's Article XIII (A), and so would require approval by two-thirds of the electorate.

The one exception to these reservations is the recent legislation allowing the creation of benefits assessment districts for elementary schools (Senate Bill 999). This legislation, though vetoed, authorized school boards to finance elementary school facilities using an assessment mechanism based on the proposed facility's benefit to property as determined by a school board with court validation. Since this was a new strategy and bond counsel indicated that the assessment mechanism must be approved by the courts before it could be used widely, it is not possible to assess adequately its promise as a funding source for the Community Colleges ("Major New School Facility Financing Measure Passed," 1985).

4. Establish a system with fixed State and district matching shares

Several State-supported programs, such as mental health services and public school construction, provide for matching shares which are fixed and do not change on the basis of local circumstances. For instance, the *Education Code* establishes a 90 percent contribution from the State for public school construction and a 10 percent match since this appeared to be the discretionary resources available for most districts.

Since 1980, the *Education Code* has required a 50/50 matching ratio for Community Colleges, but this was unrealistic for large projects since there is no large source of uncommitted funds among most districts. So, the law identified a method of adjusting the matching proportions, based on year-end balances. Generally, this has resulted in a relatively small amount of district funds being required for a match (see Display 2, page 11). The recent regulations proposed for Title 5 (see Alternative 1 above) basically implement this fixed proportion approach.

This alternative would establish a lower and more realistic match for all districts and rests on the assumption that being forced to contribute a share of construction costs gives the districts a stake in the projects. Further, the argument is that even a local contribution as small as 10 percent will enable the State funds to be spread among a wider variety of projects. The Chancellor's Office reports that a review of district funds available since 1978 revealed that the statewide average was roughly 10 percent for major projects. However, a statewide average is not an analytical justification for each district since it does not measure the resources available to each one. The 1980 Construction Act, despite its cumbersome method of calculating funds available for match [Subsection 81838(c)], correctly recognized that some districts could not afford any significant match on large projects while others in better circumstances could provide a considerable portion.

5. Abolish requirements for a local match and establish full State funding for capital outlay

Community Colleges are institutions that provide education and learning opportunities based on statewide priorities and community needs. Their governance and administrative structures continue to be decentralized while their funding is centralized in Sacramento. "Since the passage of Proposition 13 in 1978," concludes a recent report to the California Roundtable, "the most obvious change has been the assumption by the Legislature of authority for the allocation and distribution of resources" (Weiler and others, 1985, p. 3). In addition, background materials for the 1985 *Basic Agenda* prepared by the Board of Governors of the Community Colleges stated that "there are over 3,000 statutes in the *Education Code* alone which authorize, mandate, regulate, or procedurally circumscribe the activities of community college districts" (p. 42). In light of these realities, it would be difficult to contend that full State funding for capital outlay at the Community Colleges would fundamentally alter their nature or impose a measure of State control which does not currently exist.

Those who favor this approach point out that the State provides at least 90 percent of the funds for most projects and, in terms of the capital outlay review process, California has followed a State-oriented process for many years. Further, districts would be able to compete for funds on a more equitable basis if the match were eliminated since considerations extraneous to the issue of capital outlay priorities -- such as the availability of a local match

-- would be eliminated. Those who oppose this approach contend that some local effort is necessary to maintain the "local character" in capital outlay, and that a district match allows State funds to be spread over a wider variety of projects.

6. Appropriate capital outlay funds as a block grant with fund allocation determined by the Board of Governors

This approach would eliminate the current project-by-project review by the Department of Finance, the Legislative Analyst, and the Legislature. Instead, each Budget Act would appropriate to the Board of Governors an amount of funds based on some formula. The Board would then serve as an "allocation board" to distribute the capital outlay monies to the districts based on the Board's procedures and its highest systemwide priorities. The State follows a similar practice now for the public schools, and something like this approach is in effect for "minor capital outlay" appropriations to the systemwide offices of the University of California and the California State University.

This approach would save considerable amounts of time in the State's budget review process and would allow the statewide representatives of the Community Colleges -- the Board of Governors and the Chancellor's staff -- a more important role in the process.

On the other hand, unlike the current operations budget which is basically incremental, capital outlay appropriations vary widely from year to year, based partly on changing needs and partly on the varied mix of State and non-State sources. It would be difficult for the Governor and Legislature to determine an appropriate amount for capital outlay in the aggregate without reviewing individual projects. The difficulties of developing a formula to provide an equitable and uniform amount over time would be imposing. Most likely, the Legislature would resort to some historical or inflation-projected average to appropriate the aggregate amount.

