



# Community College Funding 2009-10 Increased Demand, Reduced Resources

## HIGHLIGHTS

- State leaders repeatedly revised the 2008-09 and 2009-10 budgets in response to worsening economic news ..... 2
- The bulk of community colleges' revenues comes from state funds and local property taxes ..... 3
- Cuts and adjustments to general purpose funding will affect the courses and services colleges offer ..... 4
- Categorical funds were reduced by about 40% ..... 6
- Policy changes could help lessen the financial impact on community colleges ..... 7

California's difficult economic situation has increased pressure on the state's community college system by simultaneously increasing the demand for the colleges' services and reducing their funding.

An extraordinary number of recent high school graduates are looking to begin their postsecondary education at community colleges because of the large size of the class of 2009 and because four-year public universities have restricted their admissions and raised their fees in response to funding cuts. In addition, an unusually challenging job market has spurred other adults, including many veterans returning from service abroad, to enhance their education and training at their local two-year college. Further, current high school students looking to challenge themselves and boost their competitiveness in future college admissions continue to want to take community college classes. Finally, people looking for enrichment classes still turn to their local community college.

A September 2009 survey conducted by the California Community Colleges Chancellor's Office indicates that these different types of students are creating an enrollment surge at

the colleges. In 2008-09, the student "head-count," (all enrolled students whether attending part- or full-time) increased 4.9% over the previous year. And data from fall 2009-10 indicate a 3.1% increase, which amounts to a historically high total of more than 2.9 million students. However, the system's 110 campuses vary greatly in their annual growth rates: one college reported a decline of 31%, while a small rural college grew by 40%.

At the same time that the community college system is experiencing this increase in demand, the state is reducing its funding. Since fall 2008, leaders in Sacramento, faced with a substantial decrease in state and local revenues, have cut expenditures for nearly every public service in the state and have raised some taxes. In the case of community colleges, the funding cuts have caused many campuses to reduce course sections and student support services just when more Californians want to attend.

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## State lawmakers have revised recent budgets in light of decreased revenues

The story of California's 2009–10 spending plan begins in September 2008, when policymakers enacted a budget for 2008–09. It was the latest in state history, and even many who voted for it thought it was based on overly optimistic revenue assumptions. Soon after the budget's enactment, the recession that had begun in late 2007 deepened significantly. It became clear that revenues were not going to come close to original projections. The state was facing a massive, multiyear shortfall.

In December 2008, Gov. Arnold Schwarzenegger proposed cuts to the recently enacted budget as well as a spending plan for the upcoming fiscal year. Less than two months later, in late February, the Legislature agreed to revise the 2008–09 budget by making severe cuts, delaying expenditures to shore up the state's cash flow, and increasing revenues. The February budget plans produced not only a revised 2008–09 budget, but also an extraordinarily early spending plan for the upcoming (2009–10) fiscal year. A major part of the solution was a set of May ballot measures.

Even that budget package, however, soon needed to be amended because of worsening economic projections and voters' rejection of the budget-related propositions. In late July 2009, the state enacted further revisions to both the 2008–09 and 2009–10 budgets.

The California Community Colleges (CCC) did not face as many cuts in the February revision of the 2008–09 budget as some sectors, such as K–12 education. And the 2009–10 spending plan first established for the CCC was fairly positive on the whole. However, policymakers did not maintain this plan in the face of weakening

state revenues, and the July revision of the 2009–10 budget included significant cuts and funding delays for the colleges.

The final CCC budget was especially convoluted and confusing, even to the professionals charged with crafting it. In fact, several months after the budget was adopted, the details of the complex maneuvers used in its development and how certain funds should be categorized are still not universally agreed upon. To begin to understand the colleges' budget, however, one must grasp the types of funding that they receive and the sources of their revenues.

### Proposition 98 largely determines the annual funding level of the CCC

The community colleges receive the bulk of their operating budgets from Proposition 98 funds, which are made up of General Fund support and local property taxes. State voters put Proposition 98 into the California Constitution in 1988 and amended it by approving Proposition 111 in 1990. In this report, references to Proposition 98 refer to the measure as amended.

