Exploratory Review of Significant Financial Issues

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Abstract

Community colleges are facing extreme pressure from external constituents to produce more results, while resources continue to shrink. On the horizon, there are several major financial conditions that will have a dramatic effect on how colleges will be able to operate in the future. This paper will delve into introducing those major issues and providing some background information on how they will potentially impact future decisions for colleges. Since community colleges are setup in different governance and organizational structures, a comparison of three different types of colleges will be offered to provide a broader examination of the financial conditions. The three types of organizations are as follows:

Michigan Community College (Collection of 28 autonomous colleges)

Tennessee Community College System (State controlled system with 13 colleges)

Corinthian Colleges (For-profit college, 122 campuses globally with 91,000 students)

Any future academic model changes being contemplated within the college community will need to thoroughly understand how these financial conditions will impact those proposed moves.

Exploratory Review of Significant Financial Issues

Cost, Access, and Quality

In order to address the financial conditions within higher education, context is required to place those issues in the educational realm. As Gasbarra, Immerwahr, & Johnson (2008) presented in their discussions with university and college presidents, the cost of college will impact both access and quality levels achieved. There is tension among the various components which create the “Iron Triangle” dilemma. For example, President Obama (2013), Congress, and the Higher Learning Commission all wanted to see quality of the educational process increase while keeping costs down. The problem is that costs will inherently rise to achieve a greater level of quality. There isn’t a magic formula or technique that can stop this from not occurring. There are investments that colleges need to make to effectively address quality in the classroom. Rhoades (2012) discussed the need for faculty to be retrained on how students learn in the 21st century. Rhoades also advocated for more full-time faculty to be hired and provided with more security to allow higher quality processes to occur. As you can see, both of these ideas will cost colleges more recurring dollars to achieve a higher level of quality and learning outcomes.

Access is another component that provides tension with the cost structure. As Myran & Bolden (2009) state, it is extremely important that colleges not lose sight of their mission to provide support and services to the economically challenged and underprepared population. While the mission to create an open door policy is valuable to the community in the long run, in the short term costs will inevitably rise as colleges enhance their developmental educational programming and bolster student service functions to ensure retention of these at-risk students. The “Iron Triangle” concept is an excellent framework from which to analyze and work through the efficacy of ideas that will be brought forward to address quality and access concerns.

The Bill and Melinda Gates Foundation have done a great deal of work trying to identify methodologies that can either offset the impact of the “Iron Triangle” or work through the various challenges that exist within the three factors (Jarrett, 2013). Figure 1 is a chart of the three factors and challenges that each of those categories will face over the next decade based on the perspective from Jarrett (2013). At this point, the visual provides the basis that the “Iron Triangle” does exist and can provide a structure by which problems and opportunities can be vetted. Figure 2 is another assumption from Jarrett (2013) that provides an interesting direction.

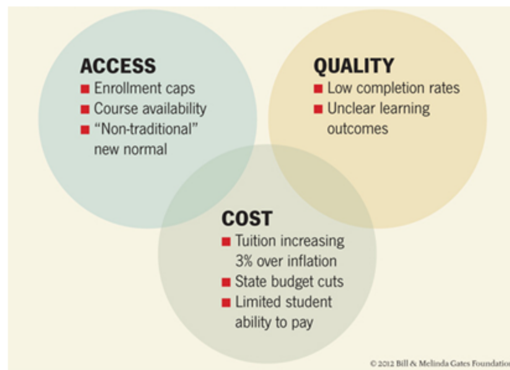

Figure 1 - Three Challenges for the Next Decade

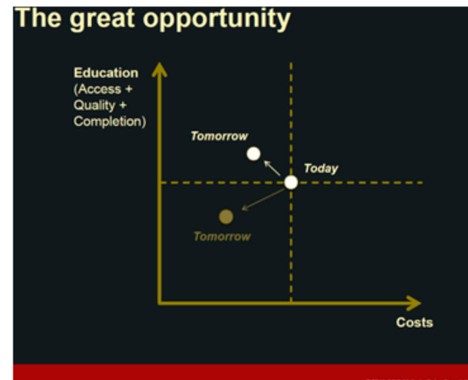

Figure 2 - The Great Opportunity

All of the educational components, meaning access, quality, and completion, are plotted on the y (vertical) axis of the graph. The x (horizontal) axis reveals the cost component for those factors. The mark today in the middle represents a point of reference to work from. Jarrett then plots two other points, both showing less costs being consumed. The idea is you can reform both business models and transform the learning outcomes and scale both utilizing technology and partnerships. Much like Washbon (2012) advocated regarding leveraging technology and effective partnerships, so does Jarrett to stem the tide of costs, while achieving greater outcomes defined through the education components on the y axis. It would not be a stretch to say that the majority of higher education staff and faculty would indicate that the dot lower down on the educational access is what would happen if costs or funding continued to decline. Both parties could eventually be right in their declarations in the long term.

State funding will need to be potentially re-allocated or increased in order to truly gain ground via the education axis according to Pusser & Levin (2009). They were very clear that transfer students from the community college environment encounter a great deal of barriers through lack of state funding and seamless transition to their four year schools. These conditions drop the access and completion components, while inefficiently spending more. Throughout the paper the "Iron Triangle" will be referenced to address each of the financial conditions that will continue to play a major role in the academic environment.

Overview of the Three Community College Sectors

A brief synopsis of the characteristics of how several community college sectors are organized and operate will follow. This should provide some context when these sectors are discussed among the various financial conditions that will be addressed. The sectors are not all inclusive of the various types of governance or organizational structure that can be found, but do

provide some major differences in what issues impact them and how they handle running their various operations.

