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ABSTRACT

This document argues that for the 1.8 million students attending the 731 rural community colleges in the United States, the community college is often the only option for higher education. However, both access and excellence for rural students are being negatively impacted by recent federal and state policy that has decreased funding to community colleges. In real dollars per student, state funding has declined since 1980, while tuition has risen to compensate for reduced state funding. Federal and state financial aid have not made up the difference for low-income students, which has resulted in reduced access. When colleges increase their tuition fees in order to match the $1,500 Hope Scholarship tax credit, low-income students working their way through community college suffer the most. The Pell Grant system favors low- to moderate-income students who attend higher-cost colleges because they are linked to tuition costs, with relatively few dollars going to community colleges. Many states promote a high tuition/high aid model, and the average student loan indebtedness has soared as a result. Additionally, rural community colleges, especially those with enrollments below 2,500, have higher expenditures per full-time student. Recommends a reexamination of funding models and argues that low tuition is the best form of financial aid. Also recommends that financial aid policies reflect the real costs of attending college, including childcare and transportation. (Contains 30 endnotes.) (NB)

Preserving Access with Excellence: Financing for Rural Community Colleges

2003

MDC, Inc.

Preserving Access with Excellence

Financing for Rural Community Colleges

by Stephen G. Katsinas, King F. Alexander, and Ronald D. Opp

For thousands of students, the choice is not between a community college and another institution of higher education; the choice is between a community college and nothing.

— Arthur M. Cohen and Florence B. Brawer
The American Community College, 1996

Executive Summary

Cohen and Brawer's observation rings particularly true in rural America. For many of the 1.8 million students attending the 731 rural community colleges in the United States, normal rules of market choice do not apply — the community college is the only option for higher education. Rural community colleges give adults young and old the opportunity to pursue meaningful careers and lives in rural America. It is essential to preserve and strengthen the capacity of rural community colleges to serve their communities with access and excellence.

Providing **access** to postsecondary education is part of the core mission of community colleges. Traditionally, that mandate has been carried out through open door admissions, affordable tuition, and providing classes for transfer and workforce education that are geographically accessible throughout the college's service area. Access issues cut across all types of community colleges — rural, urban, and suburban. However, low-income students are most concentrated at rural and central city campuses, and rural students face unique barriers to access, most notably transportation.

Excellence means offering high-quality programs to prepare students for work and further education. It means employing outstanding teachers and administrators, responding innovatively to the needs of local employers, and maintaining up-to-date facilities. Like access, achieving excellence is a challenge for all community colleges. However, rural colleges face particular challenges because of their limited budgets and the nature of their service areas. And in rural areas that lack the array of community and economic development organizations found in urban and suburban America, community colleges must be proactive in building the foundation for a stronger regional economy.

Today, both access and excellence are threatened by state and federal policies related to institutional support, tuition, and student aid. These trends affect all community colleges, but they hit rural community colleges particularly hard. Key concerns include:

- ***In real dollars per student, state higher education funding has declined since 1980.*** Rural community colleges are especially dependent on state funding.
- ***Tuition has risen to compensate for reduced state funding***, and federal and state financial aid have not made up the difference for low-income students. The result is reduced access across rural and urban America.

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- *Traditional funding formulas fail to support the expanded community college mission*, which now includes lifelong learning, computer literacy, and workforce skill upgrading. This challenges all community colleges but especially rural institutions, whose small budgets limit their flexibility to provide noncredit instruction.
- *State funding formulas ignore the unique needs of rural colleges*, particularly in technical education areas that are essential to rural development.

This paper examines community college finance from three perspectives. First, it offers a historic overview of federal and state support for higher education. Next, it discusses tuition and financial aid policies and their impact on access. These two sections are concerned with all community colleges and all low-income students. The paper takes this broad perspective because the fates of rural, urban, and suburban colleges are linked in policies regarding funding levels, tuition, and financial aid. While lower-income students are most concentrated in rural and central city campuses, all community colleges that value access must work together to advocate for adequate funding, low tuition, and equitable financial aid.

The third section of the paper turns to the unique needs of rural community colleges, which stem from their size and the nature of their service areas. Here, the interests of rural colleges and rural populations may diverge from those of urban or suburban institutions and residents. State policymakers who are concerned about the health of their rural economies cannot afford to ignore these issues.

Federal and State Support

During the 1960s, a time of rapidly rising college enrollment, the federal government was instrumental in building community colleges and providing financial aid. Most states made substantial investments to create community colleges and the statewide community college systems that evolved over the next three decades. By the 1990s, however, other state budget priorities — notably Medicaid and corrections — were growing, and state investment in higher education declined. From FY1980 to FY1996, state higher education appropriations per student, in real dollars, dropped by 12 percent.

Today, as in the 1960s, college enrollments are rising rapidly, yet state funding for community colleges (and indeed all of public higher education) remains stagnant. Without increased state funding, community colleges may be forced to turn away students. At the same time, states expect their community colleges to provide more services, including lifelong learning and workforce skill upgrading. There is a growing demand for noncredit instruction, yet only half the states reimburse their community colleges for such courses.

Keeping Community College Affordable

Low tuition and equitable financial aid are essential components of access. Over the past decade, states have dramatically raised tuition rather than increasing appropriations for their community colleges. Neither state nor federal financial aid programs have made up the difference. As a result, community college education is becoming less affordable for low-income students, both rural and urban.

In recent years, student aid policies have only reinforced inequities for low-income students. Tax credits and loans favor higher-income students (concentrated at public flagship universities and private institutions) over the first-generation college-goers at community colleges and regional universities. The purchasing power of the Pell Grant, the most important source of financial aid for low-income students, has declined significantly in the past twenty years. Furthermore, the federal student aid system is weighted to favor students at higher-cost institutions, and most federal direct grant dollars go to students at public and private four-year institutions or private/proprietary two-year colleges, not public community colleges. Additionally, state prepaid tuition plans and merit-based aid mirror the bias against the needs of a typical community college student who works, attends school part-time, and has substantial transportation and living expenses.

Funding for Rural Community Colleges

Rural community college budgets rely heavily on state funding, and funding formulas as well as overall appropriation levels affect their capacity to serve their students and their communities. Because of their size and the nature of their service areas, rural colleges are highly vulnerable to economic downturns, and they face significant barriers to launching new programs.

Compared to urban or suburban community colleges:

- Rural colleges have higher operating costs per student because they have a smaller budget base over which to spread program costs. State funding formulas fail to recognize the higher costs of just keeping the doors open at rural institutions.

- Rural colleges are highly dependent on state funding. They receive a smaller percentage of total funding from tuition and fees, and, in states where community college budgets depend on local property taxes, rural colleges suffer the effects of low-wealth tax districts.
- High-cost technical curricula, which could contribute to local economic development, often are unaffordable for rural community colleges.
- Rural colleges struggle to operate state and federal workforce programs, which are typically designed for more urban environments.

Policy Recommendations

Increasing Access for All Low-Income Students — Rural, Urban, and Suburban

- *Reexamine the expectation that community college students should pay a fixed percentage of their instructional costs.* In particular, funding models that require one-third of instructional costs to be borne by students should be changed.
- *Seek new, less "elastic" revenue streams that will lessen the impact of economic downturns on community colleges* in order to maintain affordable tuition, promote institutional stability and effective planning, and best deploy scarce state resources.
- *Change financial aid policies to reflect the real costs of attending college.* For many students, core costs include transportation and child care. Financial aid programs should provide equitable assistance to part-time students, particularly women, who comprise 58 percent of community college enrollment.

Strengthening Rural Colleges and Rural Economies

- *In state funding formulas, recognize the higher operating expenses of rural colleges.* States should consider providing base funding for all institutions, regardless of size. They should also provide higher funding per full-time equivalent (FTE) student for small, rural colleges with enrollment below 2,500 FTE.
- *Target funding to support higher-cost technical education programs in rural areas.* States should enable more rural colleges to offer technical education programs that can be instrumental for local economic development. These programs include nursing and allied health, where a long-term shortage is well documented.
- *Initiate a "rural dispersion policy" for categorical grant programs.* In competitive grants, state and federal agencies should give special consideration to applicants from areas of high poverty or low population density, recognizing the severe need, dearth of local resources, lower economies of scale, and higher cost of delivering services in these areas.
- *Invest in information technology to bridge the rural digital divide.* With appropriate support from state and federal government, rural colleges can bring connectivity to their regions and provide computer literacy on a broad scale to America's rural workforce.