Proposition 98 is designed to guarantee a minimum level of funding for public schools and community colleges (K–14 education). The measure ensures that at least 40% of state General Fund revenues go to these educational agencies, and in the long run it is meant to provide funding that keeps pace with growth in the K–12 student population and the personal income of Californians.

State law specifies that the CCC receive the same share of annual Proposition 98 spending that they received when voters approved that measure—which was 10.9%. However, policymakers have frequently suspended the requirement and provided the colleges with a slightly smaller portion of Proposition 98 spending.

The minimum spending level under Proposition 98 is determined by one of three “tests” or formulas. Several factors influence which test is used to set the minimum guarantee each year, but the most important are the annual changes in statewide K–12 student attendance, per capita personal income,

and per capita General Fund revenues. For 2008–09, Test 3 was in effect because of the reduction in state revenues. Under Test 3, K–14 education receives at least the same amount of state aid and local property tax dollars as received in the prior year, adjusted for changes in K–12 attendance and adjusted (down this year) based on per capita General Fund revenues, plus 0.5% of the prior year Proposition 98 spending amount. Although 2009–10 is about halfway over, it is not yet clear which test will ultimately determine the minimum guarantee this year due to the unpredictability of state revenues.

When Test 3 is used or when policymakers suspend Proposition 98, the state keeps track of how much would have been spent if state revenues had grown normally. The difference between the two amounts is called the “maintenance factor.” When economic conditions allow, the state must begin to build the amount of the maintenance factor back into the ongoing Proposition 98 guarantee.

During the past several years, state budgets have created a maintenance factor that has grown to a huge sum for K–14 education. The \$1.4 billion maintenance factor that had accumulated by the end of 2007–08 became \$11.2 billion by the end of 2008–09. After a complex controversy about maintenance factor obligations in spring 2009, policymakers set that \$11.2 billion figure in statute so that there would be no doubt about the amount. The Proposition 98 funding level for 2009–10 includes a \$1.1 billion maintenance factor payment, leaving another \$10.1 billion that must be restored.

## The colleges receive funding from several sources

In basic terms, community college districts receive two types of funding for their daily operations. The first is apportionment funding, which is largely discretionary and therefore used for a variety of goods and services, from equipment and supplies to faculty salaries. In addition, the colleges receive categorical funding, which is dedicated to specific purposes, such as services to students with disabilities. Apportionment funding, as well as some categorical programs, normally receive adjustments for estimated growth in the number of students the colleges will serve and for the cost of living. However, 2008–09 and 2009–10 differ from the normal pattern.

### *The bulk of funding comes from the state General Fund and local property taxes*

The funds described above come primarily from state and local sources as well as student fees. The state General Fund provides the largest share—more than \$3 billion. However, the precise amount of this basic allocation is open to debate. Figure 1 presents major sources of state and local funds reported by the California Community Colleges Chancellor's Office (CCCCO). The data vary in multiple ways from amounts reported to EdSource by staff at the state Department of Finance (DOF). For example, the CCCCCO says that the state General Fund is contributing about \$3.4 billion this year; the DOF reports \$3.7 billion. The difference may arise partly from how funding deferrals (described later) are counted. Whatever precise number budget analysts arrive at after the fiscal year has ended, it will count toward the state's education funding obligation under Proposition 98. (See the box on Proposition 98 on page 2.)

Local property taxes also supply a large portion of the colleges' funding—almost \$2 billion in 2009–10. These revenues are down by more than \$100 million this year. The state has provided some funding to partially backfill the drop-off, but the property tax shortage will reduce resources available to offer classes. Similar to the General Fund contribution to CCC funding, local property taxes count toward the Proposition 98 minimum guarantee.

Student fees also provide a substantial amount—about \$346 million in 2009–10.

