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Trends in Community College Financing: Challenges of the Past, Present, and Future. ERIC Digest.

Like all sectors of post-secondary education, community colleges face the challenge of generating sufficient revenue to uphold their missions. Many community colleges began as extensions of secondary schools, supported by public school budgets. In 1918, local funds provided 94% of community college income. This model proved insufficient, and state revenue, tuition and fees, federal funds, and gifts and grants quickly became contributors to community college revenues stream. Specifically, by the 1960's state appropriations became the major source of revenue, accounting for 34% of income. (National Center for Education Statistics, 1994). However, individual states vary in these percentages (Cohen & Brawer, 1996). During the 1980's, funding shifted from state and local support. In 1980, state support was 70%. By 1996, it had fallen to 50% (Merisotis & Wolanin, 2000). Of this remaining percentage, less was direct appropriations and more was distributed via funding formulas and performance indicators.

SOURCES OF FUNDING

- State and Local Appropriations

The prominence of community college funding is reflected in state legislation. A 1976 review of state community college legislation indicates that finances were most common (Martorana & McGuire, 1976). In July 2000, state policy makers identified financing higher education as issue number one (Educational Commission of the States, 2000). In addition to lump sum appropriations, some states have adopted funding formulas and performance indicators as additional or alternative mechanisms for funding.

- Funding Formulas

Funding formulas use selected variables to calculate the amount of need for an institution. Each equation allocates dollar amounts depending on the institution's values for each variable. Although states determine different variables and weights, three primary elements in funding formulas are enrollment, space utilization, and benchmark indicators (Educational Commission of the States, 2000). Formulas can provide an equitable distribution of resources for each college. However, disadvantages can occur for smaller institutions if the benefits of economies of scale are not considered to cover fixed costs.

- Performance Indicators

Performance indicators are another method of supplemental state funding. As of 2000, 30 states allotted resources to institutions based on attainment of pre-determined standards (Burke, 2000; Layzell & Caruthers, 1995). Although indicators are not the sole source of state funding, monetary incentives to achieve goals drive institutions to devote resources and priorities consistent with state priorities.

However, performance indicators can be problematic when the same indicators measure institutions with different missions. The indicators meaningful for two-year institutions may not be meaningful for four-year institutions. For example, graduation rate is the most frequent indicator used (Burke, 2000). Because many community college students do not intend to graduate, it can be inappropriate for two-year institutions. Hence, state governments should include all post-secondary constituents when developing indicators (Strauss, 2001).

Tuition

Tuition is a growing source of income. Merisotis and Wolanin (2000) chart increasing dependence of community colleges on tuition and fees. From 1979-1980 through 2001-2002, average tuition and fees have risen from $355 to $1,738 (College Board, 2001). While burdensome on students, corresponding increases in federal funding in the form of student loans and grants have occurred, increasing the ability of students to finance their education (Breneman & Nelson, 1981; Phillippe & Patton, 2000).

One means of increasing tuition revenue is charging differential tuition or fees for different programs and different students. Merisotis and Wolanin (2000) examined cost and price data to reveal differences in actual institutional costs in various disciplines (i.e. English vs. Computer Science). Although more states recognize these differentials, many do not recognize or reimburse these discrepancies. Breneman and Nelson (1981) suggest consideration be given to the type of program and the type of student. They recommend differential tuition for different students. For example, contracts might be negotiated with businesses at rates different from those for other students.

Federal Funds, Grant, and Contracts

Other federal funds have grown in importance. The American Association of Community Colleges and the Association of Community College Trustees asked the 105th Congress for four items to be included in Federal appropriations (AACC-ACCT, 1997):

1. Increases in the federal Pell Grant program

- 2. Continue the Strengthening Institutions Program Title III-Part A

- 3. Increased funding for the Advanced Technology Education program at the National Science Foundation

- 4. Maintain Workforce Education (Basic State Grants, Tech Prep, and Carl Perkins Act)

Additionally, many community colleges are turning toward grants and contracts for services. Instead of relying on appropriations, community colleges seek out opportunities to serve the needs of constituents through entrepreneurial models (Merisotis & Wolanin, 2000). These activities include soliciting local and national companies for support, creating agreements for developing programs specific to corporate needs, and contracting with companies to retrain the current workforce.

- Endowments

Community college endowments are growing quickly (Phillippe & Eblinger, 1998). In fiscal year 1989, the median community college endowment was valued at $226,171, by 1995, the median was $521,748. During this time, 175 community colleges created endowments. Phillippe and Eblinger (1998) also cite local business and industry as the number one source of endowment funding.

While endowments appear to be a logical source of additional revenue for community colleges, Seater (1995) points out that they often face competition for endowment dollars from four-year institutions. Hence, although a promising source of revenue, endowments can be difficult to establish, and can require a significant investment of time nurturing philanthropic relationships with local businesses and philanthropists.

IMPORTANCE OF MISSION

In order for community colleges to remain financially solvent, they must continue to diversify their funding sources. One strategy to maximize success across multiple funding sources is for community colleges to be clear about their mission (Strauss, 2001). By clarifying their missions, community colleges can excel at achieving standards mandated by performance indicators, and meet the challenges that funding formulas present.

The continued use of performance indicators calls for the involvement of representatives from all sectors of post-secondary education. State legislatures and other key finance decision makers need to understand that the missions of community colleges should not necessarily be measured with the same indicators as other sectors of post-secondary education (Burke, 2000; Ewell, 1998). One way to ensure this is for community colleges to have a clear articulation of their mission and goals.

CONCLUSION

While fiscal challenges facing community colleges are difficult, diversifying funding sources and clarifying mission statements can help. Funding challenges may lead to greater community college representation in the federal and state discourse on post-secondary education, and subsequently greater visibility of community colleges. By clarifying the important role that community colleges play in educating and re-educating the workforce, community college representatives could facilitate their own funding, and continue to serve their targeted populations and fill the needs of the country as community colleges were intended to do.

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