ABSTRACT

Today many community colleges are faced with a multitude of financial problems that threaten the stability of their educational and operational programs. These problems include decreases in funding, rising costs, outdated funding formulas, and volatile enrollment patterns. The extent to which individual community college leaders understand these financial problems and develop appropriate responses will, in large part, determine their institution's ability to maintain the quality of its existing programs, expand into promising new educational areas, and continue an open door policy that ensures that the college's services are available to everyone who has an interest. One method to combat these problems is to identify and develop new sources of revenue. The most promising of such methods are establishing foundations; accessioning non-cash donations including equipment, facilities, and services; auxiliary enterprises such as bookstores, dining halls, and print shops; grant projects; contract training; and investment strategies. Another method involves utilizing strategies to control and reduce costs, which often requires a reevaluation of budgeting practices. A third avenue involves the implementation of a strong financial management system, effective budgeting practices, and a cost accounting system capable of gathering various types of information for decision-making needs. A final method involves garnering support from state officials and the public, including the reform of funding formulas. A review of the literature is included. (Contains 35 references.) (MAB)
Financing Community Colleges:
Threats and Opportunities

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Abstract

Today, many community colleges are faced with a multitude of financial problems that threaten the stability of their educational and operational programs. The extent to which individual community college leaders understand these financial problems and develop appropriate responses will, in large part, determine their institution's ability to maintain the quality of its existing programs, expand into promising new educational areas, and continue an open door policy that ensures the college's services are available to everyone who has an interest.
Financing Community Colleges: Threats and Opportunities

Decreases in state and local support, rising operational costs, outdated funding formulas, volatile enrollment patterns, and increased public demand for more financial accountability represent only a sample of the forces causing financial instability in many community colleges. To combat these forces, community college presidents must assume a leadership role in the financial management of their institutions.

Given the above, this paper offers community college leaders a comprehensive review of the literature related to community college financing and provides suggested strategies for: (a) identifying and developing new revenue sources, (b) instituting appropriate cost control measures, (c) implementing effective financial reporting systems, and (d) garnering support from state officials and the public.

Identifying and Developing New Revenue Sources

Reduced levels of state and local support, coupled with limitations on tuition increases, will force community colleges to aggressively pursue alternative revenue sources in order to maintain their financial status quo and/or take advantage of new educational opportunities. A review of the literature reveals that the most promising areas for revenue growth are (a) foundations, (b) non-cash donations, (c) auxiliary enterprises,
(d) grant projects, (e) contract training, and (f) investment strategies.

Foundations

Each year millions of dollars are donated to American colleges and universities. Traditionally, however, the bulk of these funds have been given to private institutions and prestigious four-year, public colleges. Current and future economic conditions demand that community colleges begin to attract a fair share of this philanthropic money. The first step in this area is the creation of a foundation to accept donations.

Foundations offer advantages for both the college and the donor. The college benefits in that it obtains monies for programs and/or activities that cannot be funded through regular budgets. The donor benefits by participating in a worthwhile cause and receiving a tax deduction for his or her donation.

Establishing a foundation.

According to Evans (1986) and Gragg and Hassenflow (1979), community colleges should adhere to the following steps in establishing a foundation.

1. The president should propose to the college's board of trustees that a foundation be established and obtain its support and approval.

2. College officials should consult with an attorney to prepare articles of incorporation and with an accountant to apply for
Internal Revenue Service authorization to accept tax deductible donations and exemption from federal income tax. These efforts will ensure that donors can take a tax deduction for their gifts and the earnings of the foundation are not subject to taxation.

3. Specific use of the funds to be collected (e.g. building projects, library acquisitions, faculty development programs, or specific community service projects) should be identified. Such identification not only provides direction for the college, it also helps prospective donors relate their financial gifts to an end product or result.

4. Questions by prospective donors should be anticipated and proper answers developed. For example, why can’t the described needs be provided within the existing budget structure?

5. College leaders must be certain that adequate seed money exists for the foundation to operate. At a minimum, seed money is needed for staffing, office space, equipment, travel, and promotions.