**figure 1 | The state's community colleges must make do with less in 2009–10**

<b>Major Revenues for the Community Colleges in 2008–09 and 2009–10, as Reported by the California Community Colleges Chancellor's Office (Dollars in millions)</b>		
	<b>2008–09 Budget</b> (As revised in February 2009)	<b>2009–10 Budget</b> (July 2009)
<b>General Apportionment</b>		
State General Fund*	\$3,371	\$3,376
Local Property Taxes	2,054	1,947
Student Fee Revenue	299	346
Miscellaneous Revenue	9	11
Cost-of-Living Adjustment (COLA)	0	0
Growth for Apportionments (for enrollment increases)	114	0
<b>Subtotal, General Apportionment</b>	<b>\$5,847</b>	<b>\$5,680</b>
<b>Categorical Programs</b>		
<b>Federal Perkins Act</b> (for Career Technical Education)	<b>258</b>	<b>256</b>
<b>California State Lottery</b>	<b>167</b>	<b>149</b>
<b>Federal Stimulus</b>	<b>0</b>	<b>35</b>
<b>Total</b>	<b>\$7,014</b>	<b>\$6,563</b>

Note: Numbers may not add to the totals due to rounding.

\* The annual sums listed include funds that are deferred to the following year: \$540 million in 2008–09 and \$703 million in 2009–10.

DATA: CALIFORNIA COMMUNITY COLLEGES CHANCELLOR'S OFFICE (CCCCO)

EdSource 1/10

This estimate represents growth over the prior year, reflecting a student fee increase from \$20 to \$26 per unit. Even with this change, California's community college fees remain the lowest in the nation. Across

the country, average annual tuition and fees total \$2,402, according to the American Association of Community Colleges. In California, the annual cost is now \$780, assuming a course load of 30 units per year.

### *Other sources make a smaller but significant contribution*

The federal stimulus package enacted in February 2009 is providing several billion dollars in one-time funding for California's public education system, including \$35 million for the community colleges in 2009–10. Although the California Legislature intends those funds to be spent backfilling substantial cuts to categorical funding, federal regulations allow the colleges to use the money for general purposes. Thus, the state's 72 community college districts are likely to differ in how they spend the funds depending on what they see as the most pressing local need.

The state budget also has \$256 million in ongoing federal dollars for the CCC in 2009–10. Much of this funding comes from the Perkins Vocational Education Act to support career technical education, and it represents a continuation of previous funding levels.

In addition, the state lottery will contribute an estimated \$149 million to the CCC this year. Most lottery revenues are discretionary for the colleges; but Proposition 20, passed by California voters in March 2000, states that if education's share of the lottery revenue in a given year is higher than the amount provided in 1998–99, half of the overage must be used for instructional materials.

For the CCC, that means items such as lab equipment and reference materials. The discretionary portion for 2009–10 is estimated to be \$133 million, and the Proposition 20 portion is assumed to be \$16 million.

Finally, an assortment of state and local funds rounds out CCC revenues. The Chancellor's Office counts miscellaneous revenue as making up a rather small portion of the basic funding for the college system. In its accounting of community college funds, the DOF includes more sources—such as \$1.9 billion in local monies and \$415 million in state funds—as part of total CCC revenues in 2009–10.

## Apportionment funding is being cut

For 2009–10, policymakers took the unusual step of cutting the community colleges' apportionment funding—the financial foundation upon which they build their programs. At the state level, the reduction was roughly 4% compared with last year's apportionment funding level. This reduction has led to a number of cutbacks, with particular approaches varying by district. Most have reduced part-time instructors and course sections offered, especially in physical education. Some districts have also scaled back student counseling. In addition, many districts have instituted some combination of administrative pay cuts, employee furloughs, freezes on salaries and advancement (“step and column”), early retirement incentives, and reduced travel, legal, and consulting costs.

