EXECUTIVE SUMMARY

INVEST IN SUCCESS:
How Finance Policy Can Increase Student Success
at California’s Community Colleges

by
Nancy Shulock and Colleen Moore
Institute for Higher Education Leadership & Policy

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Executive Summary

Declining Fortunes
There is growing concern about the declining economic competitiveness of the United States relative to both established and developing nations. A telling indicator of declining fortunes is that this country is doing less well in educating new generations than are many other nations. Countries that are doing better at educating their young people will see rising educational attainment compared to the United States, where educational attainment is declining. As other countries are doing a better job educating young people than is the U.S., other states are doing a better job than is California. California’s rank among states in the educational attainment of the working-age population is slipping.

A second telling indicator is the contrast between access to higher education and completion of college programs. The U.S. is near the top in international comparisons in college participation rates but close to the bottom in completion rates. California is near the bottom of the pack, nationally, in a country that is struggling to keep pace globally, placing 46th among states in the number of bachelor’s degrees awarded per 100 undergraduates enrolled. A slate of recent studies has concluded that California will need to increase degree attainment among its own population if it is to meet the need for college educated citizens and workers.

In a 2007 study entitled Strategies for Improving Student Success in Postsecondary Education, Arthur Hauptman suggests that the nation’s lack of college success and inability to close the equity gaps stem from policy priorities and funding systems that favor access over readiness and success. Our study examines whether state policies in California stand in the way of greater student success. We examine finance policy for the California Community Colleges (CCC) in an effort to understand whether policies are well targeted to help the state reverse its declining fortunes or if policy changes are needed. We focus on community colleges because they serve by far the most students and can have the biggest impact on the trends cited above – not because policies for the other segments of education are presumed to be satisfactory.

An Expanding Focus: Ensuring Access to Success
The good news is that after decades of state and federal policy attention to increasing access to higher education in this country, there is now considerable focus across the country on improving student success in college. The CCC system has signaled its commitment to student success with a new strategic plan with a goal of “student success and readiness,” an annual conference on student success, a new initiative to increase student success in basic skills, and countless local efforts to increase student success.

The catch is that public policies don’t often support the rhetoric around student success. A commitment to increase student success, no matter how genuine, is not enough if public policies work at cross purposes. If we know that today’s students require intensive support services but we don’t give colleges the resources and the authority to provide those services, we should not expect students to succeed. If we know that heavy work schedules prevent students from giving enough attention to their studies but our policies leave students with insufficient financial aid, we should not expect students to succeed. We should change the policies that impede student success.

Policy barriers can frustrate the best efforts to improve practices at the colleges. Resource constraints are certainly at the root of these frustrations and must be addressed, but whatever the level of funding, policies must be designed deliberately to accomplish their intended purposes. What is needed are resources and policies that ensure that resources are used effectively to promote student success and California’s prospects.
Aligning Policy with State Priorities

Effective state finance policy must reinforce state priorities and provide colleges with the necessary means to meet those priorities. Finance policy is a powerful tool because it sends strong signals about what’s important and provides incentives for certain behaviors. But finance policy sends signals whether or not the policies have been explicitly chosen to align with real priorities. The signals embedded in the policies create de facto priorities, which may not be the priorities that policy makers would explicitly embrace. Like many other states, California has no explicit priorities for its higher education system other than the broad tenets of the 1960 Master Plan for Higher Education. That makes it more likely that outcomes are driven by de facto priorities rather than priorities that reflect conscious choices of lawmakers and vital needs of the state.

A 2004 report, Ensuring Access with Quality to California’s Community Colleges, concluded that current community college finance mechanisms provide barriers to success rather than promoting it. It recommended a comprehensive review of finance policies to understand whether policies, collectively, are accomplishing their intended purposes. This report presents the results of such a review. We looked at finance policy, broadly defined to include appropriations, categorical programs, restrictions on the use of funds, and policies on fees and financial aid. We examined the incentives embedded in these policies that influence the actions of institutions and students, who respond rationally to such incentives. Our purpose is to understand whether the policies promote, or undermine, state priorities.

Claiming that colleges and students respond to incentives is only to credit them with being rational, and in no way suggests any lack of commitment to success. To the contrary, faculty and staff have demonstrated a strong commitment to student success through the strategic plan and several ongoing system initiatives. But money matters, especially to the resource-poor community colleges whose faculty and staff must always be concerned with next year’s budget simply to survive. In an effort to provide the best education possible, college faculty and staff are sometimes driven to maximize revenues and respond to fiscal incentives – even when those actions may not be best for students. As the bestselling book Freakonomics points out, incentives explain how things are, not how we would like them to be.