7. Appropriate capital outlay funds as a block grant with funds distributed to each district according to a formula

Under this approach, each college or district would receive a certain amount of funds each year, based on some formula which would take into account the age of buildings, their utilization rates, the extent of campus completion, and other relevant factors. Obviously, the annual amounts would not be substantial enough to permit major construction each year, but districts could save the funds until they were sufficient to support their priority projects. These funds would be categorical and available only for capital outlay.

On the positive side, this approach would go far to restore "local autonomy." It would insure districts of certain funds for construction and renovation, while allowing the actual decisions to be based on local considerations. It would encourage prudent planning by allowing districts to marshal their construction funds over the long run. On the other hand, the State would have to abandon its well-established role in the determination of capital outlay for the Community Colleges. As a result, there would likely be no statewide space or utilization standards and no guarantees that the highest statewide priorities for construction were being met.

4 Principles, Conclusions, and Recommendations

TO evaluate the alternatives listed in the previous chapter for an appropriate State-level system of capital outlay funding for the Community Colleges, the Commission has developed a set of principles that it believes can be applied to State policy for Community College capital outlay. It has derived these principles from two previous Commission studies -- *Financial Support for the California Community Colleges*, (1977), and *Community College Finance After Proposition 13* (1979) -- and from developments since those studies were completed.

Principles

1. The method for determining capital outlay funds should be congruent with the governance of the Community Colleges.
2. Any method of generating "local" funds should be available to all districts without undue complications or restrictions.
3. The review process for capital outlay should be orderly, fair, and based on considerations relating primarily to construction needs.
4. The review process for capital outlay should provide most funds to the highest priority needs throughout the State but should still recognize that districts need some capital outlay funds in addition to those for statewide priorities.
5. Proposed changes to the present system should be feasible and realistic.

The application of these principles to the alternatives described in the last chapter form the basis for the Commission's conclusions and recommendations in response to the 1985 Supplemental Language.

Conclusions

1. The California Community Colleges have a State-determined finance system that is locally governed and administered for both their current operations and capital outlay budgets. As such, the boards of trustees have minimal ability to raise funds for general purposes outside the State's established formulas. This lack of congruence between finance and governance is a major problem in the State's approach to funding capital outlay.
2. The State of California has established a Commission for the Review of the Master Plan for Higher Education and a legislative Joint Committee for Review of the Master Plan. The Commission's report on the Community Colleges is due in February 1986 and its final report in January 1987. The Joint Committee's final report is due in March 1987. Both the Commission and the Joint Committee are considering ways to make the finance system, the governance structure, and the mission of the Community Colleges more congruent. It is expected that their recommendations will have particularly far-reaching effects on State policy for these colleges.
3. Because of the constitutional restrictions imposed by Proposition 13, it has not been realistic to continue the requirement that the "average" Community College district should contribute half of the cost of a capital outlay project. Chapter 1347, statutes of 1985, correctly recognizes this reality and allows the Community College Chancellor's Office to assess the effort of each district to secure non-state funds and to establish the State's share of each project's cost.
4. It is unrealistic in the near future to expect the Legislature through a statute or the people of California through a Constitutional amendment to provide a significant source of revenue for matching State capital outlay funds to be raised at the discretion of the districts. This alternative might be more realistic if advocated strongly by the Master Plan Commission or the Joint Committee.
5. Under authority granted in Chapter 1347, the Chancellor's Office has drafted regulations which provide that the district's matching share of a project's cost shall not be more than 10 percent or greater than 2 percent of the district's operating budget for the year prior to the Chancellor's review and evaluation. Further, the 10 per-

cent requirement can be waived by the Chancellor's Office, subject to approval by the Board of Governors. These regulations seem reasonable in terms of the realistic ability of most districts to match State funds. Further, they will enhance the predictability of the planning process and eliminate the long lead-time previously necessary to determine matching requirements. Finally, unless waivers of the 10 percent requirement are routinely awarded -- and this would be an incentive for poor management of resources -- the district share does insure some local "stake" in the projects and allows State funds to be spread among a wider variety of districts than would a wholly State-funded system.

6. Currently, the State imposes a project-by-project review on districts, with the evaluation based on State priorities for construction. While this is generally appropriate for a State-supported system of capital outlay, there are some reasons to modify the approach slightly: (a) unlike the four-year segments, the Community Colleges have local governing boards responsible for the educational services within geographical districts, and (b) a local match is required for most projects.

7. The current approach to capital outlay review: (a) has limited the ability of several new campuses to build an array of structures normally associated with "college life" so that they are not as appealing to potential students as are older colleges with a full complement of educational and recreational facilities; (b) does not permit State funding for district priorities which are not high on the State's list. There is a need to appropriate some funds that recognize these needs in a system of higher education which has "free flow" and local governing boards.