Strengthening All Community Colleges and All Types of Economies

- *Renew state and federal investment in college facilities.* Most community college facilities, built in the 1960s and '70s, are in dire need of renovation or replacement. As an antirecession public works measure, the federal government should significantly expand Title VII of the Higher Education Act, as it did in the 1960s, to provide matching grants to states for higher education facilities.
- *Promote continuous education and skill upgrading.* States should support noncredit instruction for workforce education. They also should ensure that workforce programs funded by the federal Workforce Investment Act and Temporary Assistance for Needy Families are well coordinated with existing community college workforce programs.

Introduction

From "Doing More with Less" to Simply Doing Less

While both enrollment and costs have increased rapidly over the last two decades, public funding of the [higher education] sector has not kept pace. In effect, the United States has been underfunding higher education since the mid-1970s.

— Joseph L. Dionne and Thomas Kean
Breaking the Social Contract: The Fiscal Crisis in Higher Education, 1996

Funding for community colleges is now declining at the very time when America needs higher education to serve more students — including college transfer students, technical degree seekers, and older adults in need of new skills. From 1980 to 1995, fall enrollment in public two-year colleges rose from 4.3 million to 5.3 million — an increase of 23 percent — while enrollment in public four-year institutions rose by 16 percent.[1] Enrollment at both public two- and four-year colleges is expected to surge higher in the current decade, as the children of baby boomers and new immigrants reach college age. At the same time, more adults 25 years and older, including those with bachelor's degrees, are enrolling in community college to upgrade their skills and maintain their employability.

Higher Education: State Budget Balancer

In the National Education Association's annual survey of state legislative leaders conducted in late 2000 and early 2001, more than three-quarters of respondents said the current level of state funding for higher education was not adequate to meet current needs in their state. In explanation, many said their states had set ambitious agendas for higher education including economic and workforce development, expanded institutional capacity, maintaining the high quality of education, and adaptation to changing enrollment demands. Many legislators referred to higher education's traditional role as the "budget balancer." As the survey states:

> *Higher education, as the single largest discretionary item of state budgets, has been subject historically to widely fluctuating funding cycles... [E]ven as the total amount of state appropriations for higher education has steadily grown for much of the last decade, the percentage of state general fund budgets allocated to higher education has continued to shrink, from 14 percent in FY1990 to 11.7 percent in FY2001.*[4]

While higher education has become more important to both individuals and society during the past two decades, state investment in public higher education, including community colleges, has actually decreased. From 1979-80 to 1995-96, average total revenue per full-time equivalent (FTE) student in public higher education rose from $5,046 to $6,764 in constant 1996 dollars, an increase of 34 percent. However, during that period state appropriations per FTE fell from $2,673 to $2,344, a drop of 12 percent.[2] Adjusted for inflation, state funding — the biggest chunk of the community college budget — provides fewer dollars per student FTE today than in 1980.

While funding formulas vary widely across the states, there are four major revenue streams for community colleges: state appropriations, local taxes, tuition and fees, and workforce development grants and contracts. State funding is by far the largest stream, providing on average 37 percent of all community college revenue in FY97. Tuition and fees provide the next largest component of community college revenue, contributing 21 percent. Workforce development grants and contracts comprise on average 19 percent of community college revenue, local funding adds 16 percent, and miscellaneous other sources contribute the remainder. Local appropriations — available to community colleges in 26 states — usually come from property taxes, while workforce training includes grants and contracts from federal, state, and local government and private business. Compared to all community colleges, rural colleges — especially small and medium-sized institutions — heavily depend upon state funding, making them more vulnerable to budget cuts in times of recession. State appropriations provided more than 40 percent of the total revenue of small and medium-sized rural colleges in FY97.[3]

Since the early 1980s, the largest source of new revenue for public two- and four-year colleges has been tuition and fees, which jumped by 78 percent per FTE from 1980 to 1996. Government grants and contracts for workforce training also jumped following passage of the Job Training Partnership Act (JTPA) in 1982. Today, workforce development is an important revenue source, but it offers no panacea: it has remained

flat since the early 1990s. The Workforce Investment Act that supplanted JTPA did not bring an infusion of new funds.

In education as in private business, administrators are continually exhorted to "do more with less." But at some point, tight funding creates untenable choices for community college administrators, faculty, and boards of trustees, forcing them to simply do less. Despite lower levels of investment, states expect their community colleges to provide more services to students and other constituencies, particularly in workforce training. They look to community colleges to reach more nontraditional students, to work with employers in new and flexible ways, and to help welfare recipients find work. The expansion of community college functions means that the old benchmarks for funding levels — based on for-credit, full-time equivalent students — no longer apply. Today, in fact, state officials and legislators are hard-pressed to determine just how much investment is needed for effective colleges.

While we cannot pinpoint exactly how much money community colleges need, we do know their operating margins — total revenues minus total expenditures — fell during the 1990s. In FY93, community colleges had a net margin of 1.9 percent. By FY97, despite five of the best years in the national economy since World War II, that margin had fallen to 0.5 percent.[5]

To understand the mandate to "do more" and the bind of fewer funding resources, it is instructive to examine federal and state support for community colleges over the past half-century.

Federal and State Support

Community College Mission: Leave No One Behind

Each individual should be able to enroll in some form of post-secondary education appropriate to that person's needs, capability, and motivation. — National Commission on the Financing of Postsecondary Education, February 1974

The Federal Role

The federal government has played a vital role in the history of community colleges in the United States, starting with the convening of what became the American Association of Junior Colleges in 1920.[6] The federal role in higher education policy has traditionally centered on capacity building, research, and the promotion of exemplary practices. Of the three, capacity building has been most important; it includes financial aid to students and facilities aid to states and, through them, to institutions.

In the past century, there have been four waves of new students: the returning GIs following the First and Second World Wars; the baby boomers of the 1960s and early 1970s; and the current boom. With the GI Bill and the landmark Higher Education Act of 1965 (which created the Basic Educational Opportunity Grants and College Work-Study programs), the federal government injected significant capacity-building funds to make higher education widely accessible.

In particular, federal support for facilities was vital in the establishment of community colleges. The Surplus Property Act that followed World War II provided thousands of Quonset huts to two- and four-year college campuses. An estimated 50 junior, technical, and community colleges were established on converted army, navy, and air bases in the decade after World War II.

The Higher Education Facilities Act of 1963 (which became Title VII of the Higher Education Act of 1965) supported facilities construction for state systems of public higher education, including community colleges. Between 1965 and 1971, roughly a billion dollars of federal support each year was funneled into higher education facilities. Funds were made available on a matching basis, which spurred many states to pass bond issues for college construction.

The impact was dramatic. In Oklahoma, for example, four statewide bond issues were passed in the 1960s to obtain matching federal funds. Four new community colleges were established, and others were expanded to meet the enrollment demands of the baby boom.[7] The strong federal support for public higher education encouraged state legislatures and governors to expand their funding for both capital and operating budgets. And since most states required localities to contribute land and funds for facilities and operating support, federal funds leveraged significant investment from local as well as state governments.

Federal support provided more than bricks and mortar for new facilities. It was instrumental in creating the public community college systems that emerged in most states during the expansive growth of the 1960s. To receive federal funds, states were required to submit plans for their use, so federal aid spurred state-level planning and coordination.

Even before the education boom of the 1960s, the federal government had opened up higher education to thousands of Americans through the GI Bill. Its role in dramatically raising societal expectations for access to public higher education cannot be overestimated. Today it is easy to forget that in 1945, most adults did not possess a high school degree and universal secondary education was not available, particularly in the rural states of the Deep South. Shortly after World War II the Truman Commission's report, *Higher Education and American Democracy*, popularized the term "community college," but it suggested that only one-fourth of high school graduates were academically qualified to go on to college. The GI Bill raised expectations much higher.