Identifying State Priorities

In the absence of official policy objectives for higher education, the analysis draws upon the priorities outlined in pending legislation. SB 325 (Scott) – called “Postsecondary Education: Educational and Economic Goals for California Higher Education” – contains a set of six questions that, together with specific performance indicators and targets, comprise a useful set of state priorities for purposes of this analysis. We adapt these six priorities to a community college focus, and analyze current finance policies to see if they promote or impede achievement of these priorities.

1. **Increase the college readiness of incoming students**

Some of the most powerful reforms occurring across the country are those that enlist colleges and universities as partners with K-12 to help improve the readiness levels of incoming students. CCC policies can influence college readiness among recent high school graduates as well as adults.

2. **Provide broad access to higher education for Californians who seek or need a college credential**

 Declines in education levels of the population call for increasing the number of educated Californians. Access by those individuals who seek a college credential in order to enter or advance in the state workforce addresses this problem. The CCC is authorized to offer instruction that does not lead to credentials and there is strong community support for that role. But from the perspective of meeting public priorities for social and economic vitality, the mission to award educational credentials (including the provision of prerequisite basic skills) takes precedence.

3. **Ensure that community college education is affordable**

Affordability must address all costs of attending college, including textbooks, transportation, housing, health care, childcare, and other living expenses. Community college fees account for only five percent of college costs. If college is not affordable, when
considering all of these costs and financial aid, students are forced to work too much for their own good, academically. Making college affordable and reducing excessive work hours will improve student success.

4. Increase completion rates for associate degrees, certificates, and baccalaureate degrees via community college transfer
   Success in community college includes accomplishments other than program completion, but the economic prospects for the state are so dim without huge gains in educational attainment among growing populations that a focus on program completion is justified. Across the nation, community college success is defined in terms of degree completion, as evidenced by major national projects to improve student success and the goals set by many states.

5. Meet the needs of the state and regional workforce
   Often described as the engine of California’s economy, the community colleges are critical to preparing the workforce. The CCC can sustain that engine in several ways: quality programs that give students the knowledge and skills to succeed in the 21st century workplace; programs that collectively meet the needs of the state, with a particular focus on addressing the shortfalls reported in fields such as nursing, teaching, and science and math professions; and responsiveness to the distinct workforce and training needs of each college’s local region.

6. Ensure the efficient use of public funds invested in higher education
   It is important that community college finance policies promote the efficient use of public funds because funding is scarce in relation to the extensive and critical set of missions. Resources are invested efficiently if they are directed to areas of greatest need and achieve the best results possible for a given level of investment.

Finance Policy and Student Success
This is an opportune time for a systematic look at finance policy, with mounting pressures on the CCC to account for increased success, the system’s own commitment to student success, and lawmakers’ growing awareness that community colleges are vitally linked to future economic and social health. The finance reforms enacted in 2006 pursuant to SB 361 have earned broad support for increasing the equity of allocations across districts. This accomplishment could provide a basis on which to build the next stage of reforms that would extend the focus beyond base appropriations to other dimensions of finance policy and from district equity to student success.

As we documented in a policy brief, Rules of the Game, too few CCC students are completing degrees and certificates. Colleges need the capacity – both resources and supportive public policies – to ensure that more students can meet their educational goals. Rules of the Game identified two domains of state policy that impede college efforts to help students succeed. One is enrollment and course-taking patterns that students follow, including the counseling and support they receive in making those decisions. We subsequently issued a detailed report, Beyond the Open Door, that analyzed those policies and offered recommendations for increasing student success. This report addresses the second policy domain highlighted in Rules of the Game – state finance policies that affect how much money the colleges have, how they may use those funds, and how student enrollment is supported through fees and financial aid.

State appropriations per full-time student at the CCC are less than 60 percent of that for students at the California State University (CSU) and less than one-third that of students at the University of California (UC). When fee revenues are accounted for, the revenue differential is vastly magnified because the CCC collect very little student fee revenue compared to the four-year institutions. Strict comparisons are hard to interpret in view of the different missions assigned to each segment and the inability to compare expenditures for undergraduate students. But the large remedial mission performed by community colleges is more expensive than has typically been recognized in community college funding levels across the nation. Community
colleges generally require considerable institutional resources if they are to succeed.

In view of the state’s continuing structural budget deficit, there are unlikely to be more than incremental gains in per-student funding in the near future. This will continue to put a premium on the effective use of limited resources. This report, through a systematic review of finance policies, seeks to determine whether the people of California are, as the title of this report suggests is possible, investing in success.

