THE MONEY TREE – ALTERNATIVE REVENUES FOR COMMUNITY COLLEGES

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Community colleges depend primarily on revenue from four sources: (a) tuition and fees, (b) local funding primarily from property tax, (c) state support, and (d) federal funding. As state support has waned, and funds from federal and local sources have stagnated, community colleges have followed a typical pattern to attract funds: increase tuition and fees, reduce the number of full-time faculty and staff, defer maintenance, and reduce equipment, supplies, travel, and other expenditures. Community colleges have found that they cannot continue to depend on state support for a substantial portion of their revenues, and increases in tuition must be balanced between student ability to pay and program costs. Community colleges must seek alternative revenues to fill the funding gap. The purpose of this study was to determine the range of methods that two-year, public community colleges use to obtain alternative revenue (i.e., other than traditional tax based and tuition-based revenue). The results indicated colleges are using several methods to obtain alternative revenues. Survey participants indicated receipt of revenue from (a) grants and contracts (89.7%), (b) individual financial donors (84.9%), (c) investment income (80.7%), (d) private foundations (66.7%), (e) private grants and contracts (62.7%), (f) corporate charities (61.1%), and (g) alumni (60%). Survey participants indicated pursuing revenues from (a) alumni (54%), (b) grants and contracts (51%), (c) private foundations (51%), and (d) individual financial donors (50.1%), (e) corporate charities (49.9%), (f) private grants and contracts (43.4%), and (g) investment income (28.7%). Survey participants indicated both the revenue source and how funds were used. The funding of scholarships received the most revenue from (a) individual financial donors (82.3%), (b) alumni (66.4%), (c) corporate charities (58.6%), and (d) private foundations (58.2%). Revenue from grants and contracts were used for current expenditures by 51.3% of survey participants. The results contribute both theoretically

and practically to the development of methods for community colleges to obtain alternative revenues.

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CHAPTER 1 – INTRODUCTION

> "I have always found community colleges … a very appropriate place for job training programs, because they're more adaptable. Their curriculums are easier to change. They're accessible; community colleges are all over the place."
> *President George W. Bush*
> *July 30, 2003*

There were 1,171 community colleges in the United States in 2002. Of these, 992 were two-year, public community colleges (American Association of Community Colleges, 2002). In 2005, community colleges enrolled over 11.6 million students - - 6.6 million taking credit and 5 million taking noncredit classes (Phillippe & Sullivan, 2005). These students represented 46% of all undergraduates in the United States and 45% of first-time freshmen (Phillippe & Sullivan, 2005). Community colleges are a vital part of institutions of higher education. They differentiate themselves from their four-year counterparts in the curriculum offered and the student body served. In addition to traditional liberal studies curriculum, community colleges offer a wide variety of work force education and training, in addition to occupational career programs such as nursing (e.g., 50% of new healthcare workers get their training at community colleges) (Phillippe & Sullivan, 2005).

The community college student profile reflects the growing diversity of our nation – 47% Black undergraduate students, 55% Hispanic, 47% Asian/Pacific Islander, and 57% Native American attend community colleges (Phillippe & Sullivan, 2005). The average community college student is 29 years old, and 50% attend on a part-time basis and are employed full time (Phillippe & Sullivan, 2005). Most community college

students are working adults receiving some type of financial aid whether campus-based or federally provided Pell grants (Phillippe & Sullivan, 2005).

In 2005, community colleges received revenues from the following sources: tuition and fees (20%); appropriations from government sources – federal (7%), state (38%), and local (19%); and other (16%) (Phillippe & Sullivan, 2005). These revenues are used to provide instruction, academic support, and services to students. The heavy reliance on funding from sources other than tuition and fees allows community colleges to be the most affordable form of higher education with an average annual tuition rate of $2,272 versus the 4-year public college rate of $5,836 (Phillippe & Sullivan, 2005). The community college reputation for adapting rapidly to changing needs and circumstances is a strength that will sustain the institution during an uncertain financial environment (Breneman & Nelson, 1981). However, in an era of increased accountability and performance-based budgeting, some community colleges struggle with the task to educate students who were not well prepared by elementary and secondary schools, as well as those who want to just drop in for a course here and there, which can complicate institutions' graduation and retention rates (Bailey, 2003; Evelyn, 2004).