In the revised budget for 2009–10, policymakers:

- Reduced the amount of apportionment funding by more than \$230 million (compared with 2008–09) including:
  - a specific \$120 million reduction.
  - an overstatement of the amount of property taxes and student fees that the CCC would take in.
- Did not provide a cost-of-living adjustment (COLA) for two years, which means, among other things, that the apportionment funding amount based on student counts has not risen since 2007–08.
- Did not include an adjustment for enrollment growth.
- Delayed substantial apportionment payments to the colleges because of the state's cash flow problems.

- Applied \$35 million in federal stimulus funding to partially mitigate the cuts and deferrals.

### *Apportionment funding reflects fixed and variable costs, as well as the cost of providing various types of courses*

A district's apportionment funding has two components. One is based on the number of colleges and off-campus centers that a district runs. The other, much larger component is based on the number of full-time equivalent students (FTES) it serves. (For example, two half-time students equal one full-time equivalent student.)

The first component recognizes the fixed costs of operating each facility that has at least 1,000 FTES. The second component takes into account varying district costs based on

the number of students served and the type of courses offered. For this second component, colleges offer two major types of courses:

1. “Credit” courses leading to an associate's degree, certificate, or transfer to a four-year college/university, plus certain basic skills classes and recreational courses. These are funded at \$4,565 per full-time equivalent student.
2. Career development, college preparation (CDCP), or “enhanced noncredit” courses, for which the state provides \$3,232 per FTES.

In addition, about 40 of the state's 110 campuses offer noncredit courses in areas such as parenting and home economics that provide students with “skills that are critical to their ability to become or remain independent and to contribute to the economy

of California,” according to the CCCCO website. The state funds these classes at \$2,745 per FTES.

### *No COLA or growth funding is being provided*

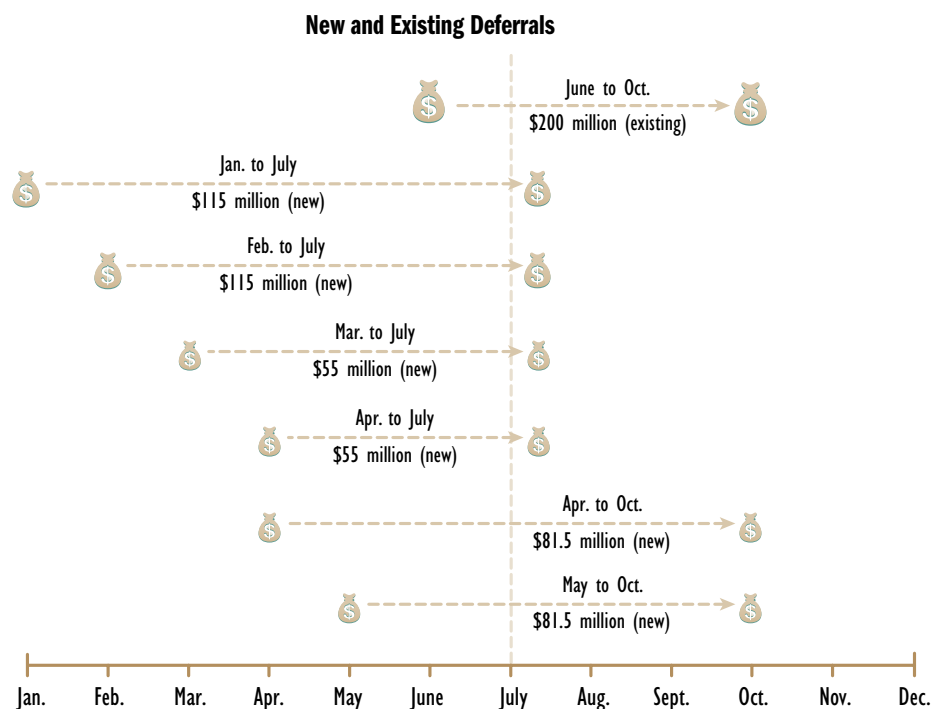
If the state’s economy had remained healthy, policymakers would have provided a 5.66% COLA for 2008–09 and 4.25% for 2009–10, in accordance with a government inflation index. But due to the deterioration in state revenues, in February 2009, state leaders eliminated a partial COLA of 0.68% that they had included in the original 2008–09 budget and similarly did not provide any COLA in 2009–10. The unpaid COLAs would have provided \$463 in additional apportionment funding for each FTES taking credit classes. Perhaps more problematic given the surge in CCC enrollments, the 2009–10 budget provides no growth adjustment to apportionments to support additional students.

