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ABSTRACT

Prompted by the expiration of existing funding mechanisms for California's community colleges in June 1983, this report presents the results of the California Postsecondary Education Commission's (CPEC's) review and revision of its principles for community college funding. First, background material is presented on the financial principles adopted by the CPEC in March 1979, changes in fiscal conditions, and the review process. Next, an analysis of the current principles for governance and support is presented, along with a rationale for revisions. The analysis, which was based on documents adopted by CPEC, including "Long-Term Finance Plan" and "Principles of Community College Finance for 1983-84," and on recommendations from a variety of scholars in the field, focuses on the following areas: (1) the relationship of funding mechanisms to the governance, management, and mission and function of the community colleges; (2) even and equitable distribution of the burden of community college support; (3) levels of support; (4) relationship of financing mechanisms to the costs of programs and services; (5) stability and predictability of funding mechanisms; and (6) equity considerations. The new principles adopted by CPEC conclude the report. (LL)

PRINCIPLES FOR COMMUNITY COLLEGE FINANCE

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

1020 Twelfth Street, Sacramento, California 95814

The California Postsecondary Education Commission was created by the Legislature and the Governor in 1974 as the successor to the California Coordinating Council for Higher Education in order to coordinate and plan for education in California beyond high school. As a state agency, the Commission is responsible for assuring that the State's resources for postsecondary education are utilized effectively and efficiently; for promoting diversity, innovation, and responsiveness to the needs of students and society; and for advising the Legislature and the Governor on statewide educational policy and funding.

The Commission consists of 15 members. Nine represent the general public, with three each appointed by the Speaker of the Assembly, the Senate Rules Committee, and the Governor. The other six represent the major educational systems of the State.

The Commission holds regular public meetings throughout the year at which it takes action on staff studies and adopts positions on legislative proposals affecting postsecondary education. Further information about the Commission, its meetings, its staff, and its other publications may be obtained from the Commission offices at 1020 Twelfth Street, Sacramento, California 95814; telephone (916) 445-7933.

CONTENTS

INTRODUCTION

BACKGROUND OF THIS REPORT

In March 1979, in the aftermath of State and local revenue disruptions caused by Proposition 13, the California Postsecondary Education Commission adopted a statement of principles on Community College finance. Three of these principles concerned sources of revenue and the level of State support for current expenses:

I. The burden of support for the Community Colleges should be distributed evenly and equitably throughout the State.

II. To provide equity for all students in public institutions, the Legislature and Governor should be responsible for annually determining the aggregate budget of the Community Colleges within the context of the total resources available for public higher education.

III. In establishing the statewide needs of the Community Colleges, the State should adopt a classification system reflective of the different kinds of activities within the colleges.

Four additional principles involved the distribution of support for current expenses:

IV. A permanent system of Community College finance should eliminate funding inequities based exclusively on wealth.

V. The finance system for the Community Colleges should accommodate a variety of methods to deliver education.

VI. Funding for each unit of attendance or credit should be roughly equal among the Community Colleges. Any differences should be based only on adjustments which recognize justifiable differentials in costs because of campus size and the programs required by characteristics of students and the community.

VII. The Community College finance system should exclude unwarranted incentives for growth and punitive reductions for enrollment declines.

One principle involved the relationship of the finance system to governance of the Community Colleges:

VIII. Authority for decisions should correspond to the interests represented by the local communities, the regions within California, and the State as a whole.

And the final principle involved capital outlay:

IX. The State should assume primary responsibility for funding major capital outlay projects for the Community Colleges.

These principles have since guided Commission policy on Community College finance legislation, and several of them, such as suggesting incremental funding for growth and support of equalization mechanisms, have been embodied in subsequent finance legislation--AB 8 in 1979, and AB 1626/1369 in 1981.

Fiscal conditions have changed, however, since the Commission adopted the principles. Additional limitations and reductions in taxes have been enacted; the California and national economies have continued to falter; revenues have been inadequate to fund inflationary costs and projected enrollment growth in the Community Colleges; state-level enrollment management mechanisms have been implemented; and the Legislature has debated establishing mandatory general fees in order to provide additional revenue for Community College operations.

Existing Community College financing mechanisms for the support of current operations expire in June 1983. Legislation has been introduced to revise these mechanisms. The Commission will be called on to evaluate such legislation in its advisory role to the Governor and Legislature. Early 1983 was an appropriate time, therefore, for the Commission to review its existing principles for Community College finance and, where necessary, revise them in light of current and expected conditions.

REVIEW PROCESS

As part of the process for developing this revised statement of Commission principles, the Commission staff distributed draft copies of the statement to Community College superintendents and presidents and to the statewide organizations of trustees, administrators, faculty, and students. In addition, Commission staff met with the Finance Commission of the California Association of Community Colleges (CACC), the Finance Committee of the Association of California Community College Administrators (ACCCA), the Southern California Association of Chief Business Officials, as well as representatives of the Chief Executive Officers, California Community College Trustees (CCCT), CACC, and ACCCA.

These meetings, and the written correspondence of reviewers provided much useful commentary on the draft statement. The revisions made to the draft statement as a result of these deliberations helped to clarify the statement and to relate the statement more directly to the rationale provided in the text of the report. In addition, this consultation process served to identify several issues or concerns of the Community College leadership that, while extending beyond the scope of the statement of finance principles, clearly have long-term implications for State-local relations. The major responses and concerns from the field review process are reproduced in the appendix to the Commission's agenda item on these principles for March 1983 (Tab 12).

STRUCTURE OF THE REPORT

The following pages organize the discussion of the existing principles concerning governance and support for Community College current operations into six areas:

1. Relation of Financing Mechanisms to Governance, Management, and Mission and Function of the Community Colleges.

2. Sources of Support.

3. Levels of Support.

4. Relation of Financing Mechanisms to Costs of Programs and Services.

5. Stability.

6. Equity Considerations.

The report analyzes the existing principles in light of several other documents regarding Community College finance: the Long-Term Finance Plan and the "Principles of Community College Finance for 1983-84," adopted by the Board of Governors of the California Community Colleges in September 1979 and December 1982, respectively, and conclusions and recommendations from research on the topic of community college finance by scholars in California and elsewhere. The report concludes with the new statement of principles for Community College finance that the Commission adopted on March 21, 1983.