6. A professional staff member should be appointed to assume responsibility for foundation activities. This individual should report directly to the president and have a level of authority that matches the responsibility of the position.

**Types of revenue.**

Community colleges should use their foundations to solicit donations through annual campaigns, capital campaigns, and planned
gifts. Details concerning each of these types of revenue are as follows.

**Annual campaigns** - Through annual campaigns, community colleges should solicit donations from faculty, staff, parents, students, alumni, community leaders, and the general public. According to Walters (1987), annual campaigns should be used to solicit contributions that are unrestricted and thus usable for any purpose deemed appropriate by the college.

**Capital campaigns** - Community colleges should conduct capital campaigns to find major financial projects (for example, the construction of a new science building or the purchase of equipment for a new vocational program). Walters (1987) suggests that such campaigns be directed to a select few individuals or organizations that have the capacity to make large donations.

**Planned giving** - In addition to the above programs that solicit immediate monetary donations, community colleges should actively pursue planned giving. A planned gift includes any gift that is complex enough to require the assistance of one or more of the donor's financial advisors - i.e. attorney, accountant, financial planner, stockbroker, or certified life underwriter - to consider and conclude. Assets normally used in planned giving include: real estate, securities, and life insurance bequests. Generally, a planned gift has four characteristics: (a) it is irrevocable, (b) the right to current income from the gift and/or lifelong use
of any property involved in the gift is retained by the donor, (c) immediate tax benefits accrue to the donor, and (d) upon the death of the last beneficiary the gift’s principal becomes available to the institution (Edwards and Tueller, 1991 and Luskin and Warren, 1985).

Although current economic conditions warrant the establishment of a foundation and the aggressive solicitation of donations, college leaders must ensure that all solicitation efforts are performed in a manner that is in good taste and maintains the integrity of the college. In addition, Bock and Sullins (1987) recommend that community college leaders identify early in the solicitation process any types of gifts that the college should not accept and any potential donors from which the college should not accept any gifts.

Donations of Equipment, Facilities, and Services

In order to maximize private giving, community colleges should seek not only monetary donations but also donations of needed equipment, facilities, and services. For example, local businesses may be willing to donate office or computer equipment, local professionals may be willing to teach evening classes without pay, or an individual may be willing to donate some vacant office space which could be used by the college. To successfully solicit such donations, community colleges should: (a) create a list of all corporations, professionals, and major real estate
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owners in the area; (b) identify the specific non-cash needs of
the college (e.g. space, equipment, services, etc.); (c) match the
specific needs to any potential sources, (d) develop a rational
reason that a non-cash donation to the community college would
benefit the prospective giver; (e) contact the prospective giver
and make a professional presentation; and (f) when a donation of
property or services is received, provide tasteful and suitable
publicity for the donor (Conrad, Davis, Duffy, and Whitehead,
1986).

Auxiliary Enterprises

Although most community colleges provide auxiliary services
(e.g. bookstores, print shop, dining rooms, etc.) for their
students, few institutions make a substantial profit on these
programs. Thus, auxiliary services offer community colleges
another opportunity to expand their revenue base. To enhance
revenue in auxiliary enterprises, college leaders must ensure that
systems are in place to accurately identify the costs (direct and
indirect) associated with the products and/or services offered and
develop adequate pricing models that provide a fair profit margin.
In addition, proper internal accounting controls must be
instituted to protect the operation's assets from theft and
damage. Finally, program directors must be properly trained to
operate and manage their programs (Stumph, 1985).
Grant Projects

In many cases, grant projects offer community colleges an opportunity to obtain additional funding and become involved in interesting programs that can expand their scope. Institutions must, however, be careful in choosing which grants to pursue. According to Young (1978), a community college should only submit proposals for those projects that fit its mission and goals and for which it has adequate human and capital resources to successfully complete the project. Also, college leaders should give consideration to "if" and "how" the college can continue the program once the funding ceases. Colleges must be aware that certain governmental agencies award grants with the expectation that the awardee will continue the program after the grant expires.