Problem Statement

The purpose of this study was to determine the range of methods two-year, public community colleges use to obtain alternative revenue (i.e., other than traditional tax-based and tuition-based revenue). The results contributed both theoretically and practically to the knowledge base and to development of methods for community colleges to obtain alternative revenues.

Context of the Problem

The funding of community colleges has been of interest to the researcher since the late 1990's. In 2004, as enrollments were beginning to surge for community colleges, the researcher noticed these same institutions were facing funding reductions both at the state and at local levels (National Association of State Budget Officers, 2004; McNichol, 2004). A reduction in funding to community colleges threatens access to higher education for thousands of students; at the same time, many states are seeking economic development that requires an educated workforce. Conklin (2002) recommended,

> The first principle for a new state finance system for postsecondary education is that governors and state legislators act as investors in the long-term economic and social health of their states; they must steer the public subsidy based on their state's investment objectives, a thoughtful investment timeline, and a higher tolerance for political risk. (p. 25)

Community colleges have been recognized for providing excellent educational programs at a very low cost. This recipe, though successful, is dependent on state and local government funding. Community colleges have experienced reduced funding as state and local governments struggle to stretch finite revenues to fund an expanding variety of services. Funding to higher education is reduced when state revenues experience a downturn. Levine (1993) stated, "This occurs because demand for social programs, including entitlements, always escalates during hard economic times" (p. 15). The reason for reduced support to higher education may be that, unlike other entities that rely on public dollars, higher education can substitute funding shortfalls with tuition increases. For those at community colleges, this is generally the last action to take as it

could adversely affect student access. Robert L. Moore, executive director of the California Postsecondary Education Commission, expressed his concern over an increase in tuition by 60% for fall 2003 (from $11 an hour to $18) at the state's 108 community colleges and the potential loss of 100,000 students (Arnone, 2003). This was the first time tuition had been raised since 1994-95.

Zumeta (2004) stated, "Colleges and universities, needing to shore up their revenue bases, looked for alternatives to state funding" (p. 61). Strauss (2001) stated in order for "community colleges to remain financially solvent, they must continue to diversify their funding sources" (p. 3). According to Merisotis & Wolanin (2000), "trends in total institutional revenues for community colleges indicate significant shifts toward external revenue sources away from core state and local funding for basic operations" (p. 1). The American Council on Education (ACE) (2001), upon finding costs and funding a major issue in U.S. higher education, stated,

> Most higher education institutions have made special efforts to stabilize costs; some have even promised to limit increases to the rate of inflation. In the short run, greater efficiencies may help, but a long-term solution must involve new sources of funding and cheaper modes of delivery. Many colleges now outsource services not tied directly to their institutional missions (e.g., food services, grounds, cleaning, and housing). Others have launched major fund-raising campaigns and are searching for alternative funding sources. (p. 39)

For example, the City Colleges of Chicago, which has seven campuses, outsourced its budgeting, payroll, financial aid, purchasing, and student billing to American Express Tax and Business Services in 2002, saving the district $200,000 and laying off 63

employees (Evelyn, 2002). Additionally, the City Colleges of Chicago outsourced its information technology department and maintenance responsibilities at four sites. Declining state and local support affect universities and four-year colleges. James Duderstadt, University of Michigan president from 1988 to 1996 addressed dwindling state support when he said, "we used to be state-*supported*, then state-*assisted*, and now we are state-*located*" (Kirp, 2003, p.124-125). The State Higher Education Executive Officers (2004) report entitled, *State Higher Education Finance FY 2003* found,

> Net tuition tends to grow as a percentage of total educational spending when the state appropriation per student decreases in economic downturns (e.g., net tuition accounted for 26.2% of total educational funding in 1991; it grew to 31% by 1993, remaining at that level until 2003, when it increased again to 33%). (p. 8)

Kirp (2003) stated,

> Across the country, the financial picture for state universities is grim. Not only are state funds proportionately more scarce, but also the federal government contributes proportionately less than it did a generation ago, and those dollars go mainly to students, as grants and loans, rather than to the institutions. (p. 132)