ONE

RELATION OF FINANCING MECHANISMS TO GOVERNANCE, MANAGEMENT, AND MISSION AND FUNCTION OF THE COMMUNITY COLLEGES

The Commission's 1979 principle and commentary regarding the relation of funding to Community College objectives, government, and administration reads as follows (1979, p. 13):

> Authority for decisions should correspond to the interests represented by the local communities, the regions within California, and the State as a whole.
>
> Given the mission and orientation of the Community Colleges, the locus of most educational and administrative decisions should be close to the individual colleges and the students. Decisions close to the source of operations should occur within a general planning framework and within broad guidelines for operations. In order to serve the interests of large numbers of citizens, however, decisions concerning the location of extremely expensive programs and costly educational facilities should transcend the prerogatives of most districts as currently constituted. Furthermore, California taxpayers, represented by the State, have a major interest in long-range planning and coordination, in establishing the limits on resources, and in discouraging unwarranted duplication of programs, administrations, campuses, and off-campus centers. A system of governance which does not distribute responsibilities according to these legitimate interests will misallocate resources regardless of the finance system.

This principle and its commentary, focusing as they do on the issue of shared governance between the State and local district governing boards, is more a statement of appropriate governance of the Community Colleges than a statement of how the governance structure should relate to financing mechanisms. The revised principles in this area make this relation explicit, as well as relating financing mechanisms to college management and mission and function.

In advocating that "the focus of most educational and administrative decisions should be close to the individual colleges and the students" the commentary takes a position similar to that of the Board of Governors in its <u>Long-Term Finance Plan</u> regarding resources and accountability, which emphasizes "local flexibility within broad, but explicit statewide objectives" (1979, p. 7):

> The proposal for strong local decision making is fostered by minimizing state-level constraints on the ways colleges plan, manage, and schedule their human and physical resources. In some cases, this requires legislation to modify existing state-level constraints on staffing, calendar and course scheduling, facilities utilization, and student mobility. (ibid., p. 11).

General consensus on strong local management of the Community Colleges exists because college staff and locally elected governing boards are in a better position to develop detailed priorities for meeting community educational needs than are state-level agencies or coordinating boards. Community College finance legislation since 1979, however, has been mixed with respect to local decision making: calendar and course scheduling restrictions have been eased, yet additional restrictions have been placed on the use of part-time faculty and the State has reduced its support for certain categories of courses. The State clearly has an interest in seeing that its objectives are met and that State funds are used to support institutional activities of greatest State priority. The tension between State and local priorities can be resolved only if these priorities are stated clearly and a formal mechanism exists for reconciliation of differences between them. The Board of Governors' current modification of existing long-range planning mechanisms is attempting to provide such a framework.

As part of this planning process, the Board is consulting with local districts and statewide organizations to develop a priorities statement. Clearly, such a statement needs to be general in nature, and not a course-specific listing of offerings to be funded by the State. Within broad State-level guidelines, local districts and colleges should be responsible for the determination of the college curriculum. The process used this year for the reduction of $30 million in Community College apportionments, while necessary as a one-year response to budget limitations, would not serve the long-term interests of the State, the institutions, or students.

In its Long-Term Finance Plan, the Board of Governors argued for the continuation of a comprehensive mission, including general, transfer, occupational, developmental, and community education (1979, p. 7):

> It is strongly recommended that the comprehensive, community-oriented mission of the colleges be maintained. The policy of open admissions should be continued and a strong commitment to community services, as well as regular instruction, should be observed by districts.

At the same time, however, the Board recognized that limited revenue sources require flexibility for local decisions so that local priorities can be established within the comprehensive mission (p. 19):

> Community colleges need greater flexibility if they are to continue to be community-oriented, become more cost-effective (as they must with scarce funding), and set priorities effectively. This includes flexibility to allocate funds among competing local uses and to plan and manage college operations. This greater flexibility can be accomplished in part by removing many existing legal constraints on the use of college resources together with a major change in college accountability from emphasis on short-term efforts to emphasis on long-term planning and results.

The Board also proposed that a mechanism be established for reconciling State and local priorities (p. 20):

In addition to reviewing local priorities, the Board of Governors should adopt procedures for identifying and proposing explicit statewide priorities.

The Board of Governors could establish these priorities by adopting a number of explicit statewide objectives. Districts would be expected to reconcile their efforts with these objectives in a comprehensive plan submitted each year to the Chancellor's Office.

With respect to the relation of finance mechanisms to mission and function, David Breneman and Susan Nelson of the Brookings Institution note that in many states discussions of Community College funding levels and support techniques serve as proxies for discussions of college mission and function. (1981, p. 162):

> The lack of consensus regarding both the mission of community colleges and the priorities among the numerous educational and service functions that they perform is the most striking finding of our site visits. In no other part of the public educational system, from kindergarten through graduate school, does one encounter such sharply divergent views about the fundamental purposes of the school. As with so many other aspects of community colleges, it is difficult to generalize about the lack of consensus over mission, but the issue is so central to the debates over financing that the effort must be made.

"In the absence of political consensus regarding the mission of community colleges," they observe, "disagreements over financing patterns and policies can be expected to persist" (ibid. p. 203).

They argue that maintaining the comprehensive mission of the Community Colleges by giving equal priority to academic, vocational/technical, remedial, and community services programs is difficult in periods of limited resources (p. 213):

> For this comprehensive approach to be a realistic option for the difficult times ahead, the college must have reasonable assurance of gaining (or retaining) both the resources required to mount a comprehensive program, and the enrollment necessary to justify it. Community colleges in most states are likely to face increased competition from other institutions in each of these program areas, and particularly for full-time academic transfer students. Perhaps the greatest risk to an unflinching commitment to the comprehensive mission is that sufficient financial support will not materialize, and the college will suffer across the board, becoming less competitive and less distinctive in all program areas. To opt for comprehensiveness is to gamble that sufficient support will be forthcoming to render unnecessary hard choices among program priorities.