Contract Training

Providing corporations and other organizations with employee training is a natural extension of a community college's community service role. In addition, contract training provides colleges with yet another opportunity to increase revenue. For colleges considering this type of activity, Lestina and Curry (1989) offer the following guidelines for creating a training contract.

1. College officials should meet with the company representatives to clarify the nature of the training needed.
2. Based upon the company's needs, the college should identify its subject matter experts.

3. The training program's content, assessment methods, and other relevant material should be developed.

4. A proposal - including an outline of the training program, dates, times, costs, and method of billing - should be created.

5. The proposal should be presented to the company and any mutually agreeable revisions made.

6. A contract should be signed.

7. The training should be conducted as agreed.

8. Employees participating in the program should be asked to complete a written evaluation on both the program and instructor.

9. The company should be billed.

10. The college should follow-up with the company to ascertain if additional training is desired.

**Investment Strategies**

Community colleges that work hard to earn additional revenue via foundations, auxiliary services, contracting training, etc., should ensure that proper investment strategies are in place to earn an optimal return on any funds that are not needed for immediate use. To enhance the opportunity for success in this area, community colleges should develop an investment policy. According to Taylor and Greenway (1985), an effective investment policy should include the following provisions.
1. A mission statement identifying the purpose of the policy.
2. A statement as to the major goal(s) of the investment program (e.g., to earn three percent return above the annualized rate of inflation).
3. The college's position as to the level of investment risk that it is willing to incur in order to achieve its investment goal(s) (note: a reasonable match must exist between the desired earnings goal(s) and the allowable level of risks).
4. A statement as to who will manage the fund (i.e. an internal employee or an external investor).
5. A statement that identifies the type and timing of reports that college leaders desire to see concerning the fund.
6. A listing of any restrictions that the college wishes to place on the investment manager (e.g., restrictions to ensure a diverse mix of investments or a statement that investments cannot be made in companies whose dealings are inconsistent with the moral or social position of the college).
7. Details for changing the policy's goals, restrictions, etc., as needed.

Other Sources of Revenue

During difficult economic times, community colleges must not only pursue obvious sources of revenue, they must also seek out less obvious sources. Hollingsworth (1978), for example, recommends that community colleges contact The National Endowment
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for the Humanities and The National Endowment for the Arts as these organizations often provide funding for programs that relate directly to certain community college goals. In addition, Brightman (1989) suggests that community colleges organize their auxiliary services into business ventures. Colleges could, for example, expand the products and hours of their bookstore to attract the general public or extend their food service facilities to provide food service to interested external organizations.

Cost Control and Reduction Strategies

In addition to identifying and developing new revenue sources, community colleges should also implement methods to control/reduce costs. It is in this area, however, that many scholars believe community college leaders often act hastily and improperly. A common first reaction by many community college presidents to tight economic conditions is to institute hiring freezes, restrict travel, curtail faculty development programs, defer maintenance, and increase class size. Such actions, while offering some short-term relief, may not provide real long-term solutions to the true problems of the college, and may even cause other problems, such as increased stress among faculty and staff and a loss of management credibility (Angel and DeVault, 1991 and Wattenbarger and Vader, 1986).

In addition to the above common strategies, college presidents often attempt to reduce costs by implementing across-
the-board budget cuts. While such a policy is easy to implement and appears on the surface to be fair, it is often inappropriate for several reasons. First, such cuts assume that the original budget was equally distributed. This may not have been the case; thus some programs and operations may be better able than others to absorb budget reductions without impacting quality. Secondly, across-the-board cuts often result in quality programs becoming average and average programs becoming weak. Thirdly, initiative often disappears because across-the-board cuts do not provide reallocated funds for new programs or ideas (Mortimer and Taylor, 1984).