The outright cuts—plus the absence of cost-of-living and growth adjustments—jeopardize the CCC system’s ability to fulfill its mandate. By law, the colleges are required to admit any California resident who graduated from high school and may admit those who have not graduated but are more than 18 years of age and can benefit from the instruction offered. Recognizing this tension between the colleges’ ambitious mission and their reduced resources—and wanting to prevent erosion in the quality of instruction—policymakers are allowing colleges to reduce the number of course sections by 3.39% (a “workload reduction”). The growing student body will therefore face fuller classrooms, and some students will not be able to take all the classes they want, impeding their academic progress.

### *Funding deferrals add to college districts’ difficulties*

In addition to apportionment cuts, college districts must also contend with delays in when they receive some of their funding. In recent years, the state has had occasional cash flow problems because of low reserves, and the timing for when it receives revenues and when it makes expenditures do not

**figure 2 | State spending deferrals are delaying districts’ receipt of \$703 million**



DATA: COMMUNITY COLLEGE LEAGUE OF CALIFORNIA

EDSOURCE 1/10

always align. One of the ways California has dealt with these problems is to push back the timing of some of its spending. Such deferrals—whether within a fiscal year or across fiscal years—can help the state’s cash flow but disrupt the timing of college districts’ revenues. As a result, districts have to adjust, sometimes by borrowing funds that must be repaid with interest.

When the state defers a payment from one fiscal year to another, it generally continues to do so in subsequent years as well. But the interval between payments changes only in the first instance, so the state realizes a savings from only the first deferral. To reverse a deferral that has been made across fiscal years, the state must provide double funding in a single fiscal year. Because the state’s fiscal situation will probably not allow for such double funding any time soon, deferrals are likely to remain in place for some time to come.

Indeed, the 2008–09 and 2009–10 budgets continued an existing deferral for the CCC and added more:

- One funding delay first implemented in 2003–04 shifted a June payment of \$200 million to July, the beginning of the following fiscal year. Policymakers this year extended that delay to October, as shown in Figure 2;
- The revised 2008–09 budget deferred \$340 million in apportionment payments until 2009–10 (the sum of four installments—two for \$115 million and two for \$55 million);
- The July 2009 revision of the 2009–10 budget included an additional delay of \$163 million (two \$81.5 million payments).

Figure 2 above depicts these existing and newly established deferrals, which total \$703 million.

In addition to deferrals across fiscal years, the state has in recent times made within-year deferrals totaling \$300 million (not shown in Figure 2). All of these across- and within-year spending deferrals effectively transfer some of the state’s cash flow problem to local college districts.

## The state cut categorical programs that fund specific services by about 40%

Categorical funds, though smaller than apportionments, serve important purposes within the community college system. A total of 21 categorical programs cover such things as financial aid, orientation and tutoring to help students complete their coursework in a timely fashion, part-time faculty salaries, and nursing programs. These programs vary greatly in funding level—from \$318,000 provided for the Academic Senate to \$70 million to support students with disabilities in 2009–10.

In total, lawmakers cut categorical funding by more than \$300 million—about 40%—in the revised 2009–10 budget. Only financial aid and the relatively small Foster Care Education program were left intact, with most programs taking cuts of between 38% and 52% compared with last year’s amounts. Despite the state funding cut, colleges are not released from certain federal requirements—for example, providing specialized services to students with disabilities.

Policymakers also divided programs into two groups: flexible and nonflexible. Funds from flexible programs (shaded in Figure 3) can be used for other categorical purposes. The flexibility is in place through 2012–13 and requires a district’s board to hold a public hearing and vote on transferring funds to other programs.