Walter Garms has proposed three basic criteria on which to judge Community College finance mechanisms in relation to college mission and function. In Garms' view, the basic principles for finance plans should be based upon the unique functions which colleges are asked to serve. For the Community Colleges, therefore, he proposes that the finance program should enhance the segment's ability to (1977, p. 38):

1. Serve those who find access to traditional institutions difficult;
2. Provide courses and programs not provided, or provided insufficiently by the four-year institutions; and
3. Respond to the particular needs of the community it serves.

Given the diversity of community characteristics and educational needs throughout the State, it would be unwise to mandate a uniform, highly specific, mission statement statewide for the Community Colleges. The revised statement of principles and guidelines suggests, however, that financing mechanisms should assure support for those instructional programs and services of greatest State priority while providing local districts with alternative revenue sources to meet unique local needs.

11

TWO

SOURCES OF SUPPORT

The Commission's 1979 principle in this area, together with related commentary, is as follows (p. 10):

> The burden of support for the Community Colleges should be distributed evenly and equitably throughout the State.
>
> One major tenet of educational finance during the 1970s has been that wealth, especially as it is transformed into revenues from taxes on real property, should not determine the quality or extent of educational opportunities. Support for instruction and administration at the Community Colleges should be drawn from a wide tax base in order to ensure equitable funding for educational programs and institutional operations throughout the State.

There is little disagreement with this principle and commentary that a broad range of revenue sources is appropriate and desirable for Community College funding. Given the differing perspectives and priorities of available funding sources, colleges need to rely on a variety of sources in order to meet institutional objectives. These sources include the State General Fund; local property taxes; federal categorical programs; other federal, State, and local taxes revenues; student fees; and business and labor contributions.

While the range of these revenue sources has not changed dramatically over time, there has been little constancy in their relative proportion of funding. Proposition 13 shifted a substantial portion of Community College subsidies from local property taxes to State General Fund support. The Board's Long-Range Finance Plan recommended using a variety of revenue sources for Community College support, but held that "local property tax should constitute at least 30 percent (the 1978-79 level) of college operating budget funding" (1979, p. 9). Current funding levels provide far less than the recommended 30 percent from these property taxes.

Breneman and Nelson also argue for a combination of State and local tax revenue sources (1981, p. 174):

> Although some observers have argued the case for full state financing of community colleges, our discussion in chapter 2 of the nature and location of public benefits strongly suggests that local support is justified on efficiency grounds. As we noted, many of the educational activities of two-year colleges are of primary interest and value to local citizens, and a local tax contribution helps to ensure that community preferences are expressed in the college's program offerings.

There are several arguments for the continuation of shared State and local support. First, the relative rates of growth vary considerably between local property taxes and State sales, income, bank and corporation, and other General Fund tax revenues. Property tax revenues are less responsive to fluctuations in general economic activity than are the major State tax sources. Local property taxes may, therefore, provide some budget stability in times of recession (when demand for Community College education typically is high and available State tax resources low). Second, given the comprehensive mission of the Community Colleges, some programs and services provide benefits primarily to the local community and may not be of high statewide priority. Use of local property tax revenues to support such programs provides a better match between those who benefit and those who pay. Finally, in many states the local district boards still maintain some control over the levels of property tax revenues received. Local boards thus are able to match needed revenues with anticipated expenditures more accurately.

Such is no longer the case in California. Proposition 13 limited a local district's ability to adjust general purpose and permissive tax rates to meet overall district budget needs. The State-level allocation of local property tax revenues has, in essence, made the California Community Colleges a State-funded system. The only sources of revenue over which local boards now have some control are permissive student fees, categorical funding sources, district reserves, and contracts or other revenues from business and labor; revenue sources which constitute a small fraction of the total revenue needed to support current operations in the colleges. Existing permissive fees in the Community Colleges have increased substantially in the past two years as districts attempt to cope with limited tax resources.

If the State is to be explicit in priorities for State funding, then alternative sources of locally determined revenues must be found to enable the colleges to continue to serve as community-based institutions. Such alternative sources might include local sales or income taxes, a set aside of some portion of local property tax revenues for locally determined uses, student charges for non-State-supported courses, and private and corporate subsidies for college operations.

The Board of Governors strongly supports the continuation of a no tuition policy for California. In their Long-Term Finance Plan as well as their recently-adopted Fee Contingency Plan, they opposed the establishment of a general fee in the Community Colleges because of the impact student charges would have on college access, and the fear that once a general fee is instituted, fees might be increased substantially as a budget balancing measure.

> Community college tuition for California residents is rejected because of its adverse effect on the Board's goal of equal opportunity for access. Limited, locally-determined fees are suggested for certain community services and college support activities, if adequate recognition is given to individuals' ability to pay (1979, p. 9).

> The Board of Governors reaffirms its opposition to tuition and general fees. The policies of low cost and open admissions have enabled California community colleges to provide opportunities for postsecondary education to economically disadvantaged Californians

> in a way that is virtually unparalleled in the history of the United States (1982a, p. 3).

Breneman and Nelson argue against a low (or no) tuition policy in the Community Colleges, and suggest a student charges policy that relates to social and personal benefits to be derived from a Community College education (1981, pp. 103, 203):

> Low tuition has traditionally been the cornerstone of financing policies designed to attract low-income students to community colleges. In most states, public two-year institutions pride themselves on adding only minimal financial barriers onto the unavoidable costs of forgone earnings for anyone who wants an education. With rising costs and tightening state budgets, pricing policy remains a controversial subject in all states and poses what arguably is the most important equity issue in community college finance: what effect do financial barriers have on access by low-income populations to a community college education? Translated into policy terms, this becomes a choice between the traditional strategy of low tuition/low aid or a higher tuition/higher aid approach (assuming the constraint of a fixed educational budget) as the better way to eliminate the positive correlation between income and the probability of attending college.
>
> Tuition for academic courses and most vocational/technical offerings should be well above zero but less than full cost, with subsidies provided by both state and local governments. Remedial courses, including adult basic education, should be tuition-free, with full state and local subsidy. Vocational programs providing highly specific training for particular firms should receive support from those firms. An exception would occur if the course offerings are part of a state's economic development plan, designed to attract employers to an area or convince them to stay. Community service programs that are noncredit and primarily for personal enrichment should be self-supporting from user fees, or subsidized from local funds if public benefits are judged to be present.