Michigan Community Colleges

Community colleges in Michigan operate through the Michigan Community College Act of 1966 (1966). Originally, Michigan had 29 autonomous colleges that operated across the state but Highland Park Community College closed in 1996. Currently, Michigan operates 28 colleges across the state. Each of the colleges has a specific local region that they collect property taxes as one major part of their funding source. Michigan is unique in that there are multiple ways in which colleges define their local districts. The various structures are County-based, Intermediate School District, and K-12 School Districts (The Michigan Workforce Development Agency, 2012). Not all counties in Michigan are covered by a local community college.

Michigan receives funding from three main sources: tuition and fees, local property taxes, and state appropriations. Over the past four years Federal Pell Grant funding, which runs through tuition and fees, has grown dramatically for Michigan colleges accounting for a range of 40-90% of tuition (Schoolcraft, 2013). Each college is governed by a board of seven trustees that is publicly elected by the local district. The board, in concert with the President, has a great deal of autonomy in determining the mission, vision, and tuition rates for the college.

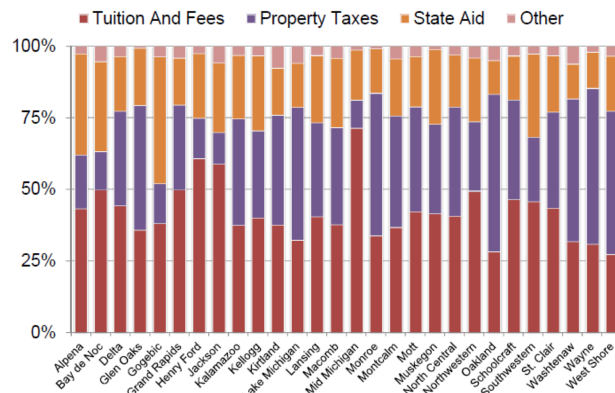

Figure 3 – Michigan Community College Revenue Sources (Michigan Community College NETwork, 2013)

The State of Michigan has provided some capital outlay monies for colleges to construct and renovate campus buildings. Those capital dollars from the state have dried up in recent years. Each college has the ability to raise or borrow funds to build any campus building that they see fit to construct. The State of Michigan has some processes for reporting those initiatives however there is no state wide control exercised over the colleges. Tuition accounts on average

for 42% of revenue while property taxes average 38% and state funding comes in at 20%. Figure 3 represents the revenue sources that exist today for the colleges.

Tennessee Community College System

The Tennessee Board of Regents (TBR) is made up of 18 board members, serving various terms that oversee all activity for the 13 community colleges in Tennessee, which provided two-year Associate degrees and transfer programs. All board members are appointed by the governor of Tennessee. There are an additional 27 technical colleges in the state that only provide certificates and one-year diplomas. The technical colleges are setup to be the workforce development structure for the state. The community college system has agreements with the technical colleges however they are not part of the community college system. All funding for the community colleges are through tuition and fees and state appropriations. Tennessee has utilized a base budget enrollment formula for their state appropriations up until 2010. Currently, they have switched to an outcomes based model to distribute base state appropriations to the 13 colleges. All capital additions are controlled at the state level. Colleges have no ability to raise or borrow funds for construction. All of that approval has to go through the TBR. Also, all tuition rates are set at the state level. Currently, 60% of revenue is from tuition while the other 40% is from the state as shown in Figure 4.

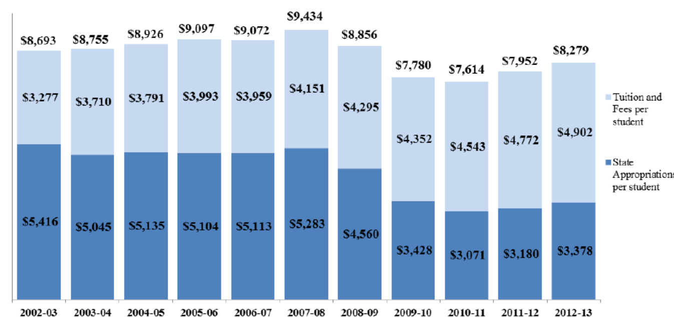

Figure 4 - Tennessee Community College Revenue Sources (Tennessee Higher Education Commission, 2012)

Corinthian Colleges

Corinthian Colleges is a for-profit post-secondary education company. It was founded in 1995 and is based in Santa Clara, California. It offers various certificates, associates, bachelors and masters degrees in curriculum that is very similar to public community college offerings. They are incorporated and their shares are sold under the name COCO on the NASDAQ stock exchange. They have 86 million shares outstanding with a market capitalization of $204 million dollars (Corinthian College, Inc., 2012). They have a Board of Directors who oversees the

company and 92% of their shares are held by institutional investors and mutual fund owners. They operate 26 schools in the United States and 16 schools in Canada. Corinthians has over 91,460 students enrolled under the Everest, WyoTech, and Heald brand names. Their revenues for 2012 were $1.6 billion dollars. Approximately 84% of their revenue comes directly from Title IV federal student aid funds which are broken down into Federal Pell Grants, subsidized, and unsubsidized loans. Federal Pell Grants makes up approximately 27% of the Title IV dollars. The stock price for COCO has ranged from a high on October 2000 at $69 to a low of $1.55 on September 2011. A 2-1 stock split occurred in February 2004 which took the stock from $66 to $33 a share (Corinthian College, Inc., 2012). The current stock price is $2.43. See Appendix A for their current income statement as of July 26, 2013.