In lieu of the above measures, Temple (1986) and Keyser (1984) recommend that college leaders examine each academic program to determine purpose and future role in the college. Specific questions that should be addressed include: (a) What is the current and projected student demand for each academic program? (b) What is the employment outlook for future graduates of each program? (c) What percentage of the students in each program found employment or transferred to another institution? (d) What are the cost factors (e.g., faculty, equipment, etc.) necessary to support each program? (e) What is the current quality level of each program? (f) What programs are necessary to comply with federal or state regulations or accreditation standards? (g) What educational purpose does each
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Based upon the information obtained in this analysis, college decision makers can, in general, develop new goals for the college and, in particular, reduce, eliminate, expand, or combine programs as needed in order to improve the college's efficiency.

Another method for reducing cost at community colleges is the use of part-time faculty in lieu of full-time faculty. On the average, part-time instructors receive about 40 percent less pay and are entitled to fewer fringe benefits than full-time faculty.

While the use of part-time personnel offers certain financial benefits to colleges, it also presents certain problems. For example, part-time instructors are often unavailable to students during non-class hours and normally do not have training in teaching methodology. Based upon these and other concerns, McCabe and Brezner (1978) recommend that community colleges limit their use of part-time faculty to 20 percent of the total faculty pool.

Financial Systems

The third step in addressing the financial difficulties of a community college is to implement a strong financial management system. A review of the literature indicates that a effective financial management system includes two main elements: (a) budgeting and (b) cost accounting.
Budgeting

Budgeting is viewed by many individuals as an administrative function wherein staff members proceed through a series of exercises such as estimating student enrollments, ascertaining staffing needs, adjusting prior year expenditures for inflation, and completing various reports for the president, board of trustees, and state agencies. Given today's tough economic environment, this perception of the budgeting process must change. First, the president must ensure that the college has an effective accounting/budgeting system that accurately, and in adequate detail, records the budgeted cost and actual expenditures associated with each program and department. Effectiveness in this area is essential to identify the true cost associated with the college's various programs. Secondly, a president must ensure that all key faculty and staff have hands-on knowledge of the financial affairs of their areas and possess a willingness to openly discuss the financial and programmatic problems facing their college. This type of involvement ensures that all available human resources can be utilized in formulating decisions and all areas of the college are represented in the budgeting and decision-making process. Thirdly, as part of the budget process, department heads should be required to relate the benefits of each program to its costs. While such cost-benefit comparisons do not have to be as detailed as those suggested by zero based budgeting.
models, enough justification should be available to ensure that the program warrants continuation. Fourthly, presidents should encourage the perception that the budgeting process offers an opportunity to reallocate funds from non-productive programs to programs that can enhance the quality of the college. Fifthly, the budget should not be viewed as a single occurrence happening once each year but as an ongoing process that requires the constant comparison of actual to budgeted expenses, and continual adjustments. Finally, presidents should ensure that the college's long-term planning process is integrated into the budgeting system (Mann, 1979; Hardin and Lee, 1979; and Allbright, 1979).

**Cost Accounting**

Next, an institution must develop an effective cost accounting system that is capable of gathering various types of information for decision-making needs. For example, cost accounting systems should be available to provide college leaders with answers to such questions as, "what would be the annual cost of a new developmental course?", or "what would it cost to add a new student service program?" (Kaneklides, 1985). In addition, cost accounting systems should, via the use of micro computers, be able to quickly perform "what if" scenarios for financial projections (for example, what changes in faculty staffing patterns would be required if enrollment increased five percent or
what would be the effect on revenue if tuition was increased by four percent?

One element of cost accounting that must be adequately understood by college leaders is the difference between, and treatment of, direct and indirect costs. Direct costs are those costs that occur simply because an academic program or activity exists and would be discontinued if the program ceased. Due to their nature, direct costs are easily identified with an individual program. Indirect costs, on the other hand, represent costs that are not directly associated with an individual program, yet are necessary to support the program. Examples of indirect costs include maintenance costs and student service expenses. Some experts believe that all indirect costs should be allocated to academic programs, while others believe that program cost analysis should only include the direct costs associated with the program. Kaneklides (1985) offers a compromise to the above views by suggesting that cost accounting reports be prepared in a manner that includes both direct and indirect cost; but with each element identified separately.