Garms argues for a substantially larger role for tuition in public institutions, along with increased student financial aid (Garms, 1977, p. 93):

1. Tuition for in-state students should be set to furnish at least 50 percent of the current operating cost of the college. This is to prevent unfair competition with private institutions. This provision should apply to all public higher education in the state, not just to the community colleges.

2. There should be a system of student grants supported by state and/or federal money that would guarantee access to an education for any student no matter how poor. The grants could be used in public or private institutions in the state. The amount of the grant should depend upon the cost of education (including both tuition and living expenses) at the institution chosen by the students and be based upon their own financial need. The threshold of the grants should be set at such a level that

> middle-class students who find access difficult would also receive some help. Even the poorest students should be expected to provide a little of the cost themselves."

Central to any discussion of increased tuition is the adequacy and efficiency of financial aid programs in meeting the increased costs of education for financially needy students. The question of adequacy of financial aid needs to be assessed on a state-specific basis, as financial aid is a partnership of federal, state, and institutional sources. Breneman and Nelson freely concede, however, that the efficiency of aid programs is far from perfect (1981, p. 110):

> The ideal world where only net tuition matters has not yet arrived. Substantial information barriers still remain. Many high school students and even more adults are not aware of federal and state aid programs, and few know the amount of aid for which they qualify until they apply. The application process itself poses a further hurdle for many students, particularly first-generation college students whose parents may be intimidated by the complicated forms, or those for whom English is a second language.

Whatever tuition and fee policy the State maintains, it is clear that the relation of student fee revenues to other revenue sources and financing mechanisms is an important consideration in the development of principles for the future financing of the California Community Colleges. The Commission is conducting a review of policy alternatives concerning student charges in the Community Colleges as part of its responsibilities under ACR 81. This study will be reviewed by the Commission at its March meeting along with the revised statement of principles for finance.

THREE

LEVELS OF SUPPORT

The 1979 Commission principle and commentary in this area state (pp. 10-11):

> To provide equity for all students in public institutions, the Legislature and Governor should be responsible for annually determining the aggregate budget of the Community Colleges within the context of the total resources available for public higher education.
>
> The old finance system, which provided a guaranteed amount and annually increased that by a fixed adjustment, is not adaptable to unanticipated changes and does not clearly identify policy issues for the Legislature and Governor. Because the amount of State dollars for the Community Colleges is now larger than the State's General Fund support for the University or the State University, the statewide level of support for the Community Colleges must be reviewed annually to ensure equitable funding for all students in public higher education.

This principle recommends that the Legislature and Governor should determine annually (i.e., within the budget process) the amount of State and local tax resources to be made available to the Community College system for financing State-supported programs and services. Given the Constitutional provisions of Proposition 13 and subsequent legislation, the concept of a State-level determination of aggregate State and local tax revenues available for distribution to the colleges appears to be the only realistic option for California.

Clearly the statutory provisions for support of college operations have done little in recent years to assure adequate funding for inflation and enrollment demand. All segments of public postsecondary education recently have experienced significant budget limitations and would welcome guarantees of adequate support levels to meet expected cost increases. Practically, however, the State has not been willing to make that guarantee, and statutory provisions for cost-of-living increases for many programs have proved meaningless in light of budget constraints.

State and local tax revenues constitute about 90 percent of all Community College revenues and, as such, form the basis for local district budget development. Local district governing boards, however, must develop district budgets which reflect income from <u>all</u> sources (including federal revenues, student fees, and other sources) and expenditures for <u>all</u> activities (including community services, contract courses, and auxiliary enterprises). During the budget year, districts are required to reconcile anticipated revenues to be available with the actual cost of services provided.

Garms calls for explicit State and local review of Community College funding levels (1977, pp. 38-39).

> The finance program should help to keep the expansion of the community colleges within the bounds of public willingness to support them, and should take into account the financial health of state and local governments and the competing demands upon them for money. The total amount of money allocated to community colleges by state and local governments is, of course, determined through the political process. This is as it should be, because in this way the judgments of elected representatives are brought to bear on questions of the absolute level of funding, and of the relative emphasis to be given to community college education and to all of the other needs competing for the public purse.

The adequacy of anticipated revenues in meeting expected expenditures is typically measured in terms of funding for:

1. inflationary costs,

2. changes in student workload, and

3. program changes providing new services or serving new clientele.

The Board of Governors' Long-Term Finance Plan recommends that in budget development these factors be considered, and the Board of Governors' budget requests to the Legislature have included these components. The Board's recent statement of finance principles for 1983-84 stresses the need for stability in Community College funding (1982b, p. 2).

> The community college finance mechanism must provide assurance of stability for the continuity of educational opportunity, access, and quality. Educational programs and services should not be subject to sudden and needless jeopardy and students should be assured of the ability to fulfill their objectives.

Community college funding levels for 1982-83 were insufficient to fund either inflation or growth in the Community Colleges. In addition, mandated course reductions totaling thirty million dollars were required of colleges. While one may argue over the proper indices for measuring inflationary costs and projected enrollment growth, a funding level that does not provide for inflation or enrollment change is inadequate.

In response to inadequate levels of funding, local districts have used reserve funds for the support of current operations. The issue of the use of district reserves as an offset to State apportionments (as in SB 154, the bail-out bill immediately following the passage of Proposition 13) has been debated extensively in the Legislature. Certainly, ongoing funding levels should be sufficient to allow districts to maintain an adequate level of reserves for cash flow, contingency, and required future obligations. The Board of Governors' Long-Term Finance Plan proposed to (page 36): "Develop an appropriate statewide rationalization of district reserve policy reflecting sound management policies." To date, such a policy has not been established by the Board, and the use of district reserves continues to be an unresolved issue.

The revised statement of principles and guidelines recommends that systemwide levels of support be determined each year by the Governor and Legislature in the budget process and that levels of support for Community College operations be adequate to fund the cost of inflation and planned workload changes as well as maintain sufficient district resources for required future obligations.

