Tax reduction and limitation of government spending issues dominated the November 1978 state and national elections. What effect the propositions will have on community college financing will not be known for some time. Three principal sources of college revenue—property tax, state appropriations, tuition and fees—account for most of the funds in the categories of capital outlay financing and current operating financing. The manner in which state funds are allocated offers four funding alternatives: negotiated budget, unit rate formula, minimum foundation or equalization, or cost-based program. Whatever the funding pattern, the amount of money allocated is related to the number of full-time student or faculty equivalents or the number of student credit hours. In recent years legislators and governors have placed limits on the amount allocated to colleges. Especially unfortunate consequences were seen in the curtailing of non-credit courses; loss of local autonomy; decrease in the number of locally-supported colleges; lessened commitment to the Open Door policy; and increases in tuition and fees. A positive effect is the increased concern with educational mission and function, and with governance. A bibliography is included. (AYC)
COMMUNITY COLLEGE FINANCING IN THE POST-PROPOSITION 13 ERA

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The passage of Proposition 13 in June 1978 in California by a 2 to 1 vote stirred considerable anxiety among personnel in all publicly-supported agencies. The immediate objectives of such proposals are relief to the taxpayers through reduction of property taxes, restrictions on increasing other taxes, and limits on expenditures. Tax reduction and limitation of government spending issues dominated the November 1978 state and national elections. Democrats outdid Republicans in their commitment to these issues. The voters in 12 states (out of 16) who approved propositions dealing with tax reduction and limitation of spending gave strong support to those who characterize 1978 as the Year of the Tax Revolt. Proposition 13 has become a rallying cry for taxpayers, the equivalent of Lexington and Concord (Baratz and Moskowitz, 1978) and the Boston Tea Party (Norris, 1978).

What effect the 12 propositions will have on community college financing will not be known for some time; in Nevada not until 1980 when a reaffirmation of the November's vote must take place. What happened in California was spelled out in the headline on a Los Angeles Times article, “Community College Spending Hike's End; Total Costs to Level Off or Drop for First Time Since 40’s” (Speich, 1978). The statistics are even more dramatic. Before Proposition 13 the property tax to state appropriation revenue ratio was 48 to 42; the post-Proposition 13 ratio became 21 local, 67 state (California Community Colleges, 1978). While large, the state contribution accounts for only 75 to 85 percent of the loss in local revenues. Cuts in expenditures had to be made and new sources of revenue sought. In California as in most states cutbacks are more productive in balancing the budget since significant new sources of revenue are not available.

Next to tax revenues and state subventions tuition is the third largest source of revenue for community colleges. For California colleges, which are not authorized to impose tuition charges on resident students, this avenue is closed. The legislature did authorize the colleges to increase the number of fees, mainly in noncredit and community services classes. The return from these and other fees, already authorized, does not make up more than 2 percent of their income. Federal aid, providing about 6 percent of their income, did not change.

Although the no-tuition policy has remained intact, the prospects for its continuance have become less certain. Discussions on future plans often include tuition or user fees as one possibility as a source of new revenue. It is likely that within five years the no-tuition policy will be breached, perhaps through increased fees rather than through tuition (Erickson and McCuen, 1978). The effect will be the same; students will contribute a larger proportion of revenues.

Without underestimating the serious effects of Proposition 13 on California colleges and the probable effects of similar proposals on colleges in other states, Proposition 13 did not initiate the crisis. Resistance to higher taxes and public expenditures has been rising for at least five years. This resistance has been felt by many colleges in lower revenues or in reduced per student allocations; and in the large number of college tax and bond measures that fail to get voter approval. For example, since 1968 only 6 Illinois community college districts obtained voter approval for tax levy increases for operating purposes. During that period there were 20 failures. On top of this all colleges have been adversely affected by the high inflation of the 1970s. Colleges with rising enrollments have been “particularly hurt” (Illinois Community College Board, 1977, p. 19).

The three principal sources of community college revenue — property tax, state appropriations, tuition and fees — account for most of the funds. Federal aid represents about 6-10 percent of operating budgets. Of minor significance are revenues from private sources, including foundations, interest on surplus funds, and profits on student stores and other enterprises.

When community college financing is discussed it usually refers to current operating revenue. Revenue for capital outlay — buildings and nonexpendable equipment — are usually budgeted separately. These two classifications of revenues will be treated separately under Capital Outlay Financing and Current Operating Financing Patterns.