Federal Pell Grant Funding

The Federal Pell Grant funding first originated in 1972 through the Higher Education Amendment put through by a Rhode Island democratic Senator, Clariborne Pell. It started distributing funds in 1973 with 173,000 students receiving $243 million dollars. In 2009, the Federal Pell Grant program grew to 6.1 million students receiving $18.7 billion dollars. During the great recession of 2009, the Federal Pell Grant program added an additional $17 billion dollars to create the current funding of 9.3 million students receiving a little over $34 billion dollars. During the 2009 and 2010 years, the Federal Pell Grant was administered through all three semesters and was raised to $5,500 maximum per year based on need. During the latest Washington D.C. budget cuts, the Federal Pell Grant has now reduced a student from receiving those funds over a period of 18 semesters to 12 (Baum et al., 2013). During the summer sessions, the Federal Pell Grant is no longer available and the dollar value for determining need has risen to eliminate more individuals eligible for the program. The original premise for the Federal Pell Grant was to increase access to underprivileged students who were unable to afford a higher education. In its current form, Federal Pell Grants have provided community colleges the ability to substitute the dwindling state funding with the increased enrollment and funding coming from the federal government. This large source of income has allowed colleges to stabilize operations and in some cases add additional student service and retention functions to support these students who make up a good proportion of the underprepared population attending community colleges.

The Federal Pell Grant by all accounts has been a wonderful success story for continuing the mission of community colleges to keep access open. In the report written by Baum et al. (2013) about "Rethinking Pell Grants", several recommendations were put forth that have real promise for the future of this funding source. Financial aid has become extremely complicated for students to request and difficult for the college to administer. Federal Pell Grant scam artists have infiltrated the system and been able to steal billions of dollars before being detected. In Michigan, colleges have been hard pressed to keep up with the record keeping fast enough to detect the scammer's patterns. According to some experts, a potential 3.6% of Federal Pell Grant distributions could be fraudulent, accounting for over $1.2 billion dollars needing to be repaid back to the government by the colleges (Jesse, 2013).

The Baum et al. (2013) report recommends major changes to the Federal Pell Grant program. First, the Federal Pell Grant should be split into two groups: 18-24 year olds and anyone 25 and older would be considered an adult in the workplace. Second, the formulas would be changed so no one over 200% of the poverty level can access the Federal Pell Grant monies. Currently, as Federal Pell Grants have increased in award amount, individuals with the means to fund on their own have been able to access Federal Pell Grants.

Third, the *Free Application for Student Financial Aid* (FASFA) would be simplified and a system would be devised to tap into the Internal Revenue Service (IRS) database to pull the information that currently is inputted into FASFA. What the report found was 25% of individuals who would have been able to benefit from the Federal Pell Grant never bothered to apply. By streamlining and simplifying the application process, the access of the underserved population would increase. Also, without as much complexity colleges would find it easier to administer and stay on top of issues more quickly. Fourth, there would be accounts similar to 529 educational savings plans for the underprivileged children. These accounts could start as early as age 11 and be funded via the Federal Pell Grant. The idea is to start building expectations, similar to Wes Moore (2012) and his presentation on ensuring we put a goal out there for students. Lastly, the funds available to both groups would be dependent on their completion by being given a specific time frame to complete their program of study, certification, associates, or transfer to a 4 year university. With the changes to the system, the Federal Pell Grant funding should remain the same but allocate more to the underprivileged.

Michigan and Tennessee schools have benefited tremendously from the almost doubling of the Federal Pell Grants over the last several years. Unfortunately, state funding in general has either been flat or negative over the past ten years across the country. In Michigan, state funding is essentially been held flat (Michigan Community College NETwork, 2013). In Tennessee, state funding actually has been reduced by over 24% in the last ten years (Tennessee Higher Education Commission, 2012). The Federal Pell Grant was intended to address the "Iron Triangle" portion of access. The unfortunate truth is the Federal Pell Grant has substituted the lack of state funding that has occurred over the last ten years. Regardless of autonomous or state run college system, the results regarding the Federal Pell Grant are the same. Even with the tremendous funding increases pressure still remains due to state funding shortfalls.

Corinthian has a very different issue related to Federal Pell Grant funding. The Department of Education has stipulated that any organization receiving Title IV funds has to adhere to the 90/10 rule. This rule states that an institution cannot have their revenue sources be made up of more than 90% of Title IV funds. Since Corinthian has no subsidies like public colleges, they have in some cases exceeded this rule. The for-profit argument is simple: they have a growing population of students who have the ability to get Title IV dollars that want to be served. The other issue with Corinthian is the ever increasing scrutiny that is being placed on the for-profits to show how their completion rates are justified given the costly pricing of their programs. Senator Tom Harkin from Iowa has been a big proponent of holding Corinthian's feet to the fire by personally bringing their institution up during senate committee meetings on abuses in Title IV dollars. Figure 5 is an example of the significant cost difference that exists between public colleges and Corinthian Incorporated (Everest College).