FOUR

RELATION OF FINANCING MECHANISMS TO COSTS OF PROGRAMS AND SERVICES

DIFFERENTIAL FUNDING

The current Commission principle and related discussion in the area of costs of programs and services is as follows (1979, p. 11):

> In establishing the statewide needs of the Community Colleges, the State should adopt a classification system reflective of the different kinds of activities within the colleges.
>
> At present, the Budget and Accounting Manual of the California Community Colleges lists fifteen program classifications which distinguish among district expenditures. For budgeting purposes, these fifteen could be judiciously combined into a smaller number that encompasses all the activities of the Community Colleges: Instructional Programs and Instructional Support, Institutional Services and Administration, Student Support Services, Maintenance and Operation of Plant, Community Services, Ancillary Services and Auxiliary Operations. Since the funding levels and the need for annual adjustments differ so much within each of these broad classifications, the present method of block grants, which funds all without any distinction, is a poor method of providing resources to the colleges. Once the classifications are established they should not become rigid expenditure categories. Districts should be assured of sufficient flexibility to respond to local conditions, and the State should be assured that funds are spent for the general purposes for which they are appropriated.

Historically, California Community Colleges have been funded on the basis of one single measure--Average Daily Attendance (or ADA). Finance mechanisms thus have attempted to distribute funds to support instructional programs, student services, administration, and plant maintenance and operation on the basis of this single measure. This Commission principle suggests that a greater number of cost categories and workload measures would be more appropriate for college financing. While the principle could be restated to make this suggestion more explicit, other research findings indicate clearly that the principle should be continued.

The Board of Governor's Long-Term Finance Plan supports the concept of moving away from a single support rate per ADA (1979, pp. 23-24):

> Use several measures and related support rates, rather than one, to recognize the differential costs of workload changes in instruction and other services.

(activity)	(measure)
a) traditional classroom instruction (recognize and reflect extreme marginal cost differences in the delivery of classroom instruction)	student classroom contact hours
b) individualized instruction	student credit hour or other appropriate measure(s)
c) support services (learning resources centers and student personnel services)	student headcount enrollment
d) administration	character and size of non-administrative staff

The Board of Governors' statement of Finance Principles for 1983-84 also is explicit about the need to relate funding mechanisms to the costs of operation (p. 3):

> The community college finance mechanisms should provide levels of funding sufficient for the community colleges to meet the costs of education and services for the programs offered and the students served. Funding, insofar as would be feasible without unduly restricting district flexibility, should be reflective of costs, providing neither fiscal incentives nor disincentives that may influence program decisions.
>
> Decisions to increase or decrease offerings or services should be based on program needs and demands and should not be influenced by levels of incremental funding.
>
> Program increments (e.g., ADA, enrollment, etc.) used to generate specific levels of support funding should equate, as closely as feasible, to the equivalent specific levels of program costs. (Present limitations of programmatic cost data preclude the implementation of a cost differentiated funding system in 1983-84, initially allowing only for differentiated funding on the basis of credit and noncredit and size.).

While the development of differential support rates based on a limited number of cost categories has been endorsed by the Board of Governors and the Commission since 1979, there has been a lack of research necessary to implement such a recommendation. Until the past few years, the lack of verified expenditure data by activity has precluded the development of a detailed cost study which is necessary before differential rates are placed into effect.

The Board of Governors has committed to undertake during 1983 a cost study which would assess cost differentials by instructional program areas as well as for student services, administration, and plant maintenance and operation. The Commission recognizes that such a study is a complex undertaking, and that the results from the study would not be available in time for implementation for 1983-84 and could take several years to implement in an orderly fashion. Nevertheless, the Chancellor's Office should be encouraged to complete this necessary research, in consultation with statewide organizations.

Breneman and Nelson argue for the development of differential funding rates in order to make Community College finance mechanisms more equitable and efficient (1981, pp. 205-206):

- Although simplicity in a finance plan is desirable, complex plans are necessary if a state seeks to achieve multiple objectives, such as efficiency and equity.

- Finance plans that recognize differences in program costs (for example, between allied health programs and general studies) are a definite improvement over simple unit-rate or flat grant formulas.

- Analysis of how community college costs vary with size indicates the presence of both economies and diseconomies of scale, i.e., over a certain range unit costs fall, but beyond a certain size, unit costs rise. Financing formulas should reflect this fact, for in most instances it will not be possible to increase or decrease college size to the optimal (or least cost) level of operations.

Garms, as well as Breneman and Nelson, argue that the number of categories for differential support rates should be kept relatively low (Garms, 1977, p. 61):

> Another problem is that the fewer the number of cost categories, the more likely it is that certain courses or programs will be badly overfunded or underfunded. On the other hand, if the number of cost classifications is expanded greatly, the problem of correct classification of courses is multiplied, and the difficulty and cost of regular cost studies increases. The number of program cost categories should probably range from 5 to 10 to provide a reasonable number of categories without making the system unwieldy. All in all, however, it appears that the formula budgeting approach using program cost classifications is a better approach than the line-item formula budgeting approach.

More detailed rate structures (such as those with 20 to 30 categories) were found to be difficult to develop and adjust, and did not appear to improve the efficiency of the financing system substantially.

Despite the general recognition of the value of a financing system which reflects costs for different kinds of activities within the Community Colleges, little progress has been made in the development of such a system for California. Reaffirmation of the need for this development thus seems appropriate in the revision of the Commission's principles.

WORKLOAD MEASURES

The Commission's 1979 principle and commentary related to workload measures is as follows (p. 13):

> The finance system for the Community Colleges should accommodate a variety of methods to deliver education.
>
> The system of State apportionments based on ADA, which relies on classroom contact hours, is an outmoded vestige of public school finance. It becomes increasingly inappropriate with the expanding variety of proven educational techniques which permit effective learning and assessment beyond the classroom.
>
> The contact-hour approach has endured because of its simplicity, the potential of other methods for artificially inflating enrollments, and the desire of the college community to remain with statutory block grants characteristic of the secondary schools. In framing the new system of finance, the State should not rely exclusively on ADA for measuring the educational effort of the Community Colleges. Likewise, a system of accountability appropriate for each measure of educational effort should be devised.

The development of appropriate workload measures is related closely to the development of differential cost categories in the financing mechanisms. For example, costs for plant maintenance and operations may be correlated positively with student workload, but are far more likely to be dependent upon energy costs, size and age of the physical plant, and geographic location. Likewise, the costs of providing student services may relate more directly to headcount enrollment than to ADA.