Public Support Issues

Most community colleges receive public support from three main sources - state government, local government, and tuition. State allocations to individual institutions are normally determined by formulas approved by the legislature and
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administered by the state's educational agency. Local support usually originates from taxes on real property in the individual districts. Tuition, of course, comes from the students. Community college presidents, in overseeing the financial affairs of their institutions, should be aware of the controversial issues, potential problems, and opportunities in each of these areas.

State Formula Funding

Background.

According to Wattenbarger and Mercer (as cited in Fonte 1987), over two-thirds of all state community college systems utilize formulas in the allocation of funds. Base factors commonly used in formula calculations include: (a) total student head count, (b) full-time equivalent students, (c) number of faculty positions, (d) square footage, and (e) credit hours. Based upon the use of one or more of these factors, a state may allocate funds to an institution as a whole or allocate funds to specific programs or functions, e.g., instruction, administration, or maintenance (McKeown, 1989).

The growth of formulas as a mechanism to allocate funds to colleges can be attributed to three significant factors. First, the desire by public officials to remove politics (real or perceived) from the allocation process. Secondly, the desire by legislators to achieve a more equitable distribution of scarce
resources among their state's institutions. Thirdly, the need to relate allocations to objective operational factors in the individual colleges. Finally, the need to provide institutions with predictability in funding (McKoewn, 1989 and Moss and Gaither, 1976).

**Advantages of formula funding.**

Most scholars agree that formulas offer states and community colleges several advantages: (a) they remove uncertainty from the budget process, (b) they assist state board members and legislators in making comparisons between institutions, (c) they are easy to understand, and (d) they enhance they uniformity and ease of budget preparation and presentation (Brinkman, 1984).

**Problems associated with formula funding.**

Despite the above described advantages, formula funding presents several problems. First, many formulas are enrollment driven and linear in nature. Thus, they fail to take into consideration the fixed and variable components of institutional costs. Since fixed costs remain the same regardless of enrollment levels, linear formula funding results in community colleges being over funded during periods of enrollment growth and under funded when enrollments decline. Secondly, formulas tend to be rigid and fail to take into consideration the unique mission of a program or an institution. Thirdly, formulas, by their nature, tend to have a leveling effect, thus, making all the state's colleges average in
quality. Fourthly, formulas tend to encourage policy makers to focus their attention on current operations at the expense of long-term planning. Fifthly, all concerned parties must realize that no matter how comprehensive formulas become, certain decisions by state legislators, governors, and agencies must be based on judgement and values. Thus, formula funding at its best is still open to questions of fairness. Sixthly, most current state financing formulas were developed when the typical community college student was a full-time, day student in a transfer or two-year vocational program. Today, that student profile is no longer valid; thus, many formulas in use today do not match the current campus environment. Finally, formulas often encourage colleges to adapt their missions to the formulas instead of developing missions that would truly serve the needs of their communities. (Fonte, 1987; Brinkman, 1984; Breneman and Nelson, 1981; Gleazer, 1980; Monical and Schoenecker, 1980; and Temple and Riggs 1978).

Trends in formula funding.

Recent trends in the area of state funding include the use of explicit incentives in the formula process. Such incentives normally attempt to link appropriations to such conditions as: improvements in student performance, student/faculty ratios, institutional involvement with state priorities, and management efficiency. In addition, given the current public demand for more accountability in academics, some public officials may, in the
near future, attempt to integrate quality measurement factors into their state's funding formulas. Although this concept may be valid, Folger (as cited in Fonte, 1987) suggests that more research is needed before quality can be effectively integrated into funding formulas.

**Suggestions for reform.**

A review of the literature offers the following suggestions for revising formula funding.

1. Linear formulas should be replaced with formulas that take into consideration the fixed, variable, and marginal elements of college costs.

2. Formulas should be updated to reflect the changing enrollment patterns in most community colleges.

3. Flexibility should be built into formulas to allow for the recognition that institutions have varying missions, serve different constituents, and have diverse financial needs.