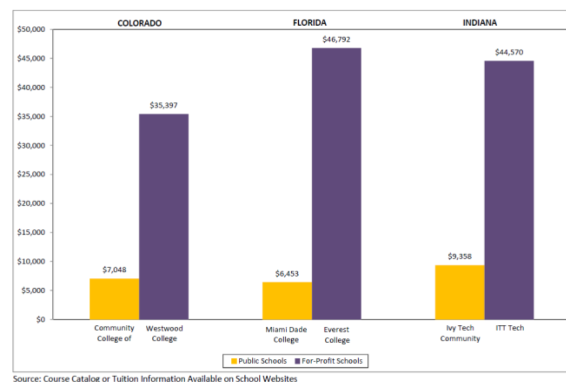

Figure 5 - Cost of Associate Degree Business Programs - Community College v. For-Profit College **(n.d.)**

Corinthian has responded to Senator Harkin's claims with letters that have been posted to the Securities and Exchange Commission, which reveal the Senator providing misinformation or not providing a context for his data. With the new rules on gainful employment, which require institutions to only charge tuition consistent with the expected salary outcomes of the position that is being trained for, Corinthian has pressure on all fronts attacking its primary revenue source. Their stock price is hovering in the low $2 range and potentially could get worse with all of the new changes in Title IV funding.

To summarize, the Federal Pell Grant is by far the most crucial funding source community colleges receive today. The efforts put forth to rethink the Federal Pell Grant through the report by Baum et al. (2013) provide significant ideas that need to be lobbied for by college presidents and boards. The for-profit entities have consumed 25% of the dollars that are allocated to the Federal Pell Grant. With the scrutiny placed on the for-profits, community colleges have the ability to increase their portion of the Federal Pell Grant, which currently stands at 32% (Figure 6). The most important take away of all this research is Title IV and Federal Pell Grants are complicated. It is imperative that leaders educate their respective boards, community members, and students on the Title IV program to keep alive the critical funding needed for the access component of the "Iron Triangle".

	Public 4-Year	Public 2-Year	Private Nonprofit 4-Year	Private Nonprofit 2-Year	For-Profit	Total
TOTAL	$10,757,729,632	$11,352,122,833	$4,508,402,885	$243,093,790	$8,815,578,229	$35,676,927,369
Recipients	2,621,217	3,323,291	1,111,135	58,947	2,193,644	9,308,234
Average Grant	$4,104	$3,416	$4,057	$4,124	$4,019	$3,833
% of Dollars	30%	32%	13%	1%	25%	100%
% of Recipients	28%	36%	12%	1%	24%	100%

Note. Percentages may not sum to 100 because of rounding. Table 8 was created using end-of-year Pell Grant program data from the U.S. Department of Education (2012a). Calculations by the authors.

Figure 6 – Federal Pell Grant Recipients and Expenditures by Sector, 2010-11 (Baum et al., 2013)

State and Local Funding

Over the past ten years state and local funding across the country has declined for community colleges. With the Great Recession of 2009, local property taxes declined significantly and continue to lag even though the economy has started to recover. According to information from Daydan and Stenson (2012), Figure 7 tracks the downward trend of property taxes in the United States. Figure 8 reveals that over the past five years housing prices have declined on average 15-20% across the country. Pusser and Levin (2000) indicate that 26 of the

states rely on property tax revenue to fund community colleges. The other 24 states have no property tax funding available for their community colleges.

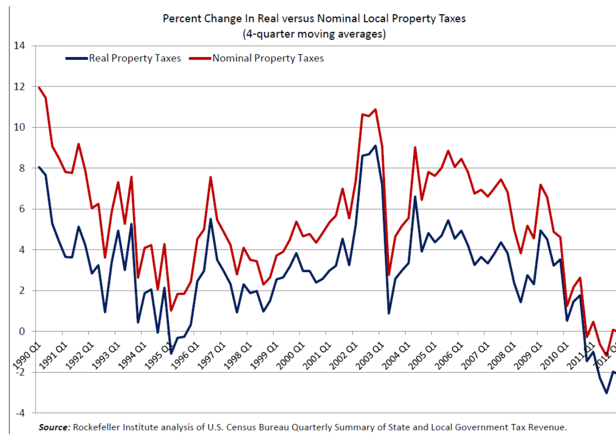

Figure 7 - Trends in Local Property Taxes have been Generally Downward in the Last Three Years

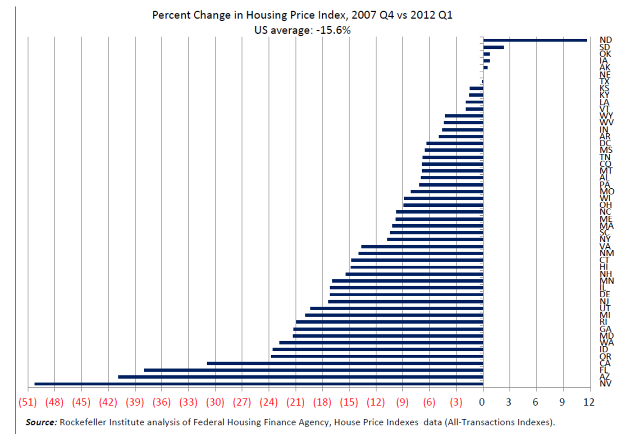

Figure 8 - Housing Price Indexes Declined in 45 States and District of Columbia

For Michigan, local property taxes make up over 38% of the funding for community colleges (Michigan Community College NETwork, 2013). From the Dayadan (2012) report, Figure 9 reveals the US average for property taxes as a share of total local taxes is 73%. Michigan ranks as one of the highest states relying on over 90% of these funds. What is important to understand is the recovery of the funding losses will take 10-12 years to fully recuperate. Michigan will still continue to see a lag on housing prices as the bankruptcy in Detroit will continue to negatively impact the state as a whole. Tennessee does not fund their community college through any property taxes.