Clearly, the development of workload measures needs to be predicated on the activity categories established for differential funding. Once these categories are agreed to, the appropriate measure for each category needs to be assessed in terms of (1) relationship to costs, (2) possible incentives, and (3) ease of collection and verification.

As noted previously, the Board of Governors' Long-Term Finance Plan suggested a different workload measure for each activity category (1979, p. 28):

> Measures for determining fiscal support may be based upon need, activity, or performance, the long-term Plan proposes using need and activity for determining funding and incorporating performance or output measures in the accountability process.
>
> In the past, community college finance formulas have relied on one aggregate measure (the classroom contact hour converted to average daily attendance, ADA) to determine support for all college activities.
>
> Several different measures of activity or workload in the separate areas of instruction, support services, and community services are needed to go along with the differential support rates. For

> example, it is suggested that support service (library, counseling, registration, etc.) costs are more a function of enrollment than of classroom activity.

James Wattenbarger and Bob Cage have detailed the long-standing controversy over using credit hours or student contact hours as the workload measure for measuring costs in the instructional area (1974, p. 54):

> One other issue inherent in determining program costs is credit hour versus contact hour. A typical chemistry course may have a five-credit-hour rating, but students may meet up to twice that number of hours to satisfy both lecture and laboratory requirements. This same pattern exists in many occupational programs where laboratory or field experiences far exceed in number the credit hours given.

The Board of Governors' Long-Term Finance Plan suggested moving away from ADA as a workload measure, but retaining the student contact hour measure for the majority of instruction (1979, pp. 28-29):

> A possible shift from the contact hour to the credit hour for measuring instructional workload has been reviewed. The contact hour presently acts as a rough proxy for the cost differences that exist between laboratory and lecture instruction (see example in Appendix E). Use of a credit hour would require differential support rates for laboratory and lecture. Defining and measuring these categories on a common basis throughout all districts would be extremely difficult, if not impossible. In addition, the differential rates could have a constraining effect on faculty workload determinations within local collective bargaining. Consequently, the Plan recommends against using the credit hour for traditional classroom instruction.

Breneman and Nelson, on the other hand, tend to favor credit hour measures for the Community Colleges in order to derive comparable workload measures between two-year and four-year institutions (1981, pp. 192-193):

> Should the formula be based on average daily attendance, weekly contact hours, student credit hours, or some other workload measure? Debates over the relative merits of these workload measures have raged for years, and nothing said here is likely to settle the issue. Average daily attendance, a carry-over from the days when community colleges were extensions of public school districts, requires that attendance be taken every day for reimbursement purposes. California is the only state that still uses this measure, which would seem to have little to commend it.
>
> At issue between weekly contact hours (WCH) and student credit hours (SCH) is the claim by instructors in many of the vocational-technical programs that their time and effort as measured by WCH are substantially understated when converted to SCH. In the academic programs, student credit hours usually conform more closely to the actual hours of classroom instruction per week, hence the argument that vocational-technical faculty and students

are not given enough credit for their longer periods of direct contact. The counter argument notes that both faculty and students in academic programs are also presumed to be working outside the classroom, so that comparison of contact hours alone is misleading. We find this a rather sterile debate, but note the advantages of having a standard measure (SCH) for all credit programs. The issue between WCH and SCH can be settled through changes in the conversion ratio, if necessary.

Whatever workload measure is used to support the instructional area, the Commission principle of supporting a variety of delivery systems for education is important to keep in mind. It may be most appropriate to have several measures in the instructional area, such as is suggested in the Board of Governors' Long-Term Finance Plan. The revised statement of principles suggests that workload measures need to be evaluated in terms of their relation to cost, possible incentives, and ease of collection and verification.

FUNDING FOR ENROLLMENT GROWTH OR DECLINE

The existing Commission principle and commentary concerning the sensitivity of financing mechanisms to changes in student enrollment levels is as follows (1979, p. 12):

> The Community College finance system should exclude unwarranted incentives for growth and punitive reductions for enrollment declines.
>
> In order to avoid incentives for growth and unrealistic reductions of revenues, the State's funding for enrollment changes should closely correspond to a realistic measure of the cost per additional student.

This Commission principle endorses the concept of using a marginal (or incremental) rate of support for enrollment growth or decline, rather than the full average cost amount. This concept has been widely accepted in college finance, and was supported in the Board of Governors' Long-Term Finance Plan (1979, p. 8):

> Support for workload changes is at marginal or incremental, rather than average or total, rates. This procedure deals effectively with both growth and decline in enrollment and eliminates incentives for unwarranted changes in services.

Breneman and Nelson also argue for the use of marginal rate of support for enrollment change, particularly in situations of stable or declining enrollments (1981, p. 206):

> As enrollments stabilize or decline, the use of enrollment-driven formulas based on average costs per student needs to be reconsidered. Such formulas served the institutions well during a time of growth, but will be damaging during a period of decline. The cost structure

of community colleges should be analyzed and financed in terms of fixed and variable costs, not by a single average cost per student.

While this marginal rate concept has broad support, there is less agreement about the appropriate level of support. In general, since AB 8, the marginal rate has been defined in the California Community Colleges as two-thirds of the district's average rate of support, although districts with revenues per ADA above the statewide average receive only two-thirds of the statewide average support rate, as a device to equalize districts' relative financial ability. In 1981, the rate of support for noncredit ADA changes was set at $1,100--somewhat below the average credit ADA marginal rate of about $1,300. Additional research is needed to determine whether these levels are adequate (particularly for districts experiencing substantial growth) and whether the existing credit/noncredit differentials are appropriate reflections of cost differences in these programs. The revised statement of principles suggests retaining the marginal rate concept while assuring that the support rates reflect accurately the variable costs associated with workload change.

FIVE

STABILITY

The Commission's current statement of principles does not deal explicitly with stability of funding mechanisms. Given recent experience, however, the revised statement of principles suggests that funding mechanisms should be stable over time and predictable in their allocation of resources. Several guidelines are proposed to promote increased budget stability within the colleges.