Figure 1: Missions of State Community College Systems

	Access Missions			Traditional Missions			Economic Development-Related Missions			
State	Open Door	Financial Access	Geographic Access	Transfer	General Education	Technical Education	Industry Training	Developmental Education	Community Service	Continuing Education
AL	◆	◆	◆	◆	◆	◆	◆	◆	◆	
AK	◆	◆	◆	◆	◆	◆	◆	◆	◆	
AZ	◆		◆	◆	◆	◆	◆	◆	◆	
AR	◆		◆	◆	◆	◆	◆	◆	◆	◆
CA	◆	◆	◆	◆	◆	◆	◆	◆	◆	
CO	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
CT	◆	◆	◆	◆	◆	◆	◆	◆	◆	
DE	◆		◆	◆	◆	◆	◆	◆	◆	◆
FL	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
GA	◆		◆	◆	◆	◆	◆			
HI	◆		◆	◆	◆	◆	◆	◆	◆	◆
ID	◆		◆	◆	◆	◆	◆	◆	◆	◆
IL	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
IN	◆		◆			◆	◆	◆		
IA	◆		◆	◆	◆	◆	◆	◆	◆	◆
KS	◆		◆	◆	◆	◆	◆	◆	◆	◆
KY	◆		◆	◆	◆	◆	◆	◆	◆	◆
LA										
ME	◆		◆			◆	◆	◆		
MD	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
MA	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
MN	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
MS	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
MO	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
MT		◆								
NE	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
NV	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
NH	◆	◆	◆	◆	◆	◆	◆	◆	◆	
NJ	◆		◆	◆	◆	◆	◆	◆	◆	◆
NM	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
NY	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
NC	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
OH	◆		◆	◆	◆	◆	◆	◆	◆	◆
OK	◆	◆	◆	◆	◆		◆	◆	◆	
OR	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
PA	◆		◆	◆	◆	◆	◆	◆	◆	◆
RI	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
SC	◆	◆	◆	◆	◆	◆	◆	◆	◆	
TX	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
UT	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
VT	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
VA	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
WA	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
WV	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
WI	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
WY	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆

Source: Author's analysis of data compiled by T.A. Tollefson & B.E. Fountain, *Forty-nine state systems*. Washington, DC: American Association of Community Colleges (1989 and 1992 Eds). The authors acknowledge the contributions of Tollefson and Fountain, and assume responsibility for this analysis of their work.

In the 1960s, the GI Bill helped justify state action to construct and fund the operations of large systems of public higher education. During that time, most state legislators and governors were World War II veterans, imbued with a "can do" spirit which lasted until the 1970s.

The State Role

At the state level, community colleges were established after World War II to provide pre-baccalaureate general education ("college transfer") as well as technical, occupational, and vocational programs to prepare students for immediate entry into the workplace. Public community colleges relieved enrollment pressures on state and regional universities, which resulted first from the bulge of returning veterans and later from their children, the baby boomers. There was growing recognition among business and civic leaders in the 1950s and '60s that American industry needed a technically well-trained workforce. Southern and Mountain states lagged behind the nation economically during the 1950s, and for them economic and workforce development were very important in justifying the establishment and funding of community colleges.

Figure 1 summarizes the missions of community college systems in 49 states. In virtually every state,

The GI Bill

Clyde L. Choate, a Congressional Medal of Honor recipient in World War II who served for 30 years in the Illinois House of Representatives, explained the impact of the GI Bill: "We never asked for the GI Bill, it was what a grateful nation gave to us. In turn it motivated thousands of us to give back to our communities, state, and nation."[8]

Another veteran who became a key figure in the establishment of community colleges nationally was Raymond J. Young, who directed citizens' participatory studies that led to the establishment of some 55 two-year colleges and several state systems, including Illinois'. Young obtained both his bachelor's and master's degrees on the GI Bill. Reflecting on the GI Bill's impact, Young said, "While only two million of us used the benefits, all 14 million of us thought, simply because of the existence of those benefits, that a higher education was within the reasonable realm of possibility."[9]

the provision of financial and geographic access to all citizens is a policy objective for community colleges. There is also broad support across states for comprehensive community colleges, that is, multipurpose institutions that provide both college transfer and vocational/occupational/technical education. Support for community college functions that are often noncredit based — including industry training, developmental education, community services, and continuing education — is substantial across most states. The very idea behind the comprehensive community college was that an institution could offer general education/college transfer, occupational/technical programs for workforce entry, and noncredit programs for lifelong learning under one administrative roof, and thus achieve economies of scale.

States became primary players in establishing community colleges in the 1960s and 1970s, concluding a 30-year process of integrating locally controlled, municipally funded junior colleges into state-controlled systems. During that period, the state role changed from passively allowing localities to create two-year colleges, to proactively extending quality postsecondary programs and services to all citizens. The motivations were promoting access and reducing cost. State aid, the benefit that came with state control, gave two-year colleges the financial means to meet the increasingly stringent standards of the regional accrediting bodies. Without the involvement of state governments in the funding and control of community colleges, it is likely that many colleges would have closed. After 1975, most states took on even more active policymaking roles, reflected by permanent operating budget support and statewide coordination.

Starting in the late 1970s, state policymakers expanded the mission of community colleges. Passage of the Job Training Partnership Act in 1982 (which coincided with the most severe recession since the Great Depression) provided an infusion of funds that promoted an expanded community college role in economic development and workforce training. Over the past two decades, while some economic policy objectives have changed (particularly regarding workforce training and welfare benefits), the basic notion remains that community colleges should be multipurpose institutions with flexibility to respond to local needs.

In a 1998 survey of governors by the Education Commission of the States, virtually all (97 percent) agreed that encouraging lifelong learning was important or very important. Most (86 percent) believed that job training was an important or very important community college function; and 83 percent believed that anytime-anywhere access to education was important or very important. More than half (54 percent) rated developmental education as important or very important.[10]

A 1996 survey of members of state Human Resource Investment Councils corroborated the importance of community colleges' role in workforce training. Eighty-three percent believed community colleges should provide developmental education, and 65 percent believed states should finance developmental education if federal funds could not. Sixty-seven percent agreed that community colleges offered a broad array of excellent workforce training programs for recent high school graduates, and 63 percent agreed their states' community colleges did a good job of preparing workers with work-readiness skills. Yet 55 percent believed funding for community college workforce training was inadequate.[11]

Reduced State Funding and Rising Enrollment

As state policymakers have demanded more from their community colleges, they have not invested more funds. This is the sad story of public higher education funding in the three decades since the height of campus protests against the Vietnam War, which coincided with an end to bipartisan support in many state legislatures. Reconstructing that bipartisan base of support probably tops the priority list for state higher education leaders.

Funding for Noncredit Programs

State funding methods affect community colleges' ability to perform the expanded roles demanded of them. In today's economy, with fast-changing technology, lifelong learning is a necessity. To respond to that need, community colleges provide a wide array of noncredit instruction ranging from developmental education to Microsoft, Oracle, Novell, and Cisco courses that certify workers for information technology jobs.

In the fall of 1999, the American Association of Community Colleges counted 5.4 million students enrolled in credit programs and 5 million in noncredit programs at U.S. community colleges. But traditional funding formulas, tied to enrollment in for-credit classes, do not take into account new mandates to promote lifelong learning. Just 21 states reimburse their community colleges for noncredit enrollment.[12] And even when states fund noncredit education, they often do not fund it fully; for example, developmental education often is treated differently from other noncredit instruction.

Credit vs. Noncredit Instruction at Community Colleges

Characteristic	Traditional (for-credit)	Nontraditional (noncredit)
Learning objective/outcome	Associate's degree	Diploma, certificate, competency
Goal of funding	General education/transfer and selected "terminal" (technical degree) programs	Workforce development and lifelong learning
Program length	2 years	Less than 2 years
Source of funds	State tax appropriations	Mostly federal, some private sector. Federal funds flow through state bureaucratic structures.
Unit of measure	Typically based on FTE (full-time equivalent) student enrollment	Typically client-based (headcount)
Type of funding mechanism	Formula funding; funds flow to colleges based on enrollment	Categorical appropriation from Congress and state legislatures
Locus of control	State higher education agency, legislature, and governor	Mixed, including federal, state, and local agencies
Approximate date of adoption of funding mechanism	1960s, to fund system growth equitably and accommodate the "baby boom"	1980s, as JTPA funded expansion of community college role in training (some training is privately funded)
General source of expertise in formula creation	Flagship public universities (who often supplied initial staff for early coordinating agencies)	Federal agencies

Much of the funding for noncredit instruction comes from federal programs that flow first to the states and then to local governments before coming to the community college. Such funding streams are not easily integrated due to different program guidelines. For example, funding and program rules governing literacy, for-credit degree, noncredit certificate, and continuing education are very different. All, some, or none of each may be publicly funded, and each state administers its programs differently.[13] Furthermore, programs that require a local match assume economies of scale that may not exist in rural areas. Often, the pots of funding available to rural areas are too small to run cost-effective programs, defeating the policy objective behind the administrative practice.