Recommendations

1. **The State's method of funding capital outlay in the California Community Colleges should be considered by the Legislature and Governor as part of a comprehensive approach to make their overall finance system more congruent with their governance structure. Until that time, the approach to funding capital outlay in the 1980 Construction Act, as modified by Chapter 1347 of the 1985 Statutes, should be continued.**

2. **Some funds beyond those provided through the State's project-by-project review should be allocated as a "block grant." The Chancellor's Office should develop a formula to distribute these grants in ways that would take into account the size of all districts, their relative needs to complete campuses, and other factors that would assess their need for additional capital outlay.**

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CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

THE California Postsecondary Education Commission is a citizen board established in 1974 by the Legislature and Governor to coordinate the efforts of California's colleges and universities and to provide independent, non-partisan policy analysis and recommendations to the Governor and Legislature.

Members of the Commission

The Commission consists of 15 members. Nine represent the general public, with three each appointed for six-year terms by the Governor, the Senate Rules Committee, and the Speaker of the Assembly. The other six represent the major segments of postsecondary education in California.

As of 1985, the Commissioners representing the general public are:

Seth P. Brunner, Sacramento, *Chairperson*
C. Thomas Dean, Long Beach
Seymour M. Farber, M.D., San Francisco
Patricia Gandara, Sacramento
Ralph J. Kaplan, Los Angeles
Roger C. Pettitt, Los Angeles
Sharon N. Skog, Mountain View
Thomas E. Stang, Los Angeles, *Vice Chairperson*
Stephen P. Teale, M.D., Modesto

Representatives of the segments are:

Sheldon W. Andelson, Los Angeles; representing the Regents of the University of California

Claudia H. Hampton, Los Angeles; representing the Trustees of the California State University

Peter M. Finnegan, San Francisco; representing the Board of Governors of the California Community Colleges

Jean M. Leonard, San Mateo; representing California's independent colleges and universities

Darlene M. Laval, Fresno; representing the Council for Private Postsecondary Educational Institutions

Angie Papadakis, Palos Verdes; representing the California State Board of Education

Functions of the Commission

The Commission is charged by the Legislature and Governor to "assure the effective utilization of public postsecondary education resources, thereby eliminating waste and unnecessary duplication, and to promote diversity, innovation, and responsiveness to student and societal needs."

To this end, the Commission conducts independent reviews of matters affecting the 2,600 institutions of postsecondary education in California, including Community Colleges, four-year colleges, universities, and professional and occupational schools.

As an advisory planning and coordinating body, the Commission does not administer or govern any institutions, nor does it approve, authorize, or accredit any of them. Instead, it cooperates with other state agencies and non-governmental groups that perform these functions, while operating as an independent board with its own staff and its own specific duties of evaluation, coordination, and planning,

Operation of the Commission

The Commission holds regular meetings throughout the year at which it debates and takes action on staff studies and takes positions on proposed legislation affecting education beyond the high school in California. By law, the Commission's meetings are open to the public. Requests to address the Commission may be made by writing the Commission in advance or by submitting a request prior to the start of a meeting.

The Commission's day-to-day work is carried out by its staff in Sacramento, under the guidance of its director, Patrick M. Callan, who is appointed by the Commission.

The Commission issues some 30 to 40 reports each year on major issues confronting California postsecondary education. Recent reports are listed on the back cover.

Further information about the Commission, its meetings, its staff, and its publications may be obtained from the Commission offices at 1020 Twelfth Street, Second Floor, Sacramento, CA 98514; telephone (916) 445-7933.

ALTERNATIVE METHODS FOR FUNDING COMMUNITY COLLEGE CAPITAL OUTLAY

California Postsecondary Education Commission Report 85-42

ONE of a series of reports published by the Commission as part of its planning and coordinating responsibilities. Additional copies may be obtained without charge from the Publications Office, California Postsecondary Education Commission, Second Floor, 10?? Twelfth Street, Sacramento, California 98514; telephone (916) 445-7933.

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85-28 Comments on the California Community Colleges' Library Space Study: A Report to the Board of Governors of the California Community Colleges in Response to Budget Control Language in the 1984-85 Budget Act (April 1985)

85-29 Reauthorization of the Federal Higher Education Act of 1965: A Staff Report to the California Postsecondary Education Commission (July 1985)

85-30 Director's Report, July-August, 1985: Appropriations in the 1985-86 State Budget for the Public Segments of Postsecondary Education (August 1985)

85-31 Faculty Salaries and Related Matters in the California Community Colleges, 1984-85 (September 1985)

85-32 Annual Report on Program Review Activities, 1983-84 (September 1985)

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