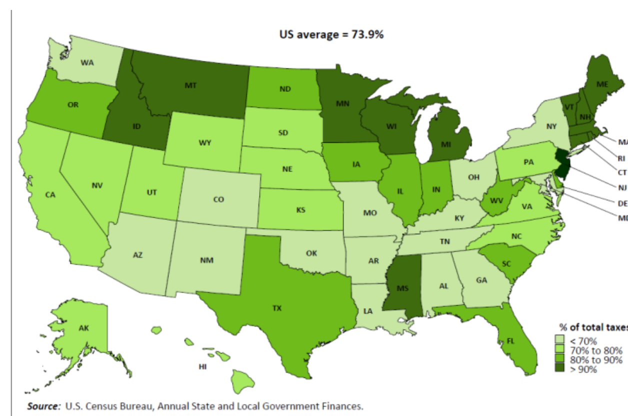

Figure 9 - Property Taxes as Share of Total Local Taxes, FY 2009

State funding results from Kirshstein & Desrochers (2012) show the decline in full-time equivalent (FTE) spending for state and local funding (Figure 10). Interesting to note is that within the last ten years the state and local funding has eroded to the level that in three of the

higher education sectors it is equal to tuition. This is a major stress to the access portion of the "Iron Triangle" because the student is now responsible for covering the monetary gap. In essence, if you have money you will have the ability to be educated while those without will always struggle to do so. Figure 11 shows the amount of tuition share of total costs for the community college sector. Even though declines have occurred, overall subsidy funding still accounts for over 63% of total costs at the community college.

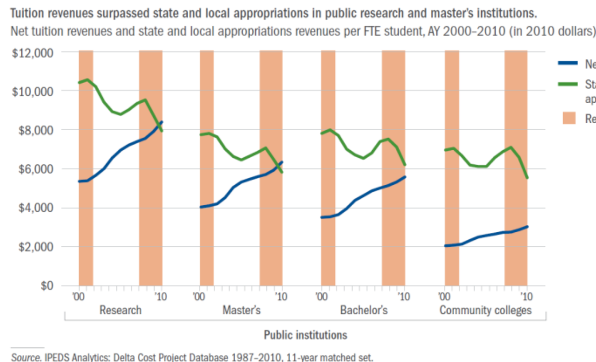

Figure 10

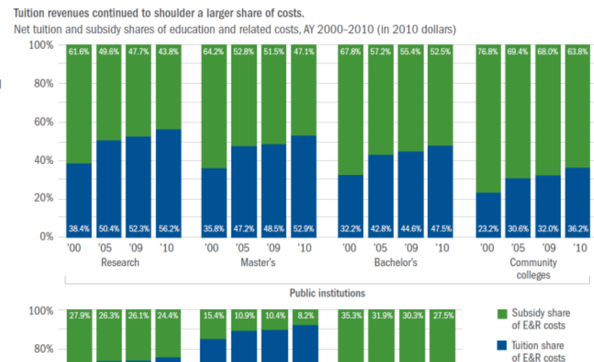

Figure 11

In Michigan, state appropriations over the past ten years have essentially remained flat at roughly 20% of the funding sources for community colleges (Michigan Community College NETwork, 2013). There has been some performance funding discussions at the state level, however this funding is only allocated on the incremental increases and then only 15% of the increase is based on performance.

As Dougherty & Natow (2012) discussed in their paper, states are moving to more of an outcomes based approach to how state appropriations are allocated. Tennessee is one of the states brought up in that report that have implemented a fairly rigorous set of outcomes to distribute state funding. Approximately 40% of the funding sources of community colleges in Tennessee come from the state (Tennessee Higher Education Commission, 2012). As compared to Michigan, all state funding for Tennessee is in play for the outcomes based formula. Figure 12, taken from the Tennessee Higher Education Commission's Fact Book, shows the seven different measures that have been incorporated into this model.

Dual Enrollment	The number of high school students taking degree-credit courses in an academic year.
Associate's Degrees	The total number of associate's degrees conferred in an academic year.
1 to 2 Year Certificates	The total number of certificates requiring 24 or more credit hours granted during an academic year. General education certificates are excluded from this metric.
Less than 1 Year Certificates	The total number of certificates requiring less than 24 credit hours granted during an academic year if certificate is the highest credential earned.
Job Placements	The number of placeable graduates who obtain employment in a related field over the course of a full academic year.
Remedial and Developmental Success	The number of full-time and part-time students who were enrolled in any remedial or developmental course or instruction who then successfully completed college level courses in a subsequent semester within three years of their initial enrollment.
Workforce Training	The total number of technical training contact hours in an academic year. These activities provide technical or soft skills without carrying any institutional credit.

Note: Detailed definitions and other formula information can be found on THEC's website: www.tn.gov/thec.

Figure 12 – Community College Outcomes

Governor Haslam of Tennessee has been an outspoken supporter of ensuring accountability through the use of these outcomes to fund community colleges in Tennessee. One of the pieces that will need to be analyzed over time is the quality components that Humphreys (2012) brings up in her views on completion and outcomes based funding models. The movement to outcome based funding models will make it easier to create quality components that can be measured through the outcomes. By bringing funding together with quality in the classroom, both financial officers and faculty members have a vested interest in how this trend moves forward.