Catanzaro & Allen (1989) stated,

> The reduction of public support, high setup costs, salary requirements for a mature faculty, and the need to replace equipment and modernize facilities purchased in the heyday of community colleges (the 1960s and early 1970s) – together have heightened the demand on shrinking resources. (p. 1)

In an era of declining state support, community colleges have two choices according to Hauptman, "adjust to their resource situation by increasing revenue or addressing costs"

(a primary source cited in Campbell, Laverty, & Sayles, 1996, p. 180). Meisinger (1994) stated, "Institutions can save money simply by reducing their day-to-day expenditures or can strive to increase income by earning a better return on their investments" (p.158). Major categories of general fund revenue for public institutions of higher education include the following: state appropriation, student tuition and fees, other fee income, indirect cost recovery income, interest income, rental income, gifts and grants, auxiliary service charges, miscellaneous income (Honeyman, 1996, p. 143). Evelyn (2004) stated concern about a heavy reliance on state appropriations has motivated community colleges "to be more entrepreneurial, revving up profitable continuing-education offerings in hot fields like health care and information technology and increasingly looking to private donations and federal grants to diversify their income" (¶7). Zumeta (2001) stated "colleges and universities can also look to alternative revenue sources, including private fundraising and a sales of research, consulting, and contract training services to outside clients" (p. 83). Fain (2005) agreed that colleges could find revenue by marketing their facilities and services to a broad mix of nontraditional customers including cellular phone companies, Elderhostel tours, professional sports teams, and film-production crews. Colleges need to be careful on the last one – film-production crews, as Pierce College, a two-year college in California learned. Pierce College allowed a film-production crew from the Spice Digital Network, a subsidiary of Playboy Enterprises Inc., to rent a baseball diamond for $5,000 for two days (Diament, 2005). Spice Digital Network was shooting a baseball-themed video that contained suggestive but not explicitly sexual content. Pierce has been the site for of filming for the television show *24* as well as for commercials for Nike and Staples. The

student newspaper ran an editorial questioning the college for allowing The Spice Network to film on campus asking, “Yes, Pierce needs money, however, how far are they willing to go, and what’s next?” (Diament, 2005, ¶6)

Desjardins (2001) found that "leading-edge presidents, intent on democratizing the governance structure of their colleges, were found to bring financial processes out from back-room secrecy into full public glare" (p. 68). The need to understand the historical funding patterns, cash flow, balance sheets, financial trends, and investment profile of the college is top priority upon taking office. Although not every president possesses financial expertise, the chief financial officer can be pivotal in assisting the executive leadership team in understanding the college's fiscal status to lead in good, and bad, economic times. College leadership should take proactive steps to managing finances rather than learn about college funding after the state legislature has reduced appropriations. Desjardins (2001) suggested the following:

1. Thoroughly understand the fiscal foundations and status of the college (e.g., investment portfolio and rationale, historical funding patterns, cash flow, monthly reports).
2. Know what to examine or query to competently evaluate the college's financial situation.
3. Bring the financial offices of the college into the governance mainstream (e.g., have financial officers demystify financial processes and reports, expand participation in budget preparation and allocation decisions, be open with faculty and staff about the financial condition of the college).

4. Take a proactive stance to develop new or expanded funding sources for the college.
5. Augment the ideas and efforts of novices with expert assistance in developing sound strategic and tactical plans for fund raising.
6. Open doors and provide encouragement and backing for faculty engaged in fundraising activities.
7. Organize and spearhead lobbying campaigns and relationship building activities targeted toward legislators, government, foundation officers, and other funding sources.
8. Partner with other colleges, join consortia, and work with community and corporate partners to increase the likelihood of successful proposal efforts and to provide opportunities and services the college could not otherwise afford. (p. 69-70)

Research Questions

The following research questions were addressed:

1. What types of alternative revenues are community colleges seeking?
2. How are alternative revenues used?
3. What types of cost saving or efficiency measures have community colleges considered or implemented?
4. What methods to reduce expenditures have community colleges implemented that affects the work force?
5. What leadership initiatives have community colleges undertaken?

Hypotheses

1. A community college's location affects its ability to obtain alternative revenues.
2. Community colleges with a lobbyist obtain alternative revenues.
3. Community colleges in a state that provides matching funds for endowments obtain alternative revenues.
4. Community colleges that implement cost savings and efficiency measures to obtain alternative revenues.
5. Community colleges that implement entrepreneurial activities obtain alternative revenues.
6. Community colleges that implement leadership initiatives obtain alternative revenues.