4. Formulas should be adjusted so that small rural community colleges that do not have the same efficiencies of scale as bigger community colleges receive a larger per-student allocation than do the bigger colleges.

5. Some authors recommend that states stop placing so much emphasis on formulas and begin to allocate funds based upon the costs and benefits of individual college programs. While this concept would clearly involve more work for all parties involved -
i.e., college officials, legislators, and state agency members - such programs would: (a) allow institutional leaders to project program outcomes and costs and thus justify their requests and (b) permit state planners and legislators to hold college officials accountable for achieving the projected results (Fonte, 1987; Breneman and Nelson, 1981; and Nazari-Robati and Zucker, 1981).

**Governmental relations.**

Once community college presidents develop an understanding of the financing methods used by their states, it is important that they relate this knowledge to the community college environment. Presidents should, for example, know what state formulas and/or policies favor community colleges, given their typical mission, enrollment patterns, cost structures, etc., and which formulas and/or policies result in inadequate funding flowing to community colleges. Armed with this knowledge, presidents should develop contacts with state legislators, the governor's office, and state educational board members, and encourage those individuals to make changes in state formulas and funding policies that are outdated and/or detrimental to community colleges.

**Local Support**

Local support for community colleges is usually founded in property taxes. Thus, the main method to enhance revenue in this area is to conduct a tax referendum requesting an additional levy. During tight economic times, this is certainly no easy task, yet
it is not impossible if a college is deserving and develops an appropriate plan for convincing the voters that a tax increase is warranted.

Fischer (1978) and Slocum (1978-79) suggest the following strategies for community college leaders hoping to solicit additional finances via a tax referendum. First, ensure that the college is using its current revenue efficiently and effectively. If the college is wasteful, such facts normally cannot be hidden from the public and will assure the defeat of a referendum. Secondly, create a committee to identify the specific financial needs of the college. Thirdly, develop a short and clear statement that describes these needs and explains why such needs cannot be meet through existing funding channels. Fourthly, create an adequate promotional program to inform the voters of the benefits that will accrue to the students, the community, and the college as a result of the tax increase. Fifthly, if possible, strive for the referendum to be placed on a ballot that does not include any other proposed tax increases. The appearance of multiple tax requests on the same ballot often results in the defeat of all the requests, regardless of their individual merit. Sixthly, make certain that the public is provided with clear and exact information as to the total amount of the levy and the amount that each property owner will have to bear. Finally, the college must increase its visibility and creditability in the
community. This goal can be achieved by (a) providing the news media with favorable reports concerning the college's programs, activities, etc.; (b) involving community leaders on various advisory boards; (c) sponsoring campus events (e.g., plays, lectures, and concerts) that attract citizens to the campus and help them identify with the college and its needs.

Tuition

For some community colleges, tuition may represent another potential area for new revenue. For others, however, this option may be limited due to specific state policies. Some states, for example, specify that a college's tuition equal a certain percentage of the college's total educational costs, while other states link tuition increases to factors such as per capita income or other formulas (Mullen, 1988). An additional factor that should be addressed by college leaders considering a tuition increase is its potential impact on student access and the college's commitment to an open-door policy.

Conclusion

It is unlikely that future financing patterns of community colleges will ever again resemble the favorable patterns of the growth era. Instead, states will continue to reduce their real-dollar allocations to community colleges, local support will be tenuous at best, and both economic and legislative restrictions will limit the extent by which tuition can be raised. To
supplement the deficiencies in these traditional funding sources, community colleges must, through their own entrepreneurial initiatives, develop new revenue sources, identify and implement appropriate cost saving measures, create internal information systems that facilitate decision making, and identify methods to foster public support. This paper has attempted, via a review of the current literature, to identify various strategies for achieving these goals.

While the literature does offer several excellent suggestions for community colleges to improve their financial condition, what appears to be missing is a comprehensive study of what community colleges across the country are actually doing to raise new revenue, control cost, garner legislative support, etc. Such an analysis would offer scholars and community college leaders an opportunity to confirm or reject the validity of the strategies currently suggested and ascertain if other successful strategies have been identified.
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