The nonflexible group generally took somewhat smaller cuts, and it includes programs aimed at helping disadvantaged students. However, the “matriculation” program, which is intended to support students’ academic progress, took a large reduction and is included among the flexible programs.

### *Some additional flexibility may be available soon*

In addition to the new categorical flexibility, the colleges may also gain flexibility with respect to a key restriction on their overall spending. Under the Fifty Percent Law, districts must spend at least 50% of their “current expense of education” (their unrestricted general fund expenditures) on instructors’ salaries and benefits each fiscal year. However, the CCC Board of Governors (BOG) can reduce a district’s fiscal penalty for having violated the law if its instructors’ salaries were higher than those of comparable districts, or if compliance would have resulted in serious hardship.

**figure 3 | Categorical funding for the state’s community colleges has been cut substantially**

CCC Categorical Funding in 2008–09 and 2009–10 (Dollars in thousands)		
Categorical Program (Shading denotes that the program is flexible through 2012–13.)	2008–09 Budget (As revised in February 2009)	2009–10 Budget (July 2009)
Disabled Students	\$115,011	\$69,223
Extended Opportunity Programs and Services (EOPS)	106,786	64,273
Student Financial Aid Administration	51,269	52,884
CalWORKs	43,580	26,695
Student Success Initiative—Basic Skills	33,100	20,037
Telecom and Technology Services	26,197	15,290
Nursing Support	22,100	13,378
Cooperative Agencies Resources for Education (CARE)	15,505	9,332
Foster Care Education Program	5,254	5,254
Fund for Student Success	6,158	3,792
Matriculation	101,803	49,183
Career Technical Education*	58,000	48,000
Part-time Faculty Compensation	50,828	24,907
Economic Development	46,790	22,929
Apprenticeship	14,641	7,174
Part-time Faculty Office Hours	7,172	3,514
Childcare Tax Bail Out	6,836	3,350
Equal Employment Opportunity	1,747	767
Transfer Education and Articulation	1,424	698
Part-time Faculty Health Insurance	1,000	490
Academic Senate	467	318
Physical Plant and Instructional Support	27,345	0
<b>Total</b>	<b>\$743,013</b>	<b>\$441,488</b>

\* Gov. Arnold Schwarzenegger’s administration contends that policymakers agreed to exclude Career Technical Education from the flexible group of programs, and it will likely seek to clarify this matter in the 2010–11 budget process.

DATA: CALIFORNIA COMMUNITY COLLEGES CHANCELLOR’S OFFICE (CCCCO)

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There are currently four definitions of serious hardship, and the BOG is contemplating adding a fifth that would be in effect through 2012–13. The new definition would

allow the BOG, when evaluating a request for a penalty reduction, to take into account the fact that many college districts are shifting some apportionment funding into

categorical programs to backfill the categorical cuts. These shifts make it difficult to apply 50% of general fund expenditures to instruction.

## Will California find ways to bolster CCC funding?

Fiscal projections by state agencies, such as the Legislative Analyst's Office (LAO), indicate that California will likely continue to face large budget deficits and an increasing debt burden for the next several years. Absent a new direction in state policy, the community colleges can expect little improvement in their resources in this timeframe.

The dim prospects for enhanced funding coincide with projections of increased demand for community college instruction. A recent forecast by the California Postsecondary Education Commission indicates that an additional 222,000 students will want to take classes at their local community college by 2019. That represents modest growth in percentage terms, and some of the demand will likely continue to be for nonacademic courses. However, it appears that the colleges may need to change their approach to cope with the divergence of resources and demand in the near term or convince policymakers to find new funding sources.

Efforts to raise revenues for the colleges, if successful, could make the difference in keeping the doors open for these future students. One such measure currently being discussed in the Legislature would establish a new tax on oil companies and direct the funds to the state's public colleges and universities. However, the bill in its current form would not raise enough revenue for the community colleges to completely backfill the 2009–10 cuts. In addition, it faces an uphill battle because of a strong anti-tax faction in Sacramento.