**Policy Audit Findings**

The report includes extensive descriptions and analyses of the complex realm of community college finance policy. For descriptions of the policies and a full analysis, the reader will have to consult the full report.

*Proposition 98* creates a disincentive for cooperation between K-12 and CCC on college readiness reform and fails to direct funding toward the greatest need with respect to enrollment growth trends within each sector.

*Base funding policies* create pressures to maximize early term enrollments but give no financial incentive to improve outcomes such as persistence, course completion, degree completion, or student learning. They provide no incentive to enroll students (e.g., degree seeking, low-income, underserved) who would increase overall educational attainment levels in the state. Some of the means to increase enrollment, such as allowing late registration and minimizing course prerequisites, work against student completion. There are disincentives to invest in high cost programs.

*Enrollment growth policies* create incentives for districts to expand enrollment, but only up to a specified cap. High-growth districts have little means to respond to excess enrollment, which could impede access. Low-growth districts are encouraged to recruit students. The method for allocating district caps can create a disconnect between actual need and authorized enrollments.

*Categorical funding,* as implemented, is a flawed mechanism for addressing priorities. In a system of local and state-level governance, categorical funding could potentially steer districts toward meeting high priority state goals. However, there is no apparent logic as to which programs receive categorical funding, as it is used to support core functions such as student advising and compensation for part-time faculty. The stated goals of the categorical programs are not always promoted by the funding mechanisms. Categorical programs impose unnecessarily high administrative costs on colleges. By segmenting a college budget into various protected pieces, categorical funding prevents colleges from developing college-wide priorities for the allocation of resources.

*Restrictions on the use of funds* deprive college leaders of flexibility and authority they need to manage their institutions. Community colleges are locally governed in order to meet the diverse needs of the state’s communities. Having one-size-fits-all requirements for how colleges can spend their funds, who they can hire, and for how long discounts the local variations and the ability of college leaders to know how best to manage their funds.

*Fee policies* are principally about keeping fees low to promote access. Low fees promote high rates of college participation among broad populations, many of whom never complete an academic credential or seek to complete one. Although low fees are largely responsible for per-student funding being well below the national average, there is virtually no stakeholder support for increasing fees. College funding derives largely from FTES so any action that could reduce enrollment is opposed. In addition, fee revenue is deducted from state funding entitlements so it is not treated or viewed as a potential source of additional revenue that could increase access and success.

*Financial aid* in the form of waived fees and Cal Grants reduce financial barriers to access, and the Cal Grant program contains some incentives for students to prepare and perform academically. The fee waiver program has no incentives for students to prepare for college or make academic progress once enrolled. The Cal Grant award has declined severely in purchasing power to the point where students face serious affordability problems, even with an award. With the emphasis on keeping fees low as the primary means to make college affordable, policy has given insufficient attention to the larger costs of college.
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**Key:**

+ indicates that the policy promotes the priority
- indicates that the policy fails to promote, or works at cross purposes to, the priority
the freedom to use resources – whatever their level – most effectively. This requires a set of policies that do not work at cross purposes to system and student effectiveness. It requires that colleges have the decision-making authority to direct resources to where they are most needed.

Our analysis has revealed a very strong emphasis on policies that stimulate enrollment without an equivalent policy focus on getting the CCC system the resources and decision-making authority it needs to serve these large numbers of students effectively. The funding available to the system is determined more by K-12 enrollments than by community college enrollment demand and total funding is artificially capped by formula. There is very little fee revenue available to the system and that which is collected does not augment college budgets. The distribution of core and targeted funds to districts places other factors before the needs of students and communities. Regulatory restrictions seriously impede local discretion to make the best use of resources.

Affordability Policy is Needed
The long-standing assumption that keeping fees low (and waiving them for needy students) will ensure affordable community colleges has proven misguided. There is a serious affordability problem in the CCC that has little to do with fees. A comprehensive affordability policy must be developed to (1) address the full costs of college attendance, (2) take full advantage of federal grant and loan programs, (3) increase the purchasing power of Cal Grants, (4) establish an institutional aid program in the CCC similar to the State University Grant Program and the University of California Grant Program, and (5) consider whether higher fees for non-needy students could increase access and success by augmenting state appropriations with much-needed revenues.

Those who oppose fee increases express genuine concerns that any fee increase will reduce access among the at-risk and poor students who depend on the community colleges for a secure future. But no one who cares about the economic and civic health of the state wants to deprive needy Californians of an education. The question is whether access for those individuals can be protected in such a way that does not deprive the institution of needed resources.
Proponents of no- or low-fee community colleges would like to see the state budget reflect different policy choices. But the same demographic changes that have shaped today's community college are increasing the competition for state funds – for an array of health and social services required by the growing numbers of immigrants and disadvantaged populations. In view of these competing priorities and the tax-limited environment in which we live, it may be that current fee policies can be maintained only at the expense of inadequate funding for the community colleges to serve students.