Staff and Faculty Benefits

One of the major expenditure items for community colleges is paying their faculty and staff. There are several trends regarding benefits that will play a significant role in future decisions impacting academic success. The first major employee benefit to discuss is retirement pensions. Most states have created defined benefit pension plans that community colleges belong to. These plans have started to come under scrutiny due to several years of 30-40% declines in the stock market. The analysis that Biggs (2012) provides is essentially encapsulated in the following points:

- Public pensions historically have allowed faculty and staff to retire as early as 50
- Stock market returns of 8% annually were wiped out during the period 2008-2010
- Funding rules did not require states to fully fund the expected liability

The outcome of these points is that states are facing large liabilities that need to be funded in order to accommodate new accounting regulations from the Governmental Accounting Standards Board (GASB). GASB regulations 67 and 68 will force colleges to recognize extremely large unfunded pension liabilities. Some of the outfall will be to create weaker

balance sheets for colleges, which in turn will raise their cost of borrowing and in some cases prevent colleges from funding any new major construction or program initiatives. As Biggs (2012) points out through Figure 13, several states have funding levels that are well below what is recommended by the pension experts. Michigan has only funded 78% of their liabilities, which will continue to put pressure on college finances. Tennessee is actually in much better shape as their funding ratios have been in the 90% range.

Table X	2011 Estimate Pension Funding Ratios & Unfunded Liabilities, GASB Accounting	
State	Funding Ratio	Unfunded liability
AK	61%	$6,149,523
AL	70%	$16,167,445
AR	74%	$6,583,615
AZ	76%	$13,268,153
CA	80%	$107,291,288
CO	69%	$27,224,350
CT	53%	$23,006,670
DC	111%	$(309,209)
DE	96%	$447,224
FL	87%	$19,251,403
GA	86%	$14,861,996
HI	69%	$7,917,621
IA	81%	$5,523,922
ID	79%	$1,071,017
IL	54%	$95,109,875
IN	63%	$13,653,081
KS	64%	$9,519,623
KY	57%	$24,340,898
LA	56%	$17,166,816
MA	73%	$23,402,890
MD	64%	$18,170,103
ME	73%	$2,240,347
MI	78%	$33,047,057
OH	67%	$68,048,289
OK	54%	$9,021,071
OR	86%	$13,135,023
PA	78%	$41,169,019
RI	64%	$8,982,964
SC	69%	$15,906,182
SD	96%	$263,679
TN	90%	$2,982,895
TX	84%	$35,840,443
UT	82%	$4,775,598
VA	80%	$23,862,072
VT	73%	$1,149,708
WA	92%	$3,008,243
WI	100%	$126,485
WV	57%	$4,771,213
WY	85%	$1,294,818
Totals	**77%**	**$884,986,992**

Figure 13

Michigan community colleges want to extricate themselves from the Michigan Public School Employee Retirement System (MPSERS), but are not able because of a variety of issues. If the state allowed community colleges to leave, this would create a larger problem for the K-12 districts. Currently, for every salary dollar colleges pay they contribute 25% of those dollars to the MPSERS system. All adjunct faculty are legislatively required by law to participate in the MPSERS system. The real problem is there are no business models that can keep up with the 25% figure. This has been escalated over time from 12% to the current 25% (Schoolcraft College, 2013).

If MPSERS had increased the rate per the Federal Consumer Price Index (CPI) over that same period of time, the rate would be a little over 15% as exhibited in Figure 14. The steady escalation of this rate continues to put stress on the shrinking operational budgets of Michigan colleges. The Michigan legislators have made some incremental changes to the system, but continue to push the real problem down the road. Leaders of community colleges in Michigan need to start developing contingency plans for the event that these liabilities will need to be

honored. If required to fully fund the liabilities all of the 28 community colleges would become insolvent in this current scenario (Schoolcraft College, 2013).

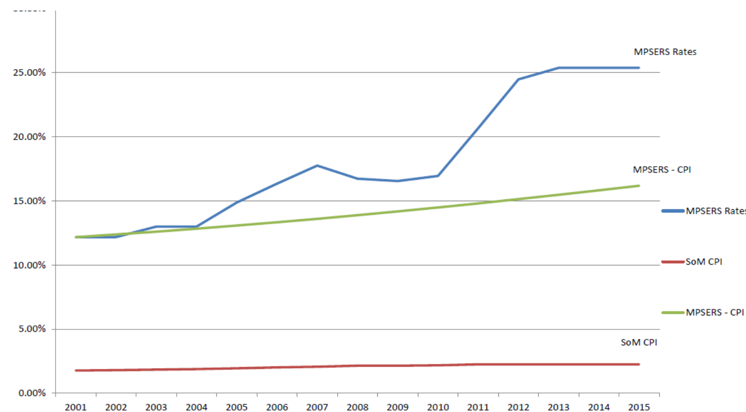

Figure 14 Historical MPSERS Rates for Retirement (Schooolcraft College, 2013)

Corinthian does not have the issues in pension liabilities that face the public community colleges. Faculty and staff at the for-profit are provided a 401K defined contribution plan that is funded as you go. There are no unfunded liabilities and therefore they are not saddled with this type of impending financial nightmare.

The other major benefit that is distributed to faculty and staff involves health care benefits. There are major changes afoot that are occurring related to the Affordable Care Act being implemented in the next couple of years. Higher education experienced increases in health care that averaged two to three times the increase in CPI over the past ten years. As the article from Mole (2012) illustrates, continued 7-8 percent increases eventually erode the operational budgets of colleges. One of the major benefits of the Affordable Care Act is to eventually slow the cost of service for health care. Within the health care bill is the need for colleges to identify staff and faculty who work at least 30 hours a week and provide them with health care. Currently, those employees at most colleges do not have health care provided. Part-time faculty will fall in this category of trying to equate their credit hours taught to a 30 hour work week. The IRS has not been specific to determine if part-time faculty hours spent in preparation for class count to the 30 hour calculations. Higher education administrators have been hypothesizing that part-time faculty would be allocated two hours for every hour taught in the classroom. If this were the case, a good portion of part-time faculty would need to be covered under the college health care plan. This would be an extremely costly endeavor for colleges.