Another idea, which the LAO promotes, is to raise community college fees—and financial aid—substantially. Under that plan, middle class students would bear a greater portion of the cost of their education. But these students would be eligible to recover the cost of fees, books, and supplies up to a certain amount through federal tax credits, depending on the student's income. And more disadvantaged

students would still find the CCC accessible because of the fee waivers offered as financial aid.

In addition, the LAO has proposed limiting the number of recreational classes, such as yoga and table tennis, that students can take and/or districts can offer. They say that change would enable the system as a whole to better focus limited resources on academic and job-training courses.


Yet others see promise in the idea of lowering the threshold for voter approval of local parcel tax measures. These measures, which generally place a flat annual fee on parcels of land for a period of three to 10 years, currently require a two-thirds approval. They became available to local governments when voters approved Proposition 13 in 1978.

Although community college districts have not tried to use this tool often, some K–12 school districts—generally in affluent areas—have held parcel tax elections to cover a small part of the cost of their operations. About 13% of K–12 districts held such elections between 2001 and June 2009, and about 63% of those were successful. Many of the failed measures achieved simple or even 55% majorities, but not the required two-thirds majority. Many K–12 education advocates and, increasingly, community college supporters would like to see the approval threshold lowered to a simple or 55% majority to make parcel taxes a more accessible fundraising option.

The Legislature has periodically considered but failed to pass a constitutional amendment that would lower the parcel tax approval threshold to 55%. If two-thirds

of the Assembly and the Senate were to approve such a proposal, the state's voters would then decide by majority vote whether to change the threshold.

In the absence of creating more methods for raising revenues, community college administrators might push for changes to regulations in addition to the pending changes to the Fifty Percent Law, described above. For example, districts face financial penalties if they do not have specific numbers of full-time faculty members. In 2005, a Chancellor's Office workgroup recommended revisions to that policy to accommodate variability in circumstance among the state's college districts. But the policy has remained unchanged. Further efforts to amend this policy would likely meet opposition from faculty members represented by the Academic Senate.

Legislators in Sacramento are currently reviewing the state's Master Plan for Higher Education, which was established in 1960 to set goals for California's three higher education segments—the University of California, California State University, and the CCC. As part of the review process, the Legislature could consider implementing some of the ideas for the community colleges described above. Or, perhaps, California's leaders will find other ways to maintain the state's investment in its largest provider of postsecondary education and job training—a system that provides the best hope of entry to higher education for many young adults and is a key resource for a robust economic recovery. 



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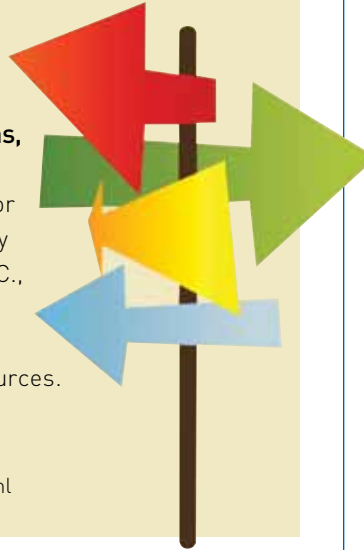
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- A report on K-12 school finance can be ordered at: [www.edsource.org/pub\\_cat.html](http://www.edsource.org/pub_cat.html)

Additional resources:

- California Community Colleges Chancellor's Office: [www.cccco.edu](http://www.cccco.edu)
- Community College League of California: [www.ccleague.org](http://www.ccleague.org)
- Department of Finance: [www.dof.ca.gov](http://www.dof.ca.gov)
- Institute for Higher Education Leadership & Policy, California State University-Sacramento, at [www.csus.edu/ihelp/](http://www.csus.edu/ihelp/). In particular, click on "Publications" and see *Invest in Success: How Finance Policy Can Increase Student Success at California's Community Colleges*.
- Legislative Analyst's Office: [www.lao.ca.gov](http://www.lao.ca.gov)

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