The task is made more difficult by new claimants on state budgets. In the past two decades, Medicaid and corrections have captured the lion's share of new state spending. While these two drivers of state budgets are well understood by state leaders, the resulting long-term shifts and impacts in state policy are not well comprehended by the general public.[14]

The long-term decline in state funding for community colleges coincides with a period of sustained enrollment growth. Today's projected bulge of high school graduates will challenge states to provide enough seats in postsecondary classrooms. Even states with moderate increases in high school graduates are starting to experience enrollment pressure in their colleges and universities because more Americans than ever recognize that access to jobs requires higher education.[15] As enrollment pressures build at public universities, state policymakers will likely look to community colleges as a "safety valve."

This is the same phenomenon that occurred in the 1960s. Enrollment pressures brought on by the baby boom materialized first at the flagship state universities, then at regional universities, and finally at community colleges. Today some states are seeking new strategies to relieve the growing pressure on their universities. The fast-growth states of Arizona and Florida have launched experiments with baccalaureate degrees at their urban community colleges as an

alternative to building new four-year campuses. While this strategy may provide cost savings, it may also diminish the long-term capacity of community colleges to provide important nondegree workforce education.

Some states with burgeoning enrollments are experimenting with differentiated tuition in order to extend efficient use of their facilities. For example, students at the Dallas County Community College District who take classes in off-peak time periods pay half-price tuition, with the state making up the difference. Richard Fonte, President of Austin Community College, proposed this policy to Texas legislators in 2001, based on his experience at South Suburban Community College near Chicago.[16]

However innovative they may be, state experiments with time-sensitive tuition and the community college baccalaureate degree are unlikely to provide enough enrollment capacity for the approaching waves of new students. Texas alone projects 500,000 new college students between 2000 and 2015, of whom nearly three-fourths are expected to attend community colleges.[17]

There is no question that rising enrollment will have tremendous impact on community colleges. Will the federal and state response be to expand capacity, as in the 1960s? If state support for community colleges remains flat or increases only marginally, what will colleges do? All of the options have heavy economic and social costs.

Colleges may concentrate on serving full-time, traditional college-aged students and de-emphasize lifelong learning to retrain workers and give adults a "second chance" at a college education. Alternatively, states may channel more traditional-aged students to other institutions and increase community colleges' emphasis on workforce development and career education. But that would require the expansion of public university campuses, a costly option. Some policymakers advocate limiting state investment in developmental education. But developmental education pays back large societal dividends, as Robert McCabe documented in his study, *No One to Waste*,[18] and it is critically important in tight labor markets. There are other choices, all with problematic repercussions: capping enrollment in high-cost programs; delayed hiring; deferring maintenance; and closing low-enrollment programs. Some see distance learning as the ultimate cost-saving strategy because it serves more students without requiring new facilities, but its cost-effectiveness has yet to be proven on a mass scale.

In summary, at a time when enrollment is growing and states need community colleges to expand their lifelong learning functions to reach ever more people — to leave no one behind — state funding for community colleges is at best flat. Can it seriously be questioned that America will be a poorer nation if it chooses not to serve all who want and need higher education?

Keeping Community College Affordable

Low Tuition and Equitable Financial Aid

In my state, the legislature doesn't formally raise the tuition. They just don't give you the funds you need to operate. This forces you to raise the difference from tuition and local taxes. In doing so, legislators are shirking their responsibility and passing it on to the local level. —A community college president interviewed in 2001

Over the past decade, states have dramatically raised tuition rather than increasing appropriations for their community colleges. Financial aid, whether from federal or state sources, has not made up the difference. As a result, community college education is less affordable for low-income students than in decades past. This is especially true for rural students, who have high transportation costs that are not taken into account in financial aid formulas.

States invest in higher education because they recognize the public benefit of an educated populace: they understand that education and workforce training are beneficial not only to individuals but also to the state as a whole. It was this concept of social benefits that led the community college experts of the Carnegie Commission in 1970 to recommend that states charge low tuition or no tuition at their community colleges.[19] States like California that have kept tuition consistently low have reaped high rates of college enrollment.

Other states have placed more of the cost burden on students. When community colleges were established

in the early 1960s, many states, including Pennsylvania and Ohio, adopted a funding model of one-third from students, one-third from local sources, and one-third from the state. That formula was never desirable from the perspective of maximizing access to higher education. Over the years it has become even more problematic, as college costs have risen faster than inflation and the student's one-third share has become unaffordable for many. Furthermore, in some states tuition and fees today account for even more than one-third of the total cost, as state and local appropriations have failed to keep up with rising costs.

In 1981, Breneman and Nelson suggested that with the widespread availability of federal student financial aid, states no longer needed to maintain low tuition at their community colleges. Instead, they advocated a policy of high tuition and high aid, assuming that the federal government would steadily increase financial aid for low-income students through the Pell and Student Economic Opportunity Grant (SEOG) programs.[20] But that did not happen. Instead, federal student aid has shifted toward tax credits and student loans, thus reducing access for low-income community college students, who can ill afford even subsidized loans. Furthermore, the needs of community college students have never been foremost in the design of Pell and SEOG programs.

Benchmark for Tuition: A Reliable Used Car

In 2000-01, tuition at public two-year colleges in the U.S. averaged $1,359 per year. Six states — Arizona, California, Louisiana, New Mexico, North Carolina, and Texas — charged less than $1,000. Fifteen states charged over $2,000.[21]

Robert Pedersen argues that to maximize access for low-income students, community college tuition should always be less than the cost of obtaining good transportation. He notes, "If you annualize the tuition per month and it is equal in cost to a car, the person will choose the car. In states where tuition hits $2,300 per year, choosing the car is a rational choice. Current policies do not directly tell students that they must have access to reliable automobile transportation, yet federal and state policymakers know that these communities lack publicly subsidized mass transit. The real cost of going [to college] in effect is a doubling of tuition. The student who is forced to choose between the community college and the car chooses the car, because the car can generate income."

Federal Aid: Choice vs. Access

Federal student aid policy has not only failed to alleviate inequities, it has reinforced inequities for low-income students. The Hope Scholarship, which reimburses students for up to $1,500 a year, is a tax credit designed for middle-income students, and most analysts believe it will not expand access for low-income students. To benefit from the tax credit, students or their families must have taxable income in excess of $1,500; they also must have cash on hand to pay tuition, only to get reimbursed by Uncle Sam later on.

The Pell Grant is the most important source of financial aid for low-income students. Congress has raised the maximum grant from $2,450 in FY1993 to $4,000 in FY2003. (While running for president, George W. Bush proposed a $5,100 maximum Pell Grant; however, funding in his FY2003 budget was held flat at $4,000.) Furthermore, unlike Hope Scholarships, future appropriations for Pell Grants are not guaranteed because Pell is not an entitlement — its appropriation must be approved by Congress each year. The real, inflation-adjusted purchasing power of Pell has declined significantly in the past twenty years, as has College Work-Study.

The federal emphasis on tax credits and loans favors higher-income students (concentrated at public flagship institutions) over the first-generation college-goers who mostly attend regional universities and community colleges. Furthermore, the Hope tax credit has encouraged states to raise community college tuition to "recapture" federal funds. Financially hard-pressed state budget officers reason, "If students can claim a $1,500 federal tax credit, why should tuition be less than $1,500?" When states increase tuition, it is the lowest-income students working their way through community college who suffer the most.