Delimitations

This study is restricted to presidents and business officers of two-year, public community colleges of the United States and its territories.

Limitations

The findings may not be generalized to all community colleges since the study was based on a sample of 435 public community colleges.

CHAPTER 2 – SELECTED LITERATURE REVIEW

"There are things known, there are things unknown, in between are doors."
Jim Morrison (1943-1971)

Higher Education Finance

The selected literature review included: (a) current funding to higher education, (b) strategies employed to gain additional revenues from current sources, in addition to, (c) strategies employed to develop new sources of revenue. Often combined with the development of alternative revenues are planning and operational activities such as (a) internal cost savings and efficiencies, (b) entrepreneurial activities, (c) workforce issues, and (d) leadership initiatives.

Madrick (2004) stated,

> The National Conference of State Legislatures reports that California is cutting its general fund appropriations for higher education by 8.9%, Texas by 5.4% and New York by 2.3%. In all, nearly half of the states are making outright cuts, and, over all, state spending on higher education will fall by an average of 2.6% in fiscal 2004 after also falling in 2003. (p. C2)

Roueche & Roueche (2000) stated, "Funding from traditional sources will continue to decline, either in actual dollars and/or in proportion to the services that they support" (p. 22). Weber (1999) identified the following three reasons as the difficulty in financing higher education (cited in Hirsch & Weber, 1999):

1. The public sector is hard pressed with tasks mainly on the transfer side of the budget (e.g., attending to an aging population, health care, poverty, and foreign aid), as well as with security issues and the maintenance of public

infrastructure. Consequently, the percentage share of the revenues being devoted to higher education is bound to diminish.

2. The private sector is less and less ready to transfer money to universities without getting a service in return or without being able to influence their activities.
3. The cost of providing university education and of doing research continues to grow significantly more than increases in the cost of living. (p. 11)

Weber conceded that these pressures require institutions to “take measures on both sides of the budget … to secure or even increase their revenues as well as to decrease their unit costs” (p. 12). This requires “greater diversification of income sources,” student fees, capital endowment, commercialization of services, and grants. Weber cautioned that “a necessary condition for a successful income campaign—aimed at either the public or private sector—is more transparency and more accountability on the part of the institution” (p. 12). Duderstadt (1999) stated that increasing costs and declining public support has forced most institutions to increase tuition and fees, providing short-term relief (cited in Hirsch & Weber, 1999, p. 40). This in turn has caused increased public concern over cost and availability of a college education.

Hirsch (1999) introduced new terminology to describe the development of nontraditional funding sources – first and second generation (cited in Hirsch & Weber, 1999, p. 76). First generation sources include private giving and major capital campaigns. Second generation nontraditional income sources include corporate sponsorship of research; commercialization of intellectual property resulting in royalties and licensing fees, as well as the establishment of joint start-up venture companies;

business enterprises; and joint institution-private sector commercial enterprises. Hirsch advised "it would be a mistake to assume that efforts that raise income from second generation nonconventional sources have money as their sole purpose" instead of "to assist in technology transfer and commercialization of university-developed and owned intellectual property, and in building alliances with high-tech industries to contribute to regional and national economic growth and prosperity" (p. 76-77). Hirsch (1999) stated the potential exists for nontraditional income sources to be at odds with the institution's academic mission. Safeguards are needed to balance the productivity of the different funding sources with the likelihood of compromising the academic mission. Hirsch (1999) recommended the following:

1. Avoid arrangements that can compromise fulfillment of the mission and thereby debase the academic enterprise;
2. Avoid conflicts of commitment and interest;
3. Avoid the appearance of unfair advantage. (p. 81)

Hirsch (1999) recommended, "There is great merit in creating buffer organizations" (p. 83). Buffer organizations can be given the responsibility for the commercialization of institution-owned intellectual property, investment of funds produced by the venture, in addition to funds from private giving. Some institutions have a separate full-service technology corporation or an investment company for this purpose. Although Hirsch (1999) described the "reliance by universities on what today are nonconventional funding sources" (p. 83) as a "fait accompli," nonconventional funding is likely to influence community colleges as its "development is likely to spread and

grow" (p. 83). The safeguards mentioned position institutions to take advantage of nonconventional funding sources and at the same time to ensure academic integrity.