Capital outlay financing for buildings and major equipment may or may not be included in the financing patterns. More often it is not. In fact, capital outlay financing has been characterized as “irregular or sporadic” by the director of Mississippi's Commission of Budget and Accounting, “dismal” by the California
Postsecondary Education Commission, and without "any implicit objective" by a Texas official (California Postsecondary Education Commission, 1977a, p.124). Much of the difficulty is attributable to the large expenditures required at the time of initiating a capital outlay project and to the requirement or practice in some states that a bond issue to finance the project be submitted to the voters for approval or rejection. Usually a two-thirds vote is required for approval. When a financial crisis occurs, capital outlay projects are among the first to be frozen or curtailed.

To spread the expenditures of capital outlay funds over a period of years, some states require colleges to develop plans on their projected needs for five or ten years. The problem of capital outlay financing has become more difficult because of the predictions that enrollment will decline in the 1980s. The California Postsecondary Education Commission concluded that "although several states appear to have responded effectively to the need for new construction when community college growth reached its peak, few have succeeded in establishing consistent and reliable systems of capital outlay support for the longer run" (1977a, p. 127).

Current operating financing patterns vary according to the major source of funds or according to the manner in which the state distributes its share of funds. Though there are common elements in the patterns, they vary widely among the states and sometimes within a state where some colleges are funded by the state and others through local property taxes and state subventions.

The simplest differentiation in financing patterns focuses on the share of revenue colleges receive from the state and from local taxes. State-supported colleges receive their funds from the state, no funds from local property taxes; locally-supported colleges receive funds from property taxes and state subventions. Within each group tuition may or may not be a significant source of revenue.

A more refined classification developed by Wattenbarger and Starnes (1976) is based on the manner in which the state distributes its share of funds. They classify support patterns under one of four major divisions: 1) Negotiated Budget Funding in which the college negotiates with the state legislature or state board for a lump sum, broken down into large areas or into line items; 2) Unit Rate Formula Funding based on student credit hours or student full-time equivalents; 3) Minimum Foundation or Equalization Funding based on the ability of the college to support a minimum foundation with a specified property tax; 4) Cost-Based Program Funding as opposed to uniform, single rate funding. Usually vocational education courses are funded at a higher rate than liberal arts courses; adult education courses may receive no state funds or at a lower rate than the regular college-credit courses. The number of categories in cost-based funding may vary from 2 to 45. In 1976 the Unit Rate Formula and the Cost-Based Program Funding were each used by 15 states, the Negotiated Budget by 12 states and the Minimum Foundation by 8 states.

Minimum foundation funding can become quite complicated as a result of attempts to take into consideration property tax relief, higher costs of operating small colleges, problems encountered by urban districts, and varying rates of population growth, and to keep the total appropriation within bounds established by the legislature and governor. Before the passage of Proposition 13 California adopted a "formula providing a partially equalized allowance for existing enrollment, a separate computation for enrollment growth . . . , a 'demographic' factor intended to benefit urban districts, and a six percent inflation factor" (California Postsecondary Education Commission, 1977a, p. 9).

Less complex is the special assistance for equalization provided by the Illinois legislature to those community college districts whose equalized assessed valuation per full-time student equivalent is below the state average (Illinois Community College Board, 1977). Under minimum foundation or equalization aid pattern the state share of support rises or falls "according to the ability . . . of local districts to contribute to the foundation amount from their local tax bases" (California Postsecondary Education Commission, 1977a, p. 4).

Although the four patterns are different, most of the states use a rate formula as one ingredient in allocating funds. Whatever the pattern the amount of money allocated bears some relationship to the number of full-time student equivalents or to the number of full-time faculty equivalents or to the number of student credit hours or a combination of these criteria. Also, in most rate formulas occupational courses receive higher allocations than the liberal arts. Some states adjust rates inversely to the size of college enrollment. In addition to regular allocations lump sum payments may be allotted to small colleges or to new colleges. The budget-based pattern may appear to be less subject to enrollment than the others; however, in practice allocations bear a reasonable relation to enrollment. Aside from partiality toward enrollment-based funding there is no best funding pattern (Bennett, 1977).

A different approach to funding was proposed by a Michigan Task Force. A unique feature of the proposal is a program classification structure of 5 delivery design modes — General Instruction, Lab 1 (Biology and Physical Science), Lab 2 (Vocational/Technical), Lab 3 (Health) and Lab 4 (Communications). The class size for each mode varies from 10 for Health to 22 for General Instruction. The "central driving force" of the model is the student contact hour (SCOH) per full-time faculty equivalent (FTFE) formula. Another feature of the plan is a 50/50 local-state sharing; however the ratio is closer to 25/75 because the local share includes 25 percent of tuition and fees. In many respects this is a modified form of cost-based funding (Michigan State Board for Public Community and Junior Colleges, 1977).