During the past decade, Community Colleges have experienced six major changes in financing systems. Even in cases of "long-term" measures (two years or more), the mechanisms often have been adjusted during the second year of funding. Such was the case during 1980-81 when the deficit provisions of AB 8 were modified during the final month of the fiscal year and reallocated millions of dollars among districts. Such instability precludes any thoughtful long-range fiscal planning. The guidelines suggest a five-year legislative authorization for the basic support mechanisms. Longer term authorization of the financing mechanisms will not only promote stability in budget planning, but also reduce administrative costs for restructuring the apportionment process each year.

Since AB 8, district revenues for general apportionments have been determined by a prior year base revenue and then adjusted for inflation and workload changes. This use of a base-year amount mitigates against extreme year-to-year fluctuations in district revenues due to changes in finance mechanisms. Adjustments to district base revenues have been made in several instances (such as in the required use of district reserves in SB 164 and the elimination of State support for certain noncredit courses in AB 1626). Overall, however, this mechanism provides greater stability than a system which recomputes total revenues each year on the basis of current-year support rates and allocation mechanisms. The guidelines suggest retaining this concept in future finance mechanisms.

Another major issue in this area is the limitation of the State's fiscal obligation to fund enrollment growth in excess of projections. Historically, the State has provided support for the full amount of activity in the regular instructional program in the Community Colleges. In 1975-76, however, the level of State-supported ADA was capped at 5 percent above the previous year's level. More recently, AB 8 (1979) established a deficit mechanism to be triggered in the event that the fixed State appropriation and local property tax revenues were insufficient to fund enrollment growth fully statewide. This mechanism provided that in a statewide deficit situation a district's revenue was influenced not only by its own enrollment level, but by those of other districts as well.

In 1981, AB 1626/1369 directed the Chancellor to allocate the authorized systemwide enrollment growth among individual districts. Districts were to receive the full marginal rate of support for growth up to the allocated level and no support for growth beyond the allocated level. During the 1981-82 fiscal year, this "unfunded ADA" was estimated to be over 26,500 ADA, or roughly 3.6 percent above the allocated levels. An additional $32.7 million would be needed at the statewide average incremental rate to fund this level of enrollment. Community Colleges did not receive funding for growth for the 1982-83 fiscal year, so "unfunded ADA" likely will be evident through the current fiscal year.

Concerns about limiting State General Fund obligations need to be balanced against providing adequate support to fund realistic levels of enrollment in the colleges. If the overall State General Fund appropriation to Community Colleges is to be determined each year in the Budget Act, rather than in statute, then the financing mechanism needs to be explicit in its allocation priorities.

If funding levels are insufficient to meet inflationary costs, consideration should be given to granting districts some flexibility to make program cuts, based on State and local priorities, without jeopardizing revenue levels. The Board of Governors' Finance Principles for 1983-84 suggest that such a provision be instituted in next year's finance legislation (1982b, p. 2):

> Funding, as a minimum, must be maintained at a level sufficient to meet changing costs. Funding for each unit of workload (e.g., ADA) must increase in relation to changing cost to maintain quality.

Clearly such a policy would restrict access to Community College instruction. Some limit on course reductions would need to be developed in order to prevent dramatic reductions in student workload such as occurred in some districts during the block grant funding of SB 154 in 1978-79. Colleges cannot, however, always be required to become "more efficient" (i.e., increase class size and instructional loads, defer salary increases, reduce administration, maintenance, and equipment replacement expenditures) without seriously jeopardizing the quality of the institution. The revised statement of principles suggests that new Community College financing mechanisms should assess the adequacy of funding levels to be provided, identify mechanisms for defining State and local funding priorities, and give local boards additional discretion in coping with revenue shortfalls.

SIX

EQUITY CONSIDERATIONS

The Commission adopted two principles in 1979 which relate to funding equity. These principles, along with supporting comments, are as follows (pp. 11-12):

> A permanent system of Community Colleges finance should eliminate funding inequities based exclusively on wealth.
>
> The amount of funds provided to each district in 1978-79 is the confusing product of past decisions on tax rates, experiments with revenue controls, and guaranteed "target budgets." These changes have introduced differentials into the funds provided from both local and State sources. As the State assumes a much larger proportion of Community College support, it is patently unjust to continue differences in total income per unit of attendance whose previous justifications rested on the differences in relative wealth and tax rates determined by local districts.
>
> In many cases, these differentials have little educational justification. Statewide equity for students can be achieved only if the new finance system does not continue these differentials by uncritically accepting a "base year" upon which to build the new formula. An equitable beginning for the new system can occur only after a district-by-district review which identifies the reasons for funding differentials and provides for a phased process to adjust the base and eliminate State support for differentials which cannot be justified on valid educational grounds.
>
> Funding for each unit of attedance or credit should be roughly equal among the Community Colleges. Any differences should be based only on adjustments which recognize justifiable differentials in costs because of campus size and the programs required by characteristics of students and the community.
>
> For nearly a decade, the State's policy has been to narrow the funding differences per ADA by providing smaller increases to districts with high levels of support. The State's methods, however, have been ineffective because of their indirectness, and the different property tax bases among the districts. The State should now adopt equal income per unit of attendance as a prime policy for the future. Further, the system of finance should narrow the funding differences whether districts are gaining or losing enrollments.
>
> Nevertheless, the diversity of the Community Colleges undermines any suggestion for a uniform amount of revenue per attendance unit since there are educationally justifiable reasons for certain differences. Principal among these reasons are the economies of scale in operating large campuses and the additional costs of attracting and educating people from disadvantaged backgrounds.

Perhaps nothing is as easy to support and as difficult to implement as the principle of equity. Nobody wants to be unfair, yet "what is fair" is a matter of considerable debate. There are those who argue that the level of Community College funding per ADA should be equal in all districts. Others argue that substantial variations in support per ADA are justified on the grounds of differences in district size, clientele, and program offerings. Since the establishment of State equalization aid in the 1960s, the State has attempted to equalize districts' abilities to finance necessary Community College programs and services. No mechanism to date has been found entirely satisfactory.

Since 1979, Community College equalization mechanisms in California have been designed to give larger-than-average inflation increases to low-revenue districts and smaller-than-average inflation increases to high-revenue districts. An additional equalization measure provides that high-revenue districts receive only two-thirds of the statewide (rather than district) average support rate for ADA growth. These mechanisms have been ineffective for several reasons. First, the marginal rate and a district's rate of ADA growth or decline has far more impact on a district's revenue per ADA than the relatively modest amount of funds affected by equalization mechanisms. Second, equalization only on the basis of revenue per ADA ignores legitimate variations in district program offerings. Finally, Community College inflation increases for the past two years have been 5 and 0 percent respectively, levels which have severely constrained equalization efforts. In spite of such shortcomings, however, the principle of equity remains central to the development of financing mechanisms.

