Board of Governors of the  
California Community Colleges  
December 9-10, 1982

Title: Community College Finance for 1983-84
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Summary

The statutory community college finance provisions expire on June 30, 1983. The provisions govern the way that state funding is distributed among the community colleges. The provisions also include state policy regarding annual funding increases for inflation and growth and for funding equalization among the districts.

The objective of this item is to identify basic principles for adoption by the Board of Governors. The principles provide the policy framework for the development of a statutory finance mechanism for 1983-84 and beyond.

This item was a subject of the Budget and Finance Committee meetings of September 16 and October 28. At the September 16 meeting, the committee discussed the present financing system, the relationship of revenue generation and district expenditure patterns, and the development of basic principles to govern the finance method and allocation of state funds. Members of the committee expressed concern that the funding system should not have a negative impact on the quality of the educational program and that district decisions regarding program offerings should not be governed by fiscal factors.

At the October 28 meeting, the committee reviewed draft principles presented by staff and heard testimony from witnesses representing community college districts and other interest groups. The draft principles deal with community college stability, growth, revenue-cost relationships, equity, size, flexibility and the timing of state allocations. Based on the principles adopted by the Board, staff will proceed to develop specific legislation.

Recommended Action

The Budget and Finance Committee should recommend that the Board of Governors adopt the principles included in this item, setting forth the policy framework for the development of the Community College Finance Mechanism.

Staff recommends full Board action for December 10, 1982.

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Draft Principles
(Potential techniques for carrying out the Principles are included in italics)

1. Stability

The community college finance mechanism must provide assurances of stability, so that programs are not suddenly and needlessly jeopardized and students can be assured of the ability to fulfill their objectives.

Funding, as a minimum, must be maintained at a level sufficient to meet changing costs. If funding is not sufficient to meet changing costs, then districts should be allowed to reduce the service levels of program increments (i.e., ADA) by a limited amount in order to maintain program quality.

- Prior year revenue should be used as the Base Budget.

- Inflation adjustments should be based on a cost index reflective of true cost change (Implicit Price Deflator for Government Goods and Services).

- Allowance could be made for limited decline in ADA without revenue loss in the event limited or no inflationary adjustments are given.

- Allowance could be made for limited decline in ADA without revenue loss for low revenue districts.

- Revenue losses due to declining ADA should be phased over time (two-year phasing such as provided for K-12).

- Prior year levels of workload (ADA) should be used as the basis for funding, for purposes of stability.

- A funding band should be provided in which no reduction or increase in funding below or above budgeted levels would be imposed within the year it occurred (e.g., 2 percent plus or minus provision is applicable to U.C. & CSU.)

2. Growth

The numbers of students served and funding for such students should increase with a growing adult population and as special needs occur. Additional growth funding should be provided as incentives to meet statewide objectives.

- Allowance should be made for growth based on changes in adult population.
Provision should be made for budget augmentation for special factors of growth that impact the level of need beyond adult population growth and for identified areas of statewide concern. (Such factors may include increases in the refugee population, need for high-tech programs, high levels of unemployment and need for retraining.)

3. Revenue/Cost Relationships -

The community college finance mechanism should provide levels of funding sufficient for the community colleges to meet the costs of education and services for the programs offered and the students served. Funding should relate to the costs, providing neither fiscal incentives nor disincentives that may influence program decisions.

Decisions to increase or decrease offerings or services should be based on program needs and demands and should not be influenced by levels of incremental funding.

Program increments (e.g., ADA, enrollment, etc.) used to generate specific levels of support funding should equate, as closely as feasible, to the equivalent specific levels of program costs.

- Staff will conduct a cost study for the development of a cost-based program funding mechanism for subsequent budgets. The mechanism would provide flexibility and the ability to equalize based on cost differences and should identify appropriate levels of incremental funding.

- Cost differentiation could be used for determination of appropriate revenue levels but it would not be appropriate to restrict district budget and program flexibility by increasing categorically controlled expenditures.

  Cost differentiation on the basis of such known differences as credit and noncredit programs could be implemented in 1983-84.

- Provisions for incremental funding for workload increases or decreases would be based on marginal cost theory and also could incorporate an equalization factor.

- Average daily attendance (ADA) as the basis for determining the apportionment of state funds should be reexamined. As a part of a cost study, alternative program units for providing funding increments would be evaluated based on the relationship to actual program cost differences.
4. Equity -

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

- An equalization mechanism would be provided that would adjust for cost differences. Initially the mechanism would apply to differences among districts for credit and noncredit programs and for differences in cost due to size. Subsequently, a mechanism could apply to equalization for cost-based program funding differences.

- This principle could also apply to adjustments in service levels, should inflationary adjustments be insufficient or nonexistent.

- This principle could also apply to incremental funding mechanisms, applying variable rates for growth and decline depending on each district's relative level of revenues per program increment.

5. Size -

Community colleges must continue to serve on a broad geographic scale in California so that educational opportunity is equitably distributed among the citizens of the state. Where such dispersion necessitates small colleges of less than optimum size, the funding mechanism should allow for cost differences.

- Provision should be made for separate computation of funding eligibility for small colleges in the formula for equalization.

6. Flexibility -

Community colleges should have the flexibility of redirecting revenues among programs to meet priority educational needs without adverse fiscal consequences.

- Categorical funding should be limited to existing programs, to programs of limited application among districts, and to those areas where additional state funds are provided to meet specific interests of statewide significance. Categorically funded programs should not be created at the expense of existing programs supported through state general apportionment funds.

- Provision should be made for budget augmentation for special factors considered to be of statewide significance (e.g., "Investment in People").
7. Timing for State Allocations -

Funding resources should be available on a timely basis to meet community college costs as they occur. State funds should be distributed on a uniform statewide basis in sufficient amounts to meet the generally applicable cash flow needs of the districts.
The Chancellor should, however, have the power to change the monthly allocation to districts when their expenditure patterns and cash flow needs exceed the level of the standard distribution amounts.

- Provision should be made for allocation of state funds consistent with cash flow needs. Such a provision was included in the Budget Act of 1982.