Federal student financial aid programs increasingly favor the policy goal of "choice" over "access." They encourage students to choose among public or private institutions — including private nonprofit and for-profit proprietary schools — regardless of cost. The Pell system, in fact, favors low- and moderate-income students who attend higher-cost colleges. Because Pell grants are linked to tuition cost, most federal dollars go to students at four-year institutions and private two-year institutions; relatively few dollars go to community college students. The average Pell and Student Economic Opportunity Grant (SEOG) dollar award for community college students with family income below $30,000 is comparable to the average

Figure 2: Federal Direct Student Aid Grants for Undergraduate Students*

Institutional Carnegie Classification**	Income of $30,000 or less: Average Award	Income of $30,000 or less: % of Students Receiving Grants	Income of $30,001 to $60,000: Average Award	Income of $30,001 to $60,000: % of Students Receiving Grants
Research Universities				
Private	$2,808	49%	$1,423	13%
Public	$2,005	55%	$1,090	10%
Doctoral Universities				
Private	$2,352	59%	$1,352	13%
Public	$1,754	57%	$1,141	11%
Comprehensive Universities				
Private	$2,235	62%	$1,438	N/A
Public	$1,875	60%	$1,438	12%
Baccalaureate Colleges and Universities				
Private	$2,337	74%	$1,357	18%
Public	$1,684	58%	$1,198	10%
Associate of Arts Colleges (2-year)				
Private, Nonprofit	$1,846	65%	$1,170	17%
Private, For-Profit	$1,590	73%	$1,010	12%
Public	$1,567	34%	$941	5%

*Includes Pell Grants, Supplemental Educational Opportunity Grants (SEOG), and State Student Incentive Grants.
**The classifications used are the 1994 classifications of two- and four-year institutions by the Carnegie Foundation for the Advancement of Teaching.
Source: National Postsecondary Student Assistance Survey, 1995-96.

award at private two-year colleges — between $1,500 and $1,900. (See Figure 2.) But only 34 percent of public community college students in that income group received such aid in 1996, compared to 65 percent at private nonprofit institutions and 73 percent at proprietary schools. At four-year institutions, at least half the low- and moderate-income students receive federal grant aid, in amounts ranging (in 1996) from $1,684 at public four-year colleges to $2,808 at private research universities.

The Pell system discriminates against community college students in several ways. First, it assumes that dependent students attending four-year institutions live away from home while those attending community college live at home; hence, community college students automatically have lower expected living expenses. Second, it does not take into account the cost of transportation for commuters. Transportation is a substantial expense for community college students, especially those in rural areas with no access to public transit. Federal student aid policy should enable students to work their way through school without incurring substantial indebtedness. Roughly 60 percent of all U.S. community college students are enrolled part-time, and the majority of these students work. Yet the current direct grant system (Pell and SEOG) assumes coverage only of books, tuition, and fees. Transportation and child care, which are significant costs for many community college students, are not covered.

In addition, the method by which federal direct grant aid programs are structured gives private institutions a built-in advantage over public institutions, particularly community colleges. Private colleges can set high tuition, allowing their students to capture the maximum amount of federal and state financial aid, and then permit their admissions officers to discount tuition to attract students. This practice is widely employed by for-profit proprietary institutions. In contrast, public colleges cannot discount their published tuition and fee charges, which typically are set by governing boards.

State Financial Aid

At the heart of the "high tuition/high aid" model is the belief that the primary benefit of higher education accrues to the individual, and therefore the individual should bear most of the cost of education. Unfortunately, as so often happens in the interplay of federal and state policy, the private benefits emphasis of federal policy has been imitated and imbedded in many state student aid programs.

Few states have gone farther than Minnesota in promoting a high tuition/high aid model. Between 1991-92 and 2001-02, Minnesota's community college tuition rose by 50 percent. Average student loan indebtedness has soared, and access has diminished. Minnesota's student aid program proudly proclaims the principle of "shared responsibility." By assuming that the families of students can pay 50 percent of total cost of whatever institution the student chooses to attend, Minnesota has consciously placed choice over access. The state provides a much larger subsidy to middle-class students attending its flagship university than to low-income students at low-cost community colleges.

States increasingly have invested in student aid programs (both need-based and merit-based) rather than keeping tuition low through investment in public college and university operating budgets. In 1976-77, state direct student aid accounted for 4.8 percent of all state higher education appropriations; by 1997-98, it comprised 6.6 percent. In some states, the figure was much higher — for example, it was more than

13 percent in New Jersey, Illinois, and Pennsylvania, and as high as 22 percent in New York.[22]

The pattern of state student aid is similar to the federal pattern shown in Figure 2, with even greater inequities. In 1995-96, the average award for state direct aid to dependent community college students with family income below $30,000 was $995, compared to $2,075 for students attending private nonprofit two-year colleges and $2,279 for those at private for-profit two-year institutions. Furthermore, 40 percent of low- and moderate-income students at private nonprofit two-year colleges received state direct student grants, compared to just 12 percent at public community colleges. Like the federal Pell and SEOG programs, state financial aid policy promotes choice, not access. And like federal programs, states fail to provide aid for the substantial transportation and child care costs of students attending rural community colleges.

The same pattern emerges when one examines the percentage of total student aid dollars going to students at different types of institutions. In Illinois, a recent study found that nearly a third of students who received aid through the State Scholarship Program attended community colleges, but those students received only 12 percent of the aggregate dollars. Disparities like this emphasize the significant role tuition and fee levels play in the allocation of student aid resources. By tying aid to tuition, both federal and state direct grant aid programs fail to meet the needs of low-income students, thereby reducing the number who attend college and foregoing the public benefit of a highly educated population.

The high tuition/high aid, private benefits model simply does not work. States do not increase student aid in recessions, nor does the federal government. More importantly, if the state's goal is to have the best possible workforce, policies should encourage high college-going rates for traditional college-aged students and older adults as well. This means keeping tuition low at community college, where most students must earn a living and pay for both child care and transportation on top of the cost of tuition and fees.[23]

Funding for Rural Community Colleges

Stool with a Missing Leg

...the nation's two-year colleges stand at the financial crossroads. On the one hand, the need for the services and education they provide in a changing local, regional, and national and international environment continues to accelerate. On the other hand, community colleges now draw less of their total operating revenues from taxpayers than at any other time in their histories. If these recent trends are harbingers, the finance of community colleges will become even more critical in the foreseeable future.

— Richard A. Vorhees, *Financing Community Colleges for a New Century*, Agathon Press, 2001

While the decline in public funding presents challenges for all community colleges, it places rural colleges at severe risk. Rural colleges — especially those with enrollment below 2,500 — are highly dependent on state funding. (See Figure 3 on page 15.) In general, compared to suburban and urban colleges:

- *Rural community colleges have a much smaller budget base over which to spread program costs.* The average rural community college budget is $16 million, less than half the urban/suburban average. Average budgets for small and medium-sized rural community colleges are only $5.1 and $11.6 million.
- *Rural community colleges are highly dependent on state funding.* At small and medium-sized rural colleges, over 40 percent of the operating budget comes from state appropriations.
- *Rural community colleges receive a small share of revenue from local taxes.* In the 26 states where community colleges rely partly on local revenue, rural colleges receive lower local appropriations than urban or suburban colleges.
- *Workforce development programs at rural colleges are a significant but largely stagnant revenue source, and endowments are nearly nonexistent.*
- *Compared to urban or suburban colleges, rural community colleges receive a smaller percentage of total funding from tuition and fees.*

These revenue patterns have far-reaching impact on rural community colleges' ability to serve their regions.

Regionalism and Economies of Scale

In an effort to achieve economies of scale for some of its small, rural colleges, Minnesota created the four-college, five-campus Northeast Higher Education District. The colleges, ranging in FTE enrollment from 340 to 1,300, reduce costs by sharing several services — human services, payroll, institutional research, grants management, and library material processing. However, there are other arenas where services must remain campus-based. William Maki, Dean of Students and Administration, and the chief financial officer for the district, notes:

> *At each college, we need to offer services and programs where we cannot achieve efficiency. To not offer them at each campus would hinder the student's educational experience. Besides a full range of faculty, some of these services and programs include financial aid, counseling, minority services, disability services, bookstore, food services, financial services, student affairs leadership, and academic leadership.*[25]

High Operating Costs

Rural community colleges — especially those with enrollments below 2,500 — have higher expenditures per full-time student than suburban or urban community colleges. These diseconomies of scale were pointed out 30 years ago by higher education finance experts Howard R. Bowen and D. Kent Halstead, but they are rarely acknowledged in state policy or funding.

Halstead urged state planners to determine appropriate costs for specific functions (such as student services) by averaging the costs at institutions with similar missions, rather than lumping research universities with junior colleges. College size, he argued, was also critical in determining economies of scale. He cited a California study that revealed it was nearly three times as expensive to construct facilities for each additional FTE student at a small college than at a college with an enrollment of 12,000.

In other words, to planning and finance experts such as Halstead, size mattered. By 1996, however, among the 30 states using funding formulas, only five differentiated administrative costs by the size of the institution.[24] The lower economies of scale at small and rural community colleges, and the resulting higher cost of simply keeping their doors open, is not reflected in the funding formulas of most states.