The Board of Governors' Long-Term Finance Plan calls for the correction of past inequities due to differences in district wealth (1979, p. 26):

> Historic district cost differences result from a combination of factors, some of which (size, community, instructional mode, etc.) ought to be observed, while others (wealth and tax differences) ought not to be observed, but, rather, corrected. The distinction is crucial in making "equity" adjustments to district "base" budgets.

Recently, the Board of Governors reiterated its support of equity considerations in its Finance Principles for 1983-84 (1982b, p. 2):

> Funding levels, including state and local revenues, should be equalized for like programs and services. Revenue differences among the community colleges should be justified on the basis of programmatic differences.

Garms, Guthrie, and Pierce have argued for strong equalization measures in Community College financing systems. These recommendations are derived from research conducted principally in the K-12 area in order to implement Serrano and other court decisions regarding school financing equity (1978, p. 443).

> For community colleges, adopt a modified power equalizing scheme. This is preferred to the foundation, flat grant, or percentage matching models described earlier because it leaves to the local community the decision of how heavily it should tax itself for

community colleges, while putting all communities on an equal footing with regard to the amount raised for a given tax effort. However, in order to prevent the finance plan from putting a heavy and unpredictable burden on the state treasury, it is necessary to formulate the model in terms other than a guaranteed assessed valuation per student. Otherwise, colleges will be encouraged to expand indefinitely, with the entire cost of additional students paid by the state. The solution to this is to specify power equalizing in terms of a guaranteed assessed valuation per capita. Colleges in different communities that set the same tax rate will have the same number of dollars to spend per resident of the community college district, regardless of local wealth. They can then choose to spend this money for community colleges in the way they see fit. In addition to reducing the temptation to raid the state treasury, this plan has the further advantage of dissociating the amount of money received from the number of students. This would encourage the offering of innovative programs for which it is difficult to define FTE students.

Breneman and Nelson offer support for the inclusion of more limited equalization mechanisms in Community College finance (1981, pp. 204-205):

> In states where community colleges receive local property tax support, expenditure differences among colleges attributable to local wealth differentials are found. Although the significance of interdistrict equity is not nearly as great at the community college level as it is for elementary and secondary education, state support formulas should be designed to offset to some extent these local wealth differentials.
>
> For states with local financial support, differences in property wealth among community college districts do give rise to inequities in resources per student, which can be offset to some degree by state equalization formulas. Although such formulas are complex, equalization is a desirable objective to include in a state financing plan.

The revised Commission statement of principles supports the recognition of legitimate differences in revenues per ADA among districts yet calls for greater equity in tax support for similar programs and services. Substantial research still needs to be undertaken, however, if such differences are to be adequately and equitably defined.

PRINCIPLES FOR FINANCING CURRENT OPERATIONS
OF THE CALIFORNIA COMMUNITY COLLEGES

Financing for the California Community Colleges should:

- promote statewide goals of access to postsecondary education, quality of college instruction and support services, and efficient use of college resources;
- maintain the comprehensive mission of the Community Colleges and reflect statewide and local priorities for funding;
- recognize the shared State and local responsibility for governance of the Community Colleges;
- promote local decisionmaking in the management of college resources;
- provide adequate levels of support from a variety of revenue sources; and
- provide finance mechanisms that: (1) are stable over time and predictable in their allocation of resources; (2) relate levels of support to the costs of college operations; and (3) are equitable among districts.

In order to achieve these goals, the Commission recommends the following policies for long-term finance legislation for the California Community Colleges.

SOURCES OF SUPPORT

Support for Community College education should continue to come from a variety of sources, including federal, State, and local tax revenues, student fees, and contributions from business and labor.

- The State should maintain responsibility for providing for adequate funding of the Community Colleges.
- Property tax revenues should continue to support general apportionments.
- Additional Local revenue sources, such as local sales or income taxes, should be authorized for support of local education needs which are not being met by State funding.
- Contract agreements with business and labor should support Community College instruction in highly specific training programs designed for particular firms.

- Student fee support for State-funded programs should be kept as low as possible.

LEVELS OF SUPPORT

Levels of support for systemwide general apportionments and categorical programs should be:

- determined each year by the Legislature and Governor in the budget process;
- adequate to fund the costs of inflation as well as planned workload and program changes; and
- sufficient to provide an adequate level of district resources for cash flow, contingency, capital outlay, maintenance, and other required future obligations.

RELATION TO COSTS

Financing mechanisms should relate support for college operations to expected costs, yet not restrict expenditure patterns, by providing:

- differential funding based on a limited number of major instruction and support activity categories that most accurately reflect differences in the costs of Community College operations;
- workload measures for each cost category that: (1) best relate to changes in the cost of providing the activity; (2) provide incentives consistent with stated goals and objectives for college operations; and (3) avoid undue collection and verification costs;
- support rates that reflect demonstrated differences in cost; and
- funding for workload change at an incremental or marginal rate that accurately reflects the variable, rather than fixed, costs of such changes and provides adequate support for districts experiencing substantial growth.

STABILITY

Financing mechanisms should provide stability in the support of college operations by providing:

- five-year legislative authorization for the basic support mechanisms;

- phase-in of equity adjustments to district base revenues if significant budget disruptions are faced by local districts;
- use of a base year funding level with adjustments for inflation and workload to determine budget year allocations;
- district target workload estimates with assured support for workload up to budgeted levels;
- an established range in which actual workload may fall below budgeted levels without changes in district revenue; and
- increased district flexibility to maintain support levels in constant dollars in the event that revenues are insufficient to fund necessary inflation and workload.

EQUITY

Financing mechanisms should promote equity among districts by providing:

- equitable levels of support based on differential funding;
- elimination of differences in districts' revenues that are the result of demonstrated past inequities in district wealth, tax support, or funding mechanisms; and
- support mechanisms that are designed to be generally applicable to all districts.

33

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