Most community colleges rely heavily on part-time faculty to teach at a lower overall cost then full-time faculty. Ratios in community colleges are usually heavily tilted to part-time

teaching 50-60% of the classes (Kirshstein & Kadamus, 2012). To push part-time faculty into the health care package would be detrimental to the operational budgets of most colleges. Some colleges have already placed limits on how many classes part-time faculty can teach as exhibited in the article by Dunn (2013).

This provides another example of the "Iron Triangle" at work. Those colleges don't want to put more costs into the system, but inevitably, the question about quality will linger as more part-time faculty are brought into the fold. Rhoades (2012) was adamant that the pace of change that is occurring within the educational system and the need to re-teach our faculty is paramount for quality to rise. Given that colleges in order to not pay for health insurance for part-time faculty, would hire more to spread the load is counter intuitive to Rhoades argument. Again, the pressures of cost impact the quality equation.

Michigan and Tennessee both have rules that ensure that staff and faculty need to pay for 20% of their health care. Up until 2011, Michigan did not have such a rule. Corinthian has a self-insurance package that they cost share with employees.

Capital Funding Projects

The majority of community college buildings on campus are in the 25-50 year range or older. This is a major challenge to identify both on-going maintenance and capital renewal dollars. The majority of buildings built 25 years or later do not have the energy savings sustainability features that exist in current construction processes. Information from Kirshstein & Kadamus (2012) in Figure 15, regarding community college spending on operation and maintenance, reveal an almost 8% decrease in spending since 2000. Most community college campuses run heavily intensive programs requiring higher levels of electricity and utilize more hours of the day due to space constraints

					10-Year Change		1-Year Change	
	2000	2005	2009	2010	$	%	$	%
Public Sector								
Research	$1,814	$2,059	$2,154	$1,804	-$10	-0.6%	-$350	-16.2%
Master's	$1,402	$1,547	$1,674	$1,372	-$30	-2.1%	-$302	-18.0%
Bachelor's	$1,575	$1,797	$1,956	$1,555	-$20	-1.3%	-$401	-20.5%
Community Colleges	$1,131	$1,123	$1,232	$1,042	-$89	-7.9%	-$190	-15.4%
Private Sector								
Research	$2,962	$3,536	$4,311	$4,020	$1,058	35.7%	-$291	-6.8%
Master's	$1,347	$1,456	$1,481	$1,421	$74	5.5%	-$60	-4.1%
Bachelor's	$1,918	$2,191	$2,271	$2,095	$177	9.2%	-$176	-7.7%

Figure 15 Spending on Operation and Maintenance of Facilities: 2000-2010

There is a need for capital planning and a forecasting process to obtain the funds necessary to achieve the mission levels of the college. Most colleges don't have the luxury of budgeting for these types of expenditures. More than likely, colleges either defer the cost or don't pursue the initiatives necessary to create higher learning facilities. The other major issue that comes from deferring costs to the physical plant is the inefficient use of energy through outdated lighting and HVAC building system components. If colleges can update those systems, major annual recurring savings can occur in the utility budgets, thus relinquishing pressure on the operational costs.

Michigan community colleges have multiple ways to pursue major capital additions. The State of Michigan provides a capital outlay process where projects submitted to the state might get funding for 25% of the cost of the total project (Michigan Community College NETwork, 2013). This process in the past has been an excellent method for campuses to get facilities built for their academic mission. Due to recent budget constraints, Michigan has not been able to fund these initiatives. Michigan colleges can also fund their capital construction internally, go out for public financing through a bond issue or have the local district vote on a capital millage. The state does not control this process. Michigan has authorized local districts and board of trustees to be the gatekeepers for this type of oversight.

Tennessee has a totally state wide process for pursuing any major capital additions or maintenance projects. A request is made from the local community college and is forwarded up to the state Tennessee Board of Regents for their approval. Given the level of requests it can be a time consuming, and often political, process getting funding for a project. On the other hand, the potential is there for a more optimized and streamlined process for the entire state. Within the Michigan process, there could be redundancies and mismatches since there is not an ultimate gatekeeper looking out from the state level. At the same time, Michigan districts are more accountable to their local tax base to ensure they are providing services that are valued.

Corinthian is able to fund projects through internal financing or the use of external debt. There are no restrictions for their ability to enhance their facilities. What is apparent among the balance sheet of Corinthian is their extensive use of operating leases of their buildings. It appears that the strategy of the Corinthian executives is to lease facilities, put in the leasehold improvements and depreciate them over the life of the lease. This gives them a great deal of leverage, since they are not fronting the acquisition costs of the facility. In the short term, this

makes a great deal of sense and adds dollars to the bottom line. In the long term, it is a more expensive way to operate. The analogy is similar to leasing a car. If you were to purchase, a significant upfront cost would be required. When the car gets past the depreciation phase, since you own it, you start to save dollars. However, since the rate of change in education is high, this strategy might make more sense to invest short term and have the flexibility to change on a dime when the educational technical requirements change.

Federal Compliance and Risk Management

With community colleges receiving a great deal of their funding from Title IV, federal compliance has become a major issue on all community college campuses. Administrators at campuses need to be extremely versed in the Title IX laws as well as how to enforce and administer the CLERY Act. Campus safety and security is a major operational concern since the incidents at Virginia Tech in 2007 and the numerous shootings and sexual assaults that have occurred since that point. Title IX and CLERY are both extremely aggressive in holding college administrators accountable for the actions that take place on and off their campus related to their students.