In a 1999 national survey of rural community college presidents, 66 percent agreed with the statement, "My state's funding process doesn't recognize higher costs of 'doing business' (just opening the door) at rural community colleges." As community college missions have been broadened, the higher operating costs and additional costs of meeting diverse state policy objectives — most notably in the economic development arena — are not reflected in state budgeting for rural community colleges. Furthermore, rural community colleges must meet the same state rules, procedures, and accountability standards as much larger colleges, despite their smaller budgets.

One method to promote equity for small, rural colleges is to create tiers of per-FTE student funding, with a higher reimbursement rate for institutions with less than 2,500 students. Another method is to provide administrative base funding for every institution prior to dividing up the funding pie based on enrollment and cost formulas. Currently, 14 states have some provision in their funding systems to reduce operating budget discrepancies, but most are not substantial enough to get the job done. And even if tiers are created for operating budgets, they may not be created for capital needs. A recent national study by Derrick A. Manns reported that none of the 39 responding states had special provisions to meet the capital needs (facilities) requirements of their rural institutions, including rural community colleges.

Vulnerability and Barriers to Innovation

Rural colleges are highly vulnerable to economic downturns. Their high dependence on state funding magnifies the impact of tight state budgets. During recessions, other priorities stake a higher claim on scarce state revenues than do community college operating budgets. Yet community college enrollments increase in recessions, as unemployed adults return to school and recent high school graduates choose further education. In times of recession, rural community colleges need more — not fewer — dollars, to retool and expand their programs and services. Their low levels of local funding and small base budgets leave rural colleges with few flexible resources to draw on during times of state belt-tightening.

Limited revenue streams and smaller budgets also make it difficult for rural colleges to initiate new programs. Their high reliance on state funds and lack of flexible internal "venture capital" dictate budgetary conservatism. Not only do they shy away from launching new programs, it is often difficult for their

presidents and boards to make multiyear funding commitments for essentials such as new equipment (such as computer upgrading) and facilities.

Their remote locations also affect rural colleges' ability to launch new programs. At larger suburban and urban community colleges, an expensive new high-tech program can be launched on a trial basis with part-time adjunct instructors before the institution commits funds to hire permanent faculty. At a rural community college, however, the adjunct pool is small or nonexistent.

When a federal high-tech grant opportunity comes along, the community college leader must always ask, "Can we cover the costs for the staff when the grant funding runs out?" In rural areas, insuring long-term employment for a new hire is especially important. When a rural community college hires new faculty and staff, it asks people to join a community. In an isolated community, the college often is the only possible place of work for someone with such specialized skills. The college cannot easily lay off employees when recession occurs because it will need skilled faculty and staff committed to the college when recession ends. At rural community colleges, even in good economic times, leaders must make programmatic choices carefully against the backdrop of an unforgiving budgetary climate.

Information Technology Programs in Rural Minnesota

At Itasca Community College in northern Minnesota, a college with enrollment of approximately 900 FTE, a new computer network administration program and a geographic information system (GIS) program were started in 1999. The College has had five different faculty members in its network administration program, and it has endured four failed national searches for a permanent full-time faculty member in GIS. One senior administrator said:

> *We received $300,000 in private start-up funds, and now that the grants are complete, we struggle with how to support these worthwhile programs. We are producing high quality graduates, but have a limited capacity with our infrastructure to gain any economies of scale in these areas.*[26]

Technical Education

Too often, technical programs are often unaffordable for rural colleges. Over half of rural community college CEOs responding to a 1999 national survey agreed with the statement, "My state's funding formula promotes high-volume, low-cost academic programs for rural areas, not lower-volume, higher-cost technology-oriented programs." Many state funding formulas lack cost gradients to accommodate expensive programs such as allied health, nursing, and engineering technology. Community colleges generally run such high-cost programs as "loss leaders." With a lower budget base over which to spread costs, rural community colleges are forced to offer a more limited curriculum; they simply cannot afford to offer "loss leader" programs. But high-cost technical curricula are often in high demand, and they produce the best prospects of high wages upon graduation. In fact, such programs may be a key to economic development in depressed rural areas.[27]

Similarly, rural colleges are hard-pressed to keep up-to-date on information technology. Said one rural community college dean of instruction, "When it comes to instructional technology, we are in an arms race we are destined to lose. Software firms look to large, multi-campus community colleges as test sites for new product development; they don't look to partner with small, rural community colleges like us."

Low-Wealth Tax Districts

Of the four revenue streams on which community colleges depend — state appropriations, local taxes, tuition and fees, and workforce development grants and contracts — one is nearly missing in rural areas. In effect, the rural community college's budget is a stool with a missing leg. (See Figure 3.)

The strikingly low level of local funding for rural community colleges stems from a combination of political, environmental, and geographic factors. Many community college enabling laws passed one or two generations ago were based upon flawed assumptions whose effects have only been magnified over time. For example, Texas' 1929 enabling law financed junior colleges solely upon local tax support. Counties with sufficient local taxing capacity — which included virtually every urban and suburban county in Texas — were permitted to create and finance their own junior colleges. While state funding began in 1941 and has expanded over the years, it took until the mid-1990s for the Texas legislature to finally

Local Tax Districts in Rural Texas

Southwest Texas Junior College (SWTJC) serves an area of 13,500 square miles, larger than several northeastern states. The population of its 11 counties is 135,000, yet only the 37,500 citizens living in three counties — Uvalde, Real, and Zavala — contribute local taxes to the college's budget. The other eight counties were added to SWTJC's service area in the mid-1990s, when a new state law assigned each county in Texas to a public community college. But that law did not permit district-wide property tax referenda, nor does Texas law allow a community college to spend tax dollars outside of the taxing district. Thus, three-fourths of the population in the college's state-assigned district cannot contribute local tax dollars or be served using local dollars collected in other counties. Nor can they elect representatives to the college's board of trustees. Despite this problematic state policy, Southwest Texas Junior College has been creative in finding ways to serve its widespread population, for instance, by using its direct-support foundation to lease-purchase buildings for satellite campuses.

recognize that every citizen of Texas deserved access to community college programs and services.[28] Even then, flaws in the existing law pertaining to rural community colleges were not corrected.

Many rural colleges are simply unable to raise sufficient local tax revenue. East Mississippi Community College, for example, serves a six-county district nearly 100 miles long that in the 1990s had several counties with double-digit unemployment. Raising taxes across a multicounty district is politically problematic, and the college receives less than $400,000 of its $12 million budget from local taxes. But even if the college could generate the political will to raise its local levy, the low property values in this poor region would generate little in the way of revenue.

The 90 community colleges that serve rural America's 300 most economically distressed counties face this reality. For the presidents and boards of small rural community colleges, pushing local voters to raise taxes when the payoff is so low is neither economically nor politically viable. In contrast, a levy of just half a mil in 1994 produced $394 million in new revenue for the 10 campuses of the Maricopa Community College District in Phoenix. Passage of a levy of this size in a large urban area produces major newspaper headlines that in turn can create the perception that all community colleges have equal access to similar local revenue streams. Such is simply not the case.

State Workforce Policies

Poorly meshed state and federal workforce training policies only make matters worse for rural community colleges. Typically, large cities are designated by their states as service delivery areas for adult literacy, welfare services, job training, and other federal flow-through programs. Most cities have publicly subsidized mass transit upon which officials rely to design accessible local programs.

In rural areas, the situation is very different. Unless consistency in state-assigned geographic service areas exists across all workforce-related programs — and this rarely occurs — a rural community college with a five-county state-assigned service area might overlap

Figure 3: Average Budget and Sources of Revenue at Community Colleges, FY 1998

	Number of Reporting Colleges	Average Total Budget	Percentage Distribution of Sources of Revenue: State	Local	Tuition & Fees	Workforce Dev'ment*	Other**
Rural							
Small (<1000)	121	$5,148,867	45%	4%	17%	25%	9%
Medium (1000-2500)	227	$11,600,196	42%	8%	19%	21%	10%
Large (>2500)	270	$24,809,916	37%	12%	19%	21%	10%
Subtotal	*618*	*$16,101,839*					
Suburban							
Single Campus	137	$35,125,948	31%	22%	22%	16%	10%
Multi-Campus	57	$29,401,431	32%	20%	24%	15%	10%
Subtotal	*194*						
Urban							
Single Campus	47	$37,858,577	42%	8%	25%	18%	8%
Multi-Campus	115	$47,958,842	36%	18%	20%	19%	8%
Subtotal	*162*						

* "Workforce Development" includes IPEDS Finance Module revenue subcategories "Federal Grants and Contracts," "State Grants and Contracts," "Local Grants and Contracts," and "Private Gifts and Contracts."
** "Other" includes 4-7 percent from auxiliary services, 1 percent from sales and services, <1 percent from endowment income, and 2-4 percent from other sources.