Funding patterns are far from static. Some change almost yearly (California Postsecondary Education Commission, 1977a). These may be initiated by the college educators, special commissions or task forces, the legislature, the governor, the electorate or a combina-
tion of two or more of these groups. Changes are often of a minor nature, such as introducing an inflation factor, or an incentive factor, to encourage greater activity in programs (vocational, remedial, handicapped), or increasing or reducing the number of instructional program activities. Of greater significance are changes that involve state aid for local-state support or that make fees as a condition of state support or that use various formulas with the objective of recouping or equalizing educational support or the reduction of both.

Until recently, changes were usually beneficial to the colleges. In 1970 state support in New York increased by 50 percent. In 1962 Texas community colleges received $16.48 per $100 of state appropriations; in 1977, $16.48 (California Postsecondary Education Commission, 1977b). State support in California increased from 40 percent of the colleges' current income in 1965 to 47 percent in 1973 (California Postsecondary Education Commission, 1977a). In Illinois appropriations more than doubled, from $56.9 million in 1970 to $128.1 million in 1977 (Illinois Community College Board, 1977). In a survey of the financial condition of community colleges in 39 states for the 1975-1977 period McGuire (1978) reported that funds were increasing in 11 states, decreasing in 7, and stabilized in 21.

Formulas rarely provide for higher per capita grants to take care of the lag in reducing fixed costs during periods of declining enrollment. Unless they are weighted to compensate for inflation the financial situation can become serious (Illinois Community College Board, 1977). For 1975-77 McGuire noted that for some colleges even though „the actual appropriation ... increased during [1975-77] ... the rate of increase, however, was smaller than in previous years; was well below the rate of inflation; and, as a result of enrollment increases, culminated in lower per student income“ (1978, p. 18).

In recent years legislators and governors have been placing limits on the amount allocated to the colleges. For example, in 1974 the Florida state allocation was based on an estimated enrollment of 139,000 FTE. The actual enrollment was 158,000. Because the legislature refused to increase the appropriation the colleges received a prorata share of the budgeted funds which meant a lower per FTE allocation (California Postsecondary Education Commission, 1977b). Similarly in 1976 in Illinois the state allotment had to absorb a serious deficiency of state funds because the state legislature did not pass a deficiency appropriation for approximately 25,000 more FTE students than had been anticipated (Illinois Community College Board, 1977). In 1975 the California legislature at the request of the governor imposed a cap of 105 percent on the enrollment growth for which the state would provide funds (California Postsecondary Education Commission, 1977a). In Washington because of a „scarcity of resources ... substantial segments of the budget model [were in 1977-78] funded at less than 100 percent“ (Washington State Board for Community College Education, 1978, Section I, pp. 1-2).

Equally prevalent are restrictions placed on funding of noncredit courses, particularly in community services. Recent examples are in California (McIntyre, 1978), Florida (Florida State Department of Education, 1977), New Jersey and Pennsylvania (Marforana and Others, 1978). These courses are becoming so unpopular among legislatures that colleges are either curtailling them, supporting them by local revenues, or making them self-supporting. During periods of financial stringency, as in New York City and California, such courses are the first to be dropped (Alfred and Others, 1977; Phair, [1978]).

Such actions do not augur well for financial well-being of the colleges. Henderson, Director of Community College Education in Florida, warned that the „days of operating virtually unquestioned, and of being both autonomous and affluent, may well be a phenomenon of the past“ (1978, p. 27). Henderson's appraisal was shared by many educators in California who, in 1978, for the first time since 1940, had less money to spend than they had the previous year. Until a new funding pattern is developed the prospect for 1979 is bleak (Speich, 1978). On the basis of an analysis of the issues and problems raised by recent trends in state legislative activity Martorana and Others concluded that „community and junior colleges have entered an era in which adequate financial support may be more and more difficult to obtain“ (1978, p. 49).

No satisfactory method of financing colleges on quality criteria has been devised although there is much written about accountability, competency-based instruction and other proposals to use quality criteria in conjunction with quantity criteria. It is even difficult to find evidence of cost effectiveness as Chancellor Craig of the California Community College Board of Governors discovered when he and his staff were trying „to make the strong case we should have been able to make as to our relatively reasonable cost compared to the costs of unemployment, welfare, penal institutions, other educational systems, etc.” (Craig, 1978, p. 3). Proposals to reward colleges on the basis of the percentage of students completing courses with passing grades or on the number of graduates receiving degrees or certificates of completion have found little support among educators. More common are incentives for recruiting students from economically, racially, physically, or educationally disadvantaged groups (Illinois Community College Board, 1977; McIntyre, 1978).