Student Service departments and counselors have seen the new generation of students who are tripling the work of the student conduct office. Systems have to be devised on campus to ensure that all communications get to students on their phone via call, text, or email. Timely warning alerts are now required for incidents that in the past might not have reached the light of day. The experiential learning components that are now being implemented will require administrators to have sufficient risk management efforts in place to assure compliance and training are provided. As students enter into internships and clinical experiences, colleges need to make sure all facets of liability are understood and covered.

Threat assessment teams on campus' now meet regularly to discuss cases involving student misconduct and proactive measures are taken to ensure no escalation activities occur. National Association of College and University Business Officers (NACUBO) (2009) commissioned a national survey to understand all of the components of safety and security that either exists on campus or that colleges would like to see created. What is occurring on campuses shows that there is a need to bring together the following players in a cohesive plan of action:

- President

- Vice President and Chief Financial Officer
- Vice President of Student Services
- Student Code of Conduct Administrator
- Campus Safety and Security Chief
- Physical Plant Director
- Risk Management Director
- Public Relations Director
- Threat Assessment Team
- CERT team

What is readily understood is that no one office can oversee all of the various activities that will need to be addressed to administer Title IX, CLERY, etc. Bottom line, these initiatives have to come out of the college budget, which takes away from investing money into the educational programs for students. Ten years ago, some of these positions either did not exist or were done by other individuals in the college. Colleges now have to dedicate resources to these initiatives or face the repercussions of an incident on campus or fines from the various federal or accrediting agencies who oversee these issues.

Michigan, Tennessee, and Corinthian all share in this area in terms of responsibility and accountability. Even though the Tennessee system is operated at the state level, the individual institution is responsible to carry on the duties that have been mentioned in the above section. Overall, this area of responsibility has to be taken care of before any quality learning in the classroom can take place. Again, the "Iron Triangle" pressure of costs being required outside the classroom to ensure those environments are safe, secure, and properly equipped with as much training and up-to-date equipment that the budget can allow.

Conclusion and Further Exploration

The community college environment is a complex business that contains many constituents all trying to achieve the maximization of resources to develop a highly educated local community, who can prosper and increase both the economic and social standing of the community at large. There are major financial issues within this framework that need to be explored and understood so college leaders can forecast future directions understanding how those issues will impact their decision making. The "Iron Triangle" concept was thoroughly discussed and described how cost, access, and quality all interact to determine what levels of

access or quality can occur given a cost. Each component puts stress on the other two when a higher level or cost is required. Three higher education sectors were introduced to broaden out the focus on the financial issues. By comparing an autonomous state community college system (Michigan), a state run community college system (Tennessee), and a for-profit institution (Corinthian), it provides different perspectives and allows for new ideas or thoughts to come to the surface that might not have come without this exposure.

Major revenue funding sources were explored and examined for potential changes which could occur in the future. The Federal Pell Grant was one of the major revenue sources reviewed and it is understood that this funding source will definitely undergo changes over the next several years. Community colleges depend heavily on the Federal Pell Grant and need to be major advocates on the direction those changes take. States that do fund their education, such as Tennessee, are now switching to a more outcomes based approach which has been demanded by the public. Research and forecasts were presented on how the real estate and housing market went through the 2009 recession and provided future forecasts on where this funding source will go in the future. Local taxation is critical to colleges in 26 states; the recession and continued lag on the recovery of those funds will put more pressure on a major funding source for those institutions.

The expenditure side was discussed and employee benefits were addressed. A major issue in retirement pension liabilities is brewing in many states that will definitely impact the bottom line of colleges and state budgets. The Affordable Care Act was analyzed and how this will potentially impact colleges with a greater need to either cover part-time faculty not currently covered, or opt for hiring more part-timers and risking a quality issue. Capital expenditures were discussed and provided insight into how the aging of colleges coupled with the need to become more energy efficient are at odds with each other. Finally, the need for deploying effective campus safety and security processes including a fully deployed risk management plan was put forth as a requirement.

A more detailed analysis of requirements of college programs of the future, both from a staffing standpoint as well as facility requirements, is warranted. An analysis of what states utilize local funding and how this impacts their state allocations should be investigated further. Quality metrics need to be identified and applied to college resource allocations. More research

on collaborations, shared services, and scaling technology via the Jarrett diagram would assist with validating the theory as being attainable.

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Appendix A

Corinthian Current Income Statement as of July 26, 2013

Corinthian Colleges Inc. (COCO) - NasdaqGS

2.37 ↓0.05(2.07%) Jul 26, 4:00PM EDT

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Income Statement

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All numbers in thousands

Period Ending	Jun 30, 2012	Jun 30, 2011	Jun 30, 2010
Total Revenue	**1,605,472**	**1,784,080**	**1,658,002**
Cost of Revenue	974,229	1,046,503	900,829
Gross Profit	**631,243**	**737,577**	**757,173**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	570,830	594,086	525,183
Non Recurring	18,270	220,058	-
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	**42,143**	**(76,567)**	**231,990**
Income from Continuing Operations			
Total Other Income/Expenses Net	(9,860)	4,314	5,327
Earnings Before Interest And Taxes	32,283	(72,253)	237,317
Interest Expense	9,128	8,529	5,010
Income Before Tax	23,155	(80,782)	232,307
Income Tax Expense	7,011	25,295	91,734
Minority Interest	-	-	-
Net Income From Continuing Ops	16,144	(106,077)	140,573
Non-recurring Events			
Discontinued Operations	(26,389)	(5,088)	5,398
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	**(10,245)**	**(111,165)**	**145,971**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	**(10,245)**	**(111,165)**	**145,971**