Source: J.L. Johnson. *Financial capacity at rural community colleges: Do geography and size matter?* Unpublished Ph.D. dissertation, The University of Toledo, 1999.

Local Funding and Tuition Inequities

The authors of Ohio's 1961 community college enabling law envisioned revenue contributions of one-third from the state, one-third from local taxpayers, and one-third from students, but the law did not set uniform requirements for college funding. Today, there are 23 independently governed community and technical colleges in Ohio, of which seven are located in urban or suburban areas and 16 are rural. Four of the seven urban/suburban colleges receive local funding, while just two of the rural colleges do so. Colleges that receive no local dollars must necessarily make up the difference through tuition. At rural colleges without local funding, tuition and fees provide as much as 50-55 percent of total revenue.

This leads to tremendous intrastate inequities. Students attending Dayton's Sinclair Community College, for example, pay $521.25 for 15 hours of class, while students at rural Northwest State Community College pay $955. Sinclair receives over $14 million annually from its local tax levy; Northwest State receives nothing.

In the mid-1990s, the Ohio Board of Regents recognized that the high tuition at many of its community colleges was in conflict with the goal of increased rates of college attendance to produce a better-educated populace. The state created an Access Challenge grant program, which allowed rural colleges such as Northwest State Community College to freeze tuition in 1999-00 and actually lower tuition in 2000-01. During those years, the college experienced double-digit enrollment growth. Unfortunately, today the Access Challenge program faces deep cuts due to budget reductions associated with the recession, with the result that Ohio is moving away from reducing intrastate access inequities.

with two or even three Workforce Investment Boards. On top of that are the numerous county, regional, and state agencies for welfare, job training, and adult literacy, as well as city, county, regional, and state economic development authorities. The resulting program fragmentation from maps that do not match produces "turfism," which adds to the challenge rural community colleges have in meeting state and local goals for adult literacy, welfare-to-work, and workforce training.

This problem was created by state, not federal, policy; these are, after all, state maps delineated by governors. For rural community colleges in economically depressed areas, which themselves are challenged by smaller economies of scale, this problem makes it all the more difficult to effectively serve their communities and regions.

Rural Community Colleges Matter

If state and federal policies are to ameliorate rural poverty, the rural community college's capacity to provide access and economic development is of critical importance. The social rate of return for community college education has never been higher, nor has the individual benefit of a college degree. In real dollars, earnings for adults with less than a high school diploma declined 30 percent between 1979 and 1997, while earnings for college graduates increased dramatically.[29] Despite the high premium for college attendance, rates of educational attainment remain much lower in rural America than in urban and suburban areas.

The rural community college — long an important institution in rural America — is clearly the most important institution when it comes to providing access for adults to lifelong learning. How does a regional economy provide computer literacy services on a mass basis to an entire workforce? This is not the role of the land-grant universities with their primary focus on research and discovery, nor is it the mission of the regional universities with their valuable contributions of teaching. It is the function of the multipurpose comprehensive community college.

Recommendations for State and Federal Policy

We recommend that community college leaders and all who are concerned about the future economic and social well-being of the US.... advocate for greater federal, state and local government support for community colleges. For the American economic engine to continue its high level of productivity, and in order to become a fairer and more just society, an increased public investment in community colleges... is essential.

— Merisotis and Wolanin, *Community College Financing: Strategies and Challenges*, AACC New Expeditions Commission, 2000.

Rural places matter, and rural community colleges matter. They provide vital access to general and technical education for upper division college transfer. They strengthen the foundation for economic development in their communities through workforce education and training. To serve their communities well, rural colleges need much of the same support for access and institutional development that is essential for all colleges — rural, urban, and suburban. In addition, rural community colleges have some unique policy needs.

The following recommendations for state and federal policy speak to increasing access for low-income students, strengthening rural colleges and rural economies, and strengthening all community colleges and all types of economies.

Increasing Access for Low-Income Students — Rural, Urban and Suburban

1. *Reexamine the expectation that community college students should pay a fixed percentage of instructional costs.* In particular, those states with outdated funding models that require one-third of instructional costs to be borne by students should act to dramatically lower, not raise, community college tuition. As James O'Hara, a past Chairman of the House Postsecondary Education Subcommittee wrote, "Low tuition is the best form of financial aid ever devised."[30] Those words, written in 1974, remain true today. Instead of underfunding institutional operating budgets — which forces governing boards to raise tuition or cut services — states should recognize the best way to build strong rural community colleges is to increase their operating budgets.
2. *Seek new, less "elastic" revenue streams that will lessen the impact of economic downturns on community colleges.* More stable funding streams would promote multiyear planning by community college governing boards. That in turn would reduce pressures toward harmful ultraconservative planning and result in more flexible, responsive programs and more effective deployment of scarce state resources.
3. *Change financial aid policies to reflect the real costs of attending college.* In rural America, reliable personal transportation is a prerequisite for college attendance. Federal student financial aid formulas should encourage college attendance. Unless they give rural students the flexibility to purchase transportation and child care, they fail. Federal and state aid programs that assume students live on-campus and attend full-time ignore reality. Federal and state student aid programs should allow community college students — including many immigrants, people of color, and part-time enrollees — to work their way through college without incurring substantial loan indebtedness.

   Furthermore, the "public good" of a public community college is clearly above that provided by a proprietary, for-profit two-year institution and should be recognized as such in federal financial aid policy. The upcoming reauthorization of the federal Higher Education Act provides an excellent opportunity to increase Pell Grants and Work-Study, and to eliminate provisions that favor for-profit institutions at the expense of open-access two- and four-year colleges.

Strengthening Rural Colleges and Rural Economies

4. *In state funding formulas, recognize the higher operating expenses of rural colleges.* Small, rural community colleges lack economies of scale and necessarily have higher expenditures per student than other institutions. States should consider: (a) providing an administrative base of $1,000,000 for every institution, regardless of size, prior to dividing up the rest of the funding pie based upon enrollment and cost formulas and (b) creating tiers of funding that provide higher per-FTE funding for small, rural community colleges with less than

2,500 students. High-quality community colleges are essential in rural America; their value justifies an increased state investment.

5. *Target funding to support higher-cost technical education programs in rural areas.* For all the reasons discussed in this paper (diseconomies of scale, small operating budgets, lack of venture capital), too few rural colleges can afford to offer the technical programs their communities and regions need. For the betterment of their rural areas and rural citizens, states should provide extra operating budget support to initiate important technical education programs at rural community colleges.
6. *Initiate a "rural dispersion policy" for categorical grant programs.* Categorical grants are a valuable resource for innovation at rural community colleges, and we urge federal and state governments to give priority to rural and high-poverty areas in awarding such grants. In areas of high poverty (both urban and rural) and low population density, it is more expensive to deliver education and there is great unmet need for education. Colleges serving regions with poverty above a designated rate and/or population density below a prescribed threshold should receive special consideration when they apply for federal and state categorical grants. Such a policy could be applied in fields ranging from nursing programs (to help alleviate the rural nursing crisis) to arts and humanities.
7. *Invest in information technology to bridge the rural digital divide.* Many rural areas are in danger of falling behind in the digital economy, and there is a special federal and state obligation to bridge the digital divide. Rural community colleges are well positioned to provide regional leadership for technology investments in rural America since their service delivery areas bridge multiple counties and school districts. Federal efforts (at the Department of Education and the National Science Foundation) to provide more science and mathematics teachers to rural America should target rural community colleges in their delivery systems.

   States should also be active participants. Texas' Telecommunications Infrastructure Fund, created in 1999, represents a good example of targeted state funding that promotes digital connectivity across an entire state, and it shows how state policy can ameliorate inequities.