Not all community college students are low-income. By design, a full two-thirds of California high school graduates are ineligible for direct enrollment in UC or CSU and are directed to community colleges if they attend in-state public institutions and many others choose to attend a community college for reasons of convenience and access to quality teachers and programs. The median household income of dependent CCC students is similar to that of all California households. This suggests that many CCC students would not be financially disadvantaged by a modest increase in fees. It is time to take a fresh look at the relationship among fees, financial aid, state support and access to see if there are options other than waiting for taxpayers’ and lawmakers’ priorities to change.

**Directions for Reform**

Various groups have identified problems with CCC funding mechanisms in recent years, including the Assembly Committee on Higher Education, whose working group identified in 2004 some of the same problems that our research has confirmed, such as under-funding with respect to mission, extensive bureaucratic restrictions, and limited district flexibility to raise additional revenue. Independently, the CCC system convened a working group of finance experts that recommended changes that led to the enactment of important reforms, but the reforms did not address some of the broader issues raised by others and confirmed here.

Inspired by national policy experts and organizations, there is a great deal of activity across the country in exploring or implementing new approaches to finance policy to help accomplish state priorities. In many cases these new directions recognize that finance policies often mistakenly steer people in ineffective directions. We have categorized these approaches by (1) whether they aim to influence the behavior of colleges or students and (2) which of the six proposed priorities they address, and we list them in the full report. It is our intention to encourage conversations in California about how the state might adapt some of these ideas to our circumstances and design fair and sensible budgeting systems that can help college faculty and staff increase student success.

**Investing in Success**

The new directions in policy reform show that investing in success applies to all aspects of finance policy – not only to the way that annual budgets are allocated to colleges. It applies to eligibility requirements for financial aid, fee policy, flexibility in the use of resources, differential funding for higher cost programs and services, faculty salaries, and collaborative efforts between colleges and high schools. A variety of strategies along these lines might be used to improve student success. They are not typically thought of in the context of finance policy reform, but they should be.

Policies that affect basic college allocations create the most powerful incentives because they affect the distribution of core funding. If Californians are to invest wisely in the success of community college students, it is vital that funding mechanisms be structured to include incentives for achieving positive outcomes. The question, which continues to perplex American higher education, is how best to incorporate measures of success into funding decisions.

Performance funding has largely failed across American higher education and has a deservedly bad reputation among educators. The conventional wisdom behind performance funding is fundamentally flawed because it assumes that a very small pot of funds set aside to reward performance after the fact is going to change the nature of the enterprise. When those changes don’t result, the performance fund is typically deemed expendable – usually after a short trial period, such as occurred with the Partnership for Excellence program (PFE) in the community colleges.
There is a better approach, which we call *investing in success*. The fundamental difference is that investing in success acknowledges that improving performance is not an add-on responsibility. It is an ongoing and costly undertaking and should be *institutionalized* into the basic funding formula so as to provide a stable and significant funding source. *Investing in success* changes the incentives built into core funding while performance funding leaves the current incentives in place and sets up a small categorical program to fund performance. Funds earned under an *investing in success* model are, by definition, part of a college’s base funding, while funds earned under traditional performance budgeting approaches are bonuses that may or may not last.

Investing in success works by *re-conceptualizing the workload* that state funding covers through the basic allocation. Workload is currently defined as 3rd week enrollment and colleges are funded to serve it. Additional workload factors could be added, such as teaching students for a full term, serving financially disadvantaged students, guiding students through basic skills, enrolling students in specified programs, or producing certificates and degrees. These are just a few of the many possibilities for redefining workload to align funding with priorities. The full report includes a hypothetical illustration of how this model works and how the inclusion of different performance-related workload factors can alter a college’s funding level without the setting of arbitrary targets and the imposition of rewards or penalties.

Under this approach, the state’s investment in success increases each year as workload growth funds are provided to the system. This ensures that college progress is not funded at the expense of other colleges. Investing in success has the additional advantages over traditional performance funding of sending the message that performance is something to be institutionalized – not pursued at the margins and at some times but not others.

Change in finance policies will not come easily. There are powerful political interests behind the current policies. But there is too much at stake for the future to acquiesce to policies that place the needs of stakeholder groups ahead of the needs of students and California’s economic future. It is essential to find finance mechanisms that will ensure that California invests enough in its community college system and invests in success.
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