Funding is closely associated with the issue of state versus local control because educators believe that locally-supported colleges are less likely to be hampered by state controls than colleges funded by the state. The assumption that „decisions ... invariably follow the dollar“ (California Postsecondary Education Commission, 1977b, p. 9) seems to be unsupported by the facts. The „intrusion of governmental agencies and boards into the affairs of local boards of control ... overregulation ... and excessive reporting requirements“ (Michigan State Board for Public Community and Junior Colleges, 1977, p. 52) are as prevalent in locally-
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Regarding the local-state issue the, California Postsecondary Education Commission commented: "Despite the fact that these arguments [of the relative advantages of local versus state funding] could be tested with empirical evidence, the local-state debate for two-year colleges has continued on an abstract and 'self-evident' level. Despite the voluminous information on these colleges, surprisingly few researchers have tried to see whether locally-controlled colleges differ in curriculum and orientation from their state-controlled counterparts" (1977b, p. 9).

As state legislatures and voters place limits on property taxes the number of locally-supported colleges will be sharply reduced. The amount of money colleges receive from the state will depend on enrollment and the economy. If the concern about inflation and high government costs persists, the community college may be in a more difficult situation than at any time in the last ten years. Paradoxically, revenue from sales and income taxes are increased by the inflationary effect on the price of goods and wages, thereby creating large surpluses in some state treasuries. Had it not been for the state surplus California community colleges would today be in very serious strait. A surplus in New York enabled the Governor in 1978 to increase grants for operating and capital outlay purposes. For most colleges capital-outlay revenues will continue to be scarce, as long as projections point to a decline or steady state in population and enrollment. Federal funds will continue to be appropriated for student and categorical grants rather than for institutional purposes. The amount provided in the 1980 budget may be curtailed if Congress approves the President's goal of reducing the budget by $15 to $20 billion (Eaton, 1978).

The financial crisis is adversely affecting the commitment to the Open Door because colleges in choosing among alternatives tend to choose those which conform to traditional higher education practices. A common response is to tighten admission, testing, probation and retention standards (Allegato, 1978; Alfred and Others, 1977; Metropolitan Community Colleges, 1978; McCuen and Others, 1978). Another is to drop remedial courses. How widespread this movement back to the basics is in the community colleges is difficult to determine. There is enough evidence, however, to cause concern. Moore, in 1970, asserted that "few teachers can, or want to, teach [remedial students] at the college level" (Aaron's, 1975, p. 1) and Gleazer, in 1972 felt called upon to disagree with those who propose turning back to the elementary and secondary-schools responsibility for inadequately prepared students (Aaron's, 1975). Some "taxpayers and legislators are beginning to object to paying college prices for public institutions that provide large numbers of remedial students with what is essentially high school [courses]" (Beck, 1978, p. 15).

Also affecting the Open Door is the continued increase in tuition and fees and in the number of colleges imposing them. Since lack of finances is among the principal reasons high school graduates do not continue their education it is reasonable to assume that tuition and fees are a deterrent. Financial aid and tuition remission plans provide some help to low- and middle-income students, but the amount available is inadequate.

Reluctant as colleges are to increase tuition and fees, the yearly average paid by students has risen without interruption from $97 in 1964 to $387 in 1976. The range today is from a few dollars to $900 (American Association of Community and Junior Colleges, 1978). Tuition and fees represent about 20 percent of the operating revenues. Today's crisis is forcing more colleges to give up their no-tuition policy. Unfortunately, because such a decision is rarely reversed in later years, the low- or no-tuition policy will end for nearly all community colleges within the next five years.

A positive effect of the tax crisis is the extensive activity resulting from studies which, though primarily focused on financing, must perforce include areas such as mission and function, governance, management and other aspects of education. It is possible, but highly improbable, that the reexamination may include among its issues whether or not the community college should be transformed into a new kind of institution. The evidence suggests that colleges confronted by reduced financial resources revert to the traditional higher education status with emphasis on college credit courses and programs.

How long the lean years will last is difficult to predict. The unpromising forecasts on population and enrollment are discouraging growth because there is a close relationship between such growth and revenue. For the last ten years the drop in the enrollment of full-time college-age youth has been balanced by the enrollment of new students—minorities, veterans, middle-aged women, senior citizens, part-timers—including many with baccalaureate and higher degrees), the handicapped, and the institutionalized (Knoell and Others, 1976). But, this flow seems to have reached its peak. According to a study of the California Postsecondary Education Commission, "in the past year or two . . . it has become clear that this period of growth is ending and that the community colleges . . . must adjust . . . to little or no growth and, quite possibly in the early 1980s, some years of declining enrollments" (1977a, p. 2).

There may not be as many lean years as there were fat years of the 1945-1977 era, but they are not likely to end soon. Much will depend on the relative success in reducing inflation. If a serious recession should occur in the last years of the 1970s, the lean years for community colleges may extend into the 1980s.

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