Strengthening All Community Colleges and All Types of Economies

8. *Renew state and federal investment in college facilities.* States must invest in the capital infrastructure of their rural community colleges. Infrastructure is a major problem for all of U.S. higher education. Within the community college world it is particularly acute because most buildings were constructed between 1965 and 1980, with roofs and heating and air conditioning systems that have outlived their usefulness. In addition, the first generation of modern community college campus facilities was not constructed with the infrastructure and connectivity requirements of the information age. The federal government should renew its commitment to facilities by expanding Title VII of the Higher Education Act, much as it did in the 1960s to provide matching grants to states for higher education facilities.

   Federal support is also key to build the endowments of rural community colleges for programming as well as facilities. Expanded support for Titles III and V of the Higher Education Act and renewal of the federal Endowment Challenge Program could encourage private sector investment in rural community college programming. And the matching endowment grant programs of the National Endowment for the Arts and the National Endowment for the Humanities should be targeted toward building the endowment base of rural community colleges.
9. *Promote continuous education and skill upgrading.* The community college mandate to provide lifelong learning — increasingly essential for a competitive workforce — makes it imperative for states to fund noncredit, as well as traditional for-credit instruction. States should also take action to ensure that workforce programs operate efficiently in rural regions. The 1996 welfare reform law and the Workforce Investment Act of 1998 gave states more responsibility and flexibility in the delivery of welfare-to-work and job training programs. It is time for the "maps to match" in rural America as they do in urban America. Why not place one-stop employment and training centers, regional offices for welfare-to-work, and other job training services adjacent to, if not directly on, the campuses of rural community colleges? Why not match state-assigned economic development regions with

state-assigned community college service delivery areas? States over many decades have made significant financial investment in the physical plants of their community colleges, and it is much easier to move regional offices than college campuses. By making the maps match, states will reinforce their access and economic development policy goals and extend their financial investments, while formally recognizing the vital role that rural community colleges play in providing lifelong learning to rural America.

Endnotes

[1] National Center for Education Statistics, *Digest of Education Statistics*, 2000, Table 173.

[2] Johnson, J.L., *Financial capacity at rural community colleges: Do geography and size matter?* unpublished Ph.D. dissertation, University of Toledo, 1999. The authors wish to acknowledge the contributions of Johnson's pathbreaking analysis in the preparation of this paper.

[3] In states where colleges depend on local property tax, recent decades have seen the phenomenon of "slippage," whereby the local millage is held fixed as a matter of state policy, which then allows increasing property tax assessments to generate additional local revenue. As local revenue increases, state revenues can be decreased and redirected to other priorities, including Medicaid and corrections. In states (including California, New York, and Oregon) that have passed referenda to "cap" local revenue, the long-term consequences for community colleges can be devastating.

[4] Ruppert, Sandra R., *Where We Go From Here: State Legislative Views on Higher Education in the New Millennium, Results of the 2001 Higher Education Issues Survey*, National Education Association, 2001.

[5] Ibid., Johnson, 1999.

[6] Pedersen, Robert, "The St. Louis Conference: The Junior College Movement Reborn," *Community College Journal*, Volume 6, No. 5/1995.

[7] Katsinas, Stephen G., and others (Eds.), *The Oklahoma State Study of Oklahoma's Public Higher Education Physical Infrastructure*, ERIC Accession No: ED363194, 49 pages, March 1994.

[8] Personal interview, February 22, 1999.

[9] Young, R.J., personal communication, March 1, 1999.

[10] Boswell, K., *State Funding for Community Colleges: A 50-State Survey*, Community College Policy Center, Education Commission of the States, Denver, CO, November 2000.

[11] Konz, Thomas A., *A Study of the Perceptions of Community Colleges of Members of Statewide Human Resource Investment Councils in 22 States*, Ph.D. dissertation, University of Toledo, June 1997.

[12] Ibid, Boswell, K.

[13] Ibid, Boswell. K.

[14] As other priorities have crowded out state investment in public higher education including community colleges, federal tax expenditures for all levels of education have also declined. Between fiscal years 1975 and 1990, federal investments in education declined by 14.4 percent in constant, inflation-adjusted dollars. U.S. Department of Education, National Center for Education Statistics, *Federal Support for Education: Fiscal Years 1980 to 1997*, NCES 97-383, Washington DC, September 1997, p. 15.

[15] Despite Michigan's relatively slow growth in high school population, its public universities are feeling enrollment pressure and becoming more selective. From 1995 to 1999, the percentage of applicants accepted at Michigan State University dropped from 77 percent to 71 percent. At the University of Michigan, the percentage dropped from 70 to 64 percent, respectively. Even at the relatively open-access Central Michigan University the percentage of applicants accepted fell from 88 to 78 percent. (Jodi S. Cohen, *The Detroit News*, May 17, 2000.)

[16] Wertheimer, Linda K., "Community colleges offer half off tuition," *The Dallas Morning News*, December 11, 2001.

[17] Texas Higher Education Coordinating Board, *Closing the Gaps in 2015*, Austin, 2001.

[18] McCabe, Robert H., *No One To Waste: A Report to Public Decision-Makers and Community College Leaders*, American Association of Community Colleges Press, 76 pp., ISBN: 0-87117-330-1, ED448813, 2000.

[19] Medsker, L.L., & D. Tillery, *Breaking the Access Barriers*, New York: McGraw-Hill, 1971.

[20] Breneman, David W., and Susan C. Nelson, *Financing Community Colleges, an Economic Perspective*, Brookings Institution, Washington, DC, ISBN: O-8157-1063-1, 1981.

[21] National Center for Education Statistics, *Digest of Education Statistics*, 2001, Table 31.

[22] Alexander, King F., *Journal of Education Finance*, Volume 24, Number 2, Fall 1998, page 172.

[23] A recent study of five Midwestern states — Illinois, Indiana, Michigan, Ohio, and Wisconsin — illustrates the link between tuition and college enrollment. These states charge dramatically different tuition and fees at their community and technical colleges, ranging from highs of $2,261 and $1,937 in Ohio and Indiana to a low in Illinois of $1,232. Community college enrollments as a percentage of population ages 18-64 differed dramatically, ranging from a high of 4.7 percent in Illinois to

lows of 1.1 percent and 2.2 percent in Indiana and Ohio. (S.G. Katsinas, L.G. Snider, and J.L. Johnson, "Two-Year College Development in Five Midwestern States: An Introduction," *Community College Journal of Research and Practice*, Focus on America, Fall 1999.)

[24] McKeown, Mary P., "State funding formulas — Promise fulfilled?" in D.S. Honeyman, J.L. Wattenbarger, and K.C. Westbrook (Eds.), *A Struggle to Survive: Funding Higher Education in the Next Century*, Thousand Oaks, CA: Corwin Press, 1996. McKeown notes that the Southern states often developed formulas to promote equity in higher education funding following lawsuits related to desegregating their state systems. States that differentiate administrative costs by size of institution are Alabama, Mississippi, South Carolina, Tennessee, and Kentucky.

[25] Personal interview with S. Katsinas, January 18, 2002.

[26] Personal interview with Itasca Community College senior administrators, January 2002.

[27] Rosenfeld, Stuart A., *Competitive Manufacturing: New Strategies for Rural Development*, Rutgers, The State University of New Jersey Press, 1992.

[28] See Smith, K.B. "Crossroads in Texas" in R.E. Yarrington (Ed.), *Junior Colleges: 50 States/50 Years*, Washington, DC: American Association of Junior Colleges, 1969, p. 138-149. See also K.H. Ashworth, *Strategic Plan for Texas Public Community Colleges 1997-2001*, Austin, Texas: Texas Higher Education Coordinating Board, June 14, 1996.

[29] Mortensen, T.G., "State tax appropriations for higher education, FY1999," *Postsecondary Education Opportunity*, 77, November 1998, 1-20.

[30] O'Hara, James G., Foreword, in Keene, Adams, and King (Eds.), *Money, Marbles, and Chalk*, Southern Illinois University Press, 1976.

The Rural Community College Initiative is a national program funded by The Ford Foundation to help community colleges in economically distressed regions move their people and communities toward prosperity. It supports aggressive and creative efforts to increase jobs, income, and access to education in rural communities. From 1994-2001, 24 colleges participated in the RCCI demonstration, which was managed by MDC and assessed by the American Association of Community Colleges. In 2002, RCCI began a new phase, directed by the Southern Rural Development Center and the North Central Regional Center for Rural Development.

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