Strategies for Obtaining Alternative Revenue

Federal, State, and Local Support, and Tuition and Fees

Community colleges enroll almost half of all U.S. undergraduates and provide the most affordable access to higher education. Reduced funding to education may help state and local governments in the short term; however, the damage to future economic prosperity can be long term. The ability to train the workforce to respond to business and industry needs is central to the mission of community colleges. Instead of waiting until state and local governments restore funding; some entrepreneurial institutions have begun to explore ways of replacing missing state and local support with alternative revenues from other sources.

Researchers at Illinois State University's Center for the Study of Education Policy found in a 25-year analysis of state spending on higher education that "improved finances that follow a recession rarely restores colleges' budgets to levels where they can provide what they had pre-recession" (Inside Higher Ed, 2006). Edward R. Hines, professor emeritus and one of the study's leaders, called the impact of four recessions "devastating." Paul E. Lingenfelter, Executive Director, State Higher Education Executive Officers (SHEEO) said "in recessions three things usually happen: enrollments grow, state support declines, and tuition goes up" (Testimony, 2004, p.2). Ross Hodel, the professor who directed the study said "it's no longer possible in bad years to just assume that things will be better in a few years…waiting it out isn't going to work anymore, if you wait, nothing is going to happen" (Inside Higher Ed, 2006). Higher

education funding competes with other state requirements such as funding to medical care, pensions, prisons, and other services. This cyclical pattern of ups and downs in funding has lead to an overall trend of a smaller share of state funding going to community colleges. Paul E. Lingenfelter said, “It’s been very difficult for state governments to keep pace with the demand for higher education, the implications of that have been seen in the increased reliance on students and their families to pay the costs” (Associated Press, 2006, ¶5).

Tuition Elasticity

Most institutions set the tuition for the coming fiscal year during the budget process. The established tuition rate is based upon forecasts of state and local support as well as other budget items including the impact of wages and salaries, utilities, and other expenditures. Arnone (2003) found several states employing innovative ways of charging tuition: (a) Mid-year tuition increase, (b) Charging new students more than returning students, (c) Tuition guarantees from freshman to graduation tuition remains the same, (d) Tuition caps, and (e) Deregulation of tuition (p. A24). Mid-year tuition increases are uncommon generally due the unpopularity and inconvenience placed upon students (especially those receiving financial aid) and the administrative issues that emerge. Arnone (2003) found that public institutions in six states – California, Connecticut, Delaware, Maryland, Oregon, and Virginia – have raised tuition in the middle of an academic year. This action was taken to offset reduction in state appropriations and increases in expenditures. Some states believe issuing tuition guarantees will increase the public trust of higher education. Several states have discussed performance-based funding limiting the amount public institutions can raise

tuition and receive state funds. Finally, Arnone (2003) found that the Texas legislature has set tuition in the past, is deregulating and the state's Board of Regents has the responsibility to set tuition rates. The University of Oregon implemented a tuition differential intended to provide students with a discount in tuition and relieve overcrowding (Farrell, 2002). The University started a three-year pilot program in 2002 in which students pay reduced tuition for classes that begin at 3:00 p.m. or later, and students who take classes earlier in the day pay a higher tuition rate. This allowed the university to accommodate more students as enrollment was projected to grow over the coming years.

Fundraising

Community colleges have potential donors in alumni. Van der Werf (1999) found that community colleges often fail to pursue donations: "Rather than keep up with their alumni, they waved them through, and wished them well. Reaching into students' wallets was seen as the province of the four-year institution" (p.A42-43). Four-year institutions receive $20 for every dollar given to two-year institutions by alumni (cited in The Chronicle for Higher Education, 1999).

One reason given for why two-year community colleges do not have an endowment is that they "might not have enough resources to fully focus on money-raising efforts" (Perry 2007). Community colleges differ from four-year colleges and universities in that the majority of donations come from people interested in the college and its programs rather than donations from alumni (Catanzaro & Miller, 1994). Western Virginia Community College recognized this fact and created innovative ways such as (a) "Schmooze-a-Palooza" in which alumni teach graduating students how to network, (b)