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*Opportunity and Prosperity  
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# BTC Brief

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## Community College Crunch: Economic Downturn Drives Up Enrollments, Spotlights Funding Challenges

*Timely,  
accessible,  
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analysis of  
state and local  
budget and tax  
issues*

When the economy falters, working adults turn to North Carolina's 58 community colleges for the training needed to seize new job opportunities. Yet the state's two-year institutions are not funded in a way that permits them to meet periods of peak demand.

### **The North Carolina Community College System (NCCCS)**

Founded in 1963, the NCCCS offers an array of educational, vocational, economic development and community services. During the 2006-07 academic year, some 809,000 individuals – 12 percent of the state's adults – studied at a two-year college. About 70 percent of the students took noncredit literacy or continuing education courses, while the remainder pursued academic or vocational credentials. In recent years, the NCCCS has educated about half of all Tar Heels seeking their first degree.

### **Source of Financial Support: State, Local and Tuition Dollars**

The founders of the NCCCS choose to fund the system through a state-local partnership similar to the way in which North Carolina supports public schools. State appropriations underwrite instructional expenses, and local governments finance facility costs. Modest tuition revenues supplement public funds, though the intention was to keep tuition low to permit working adults to enroll.

In fiscal year 2007, the NCCCS derived 69 percent of its budget from the state, 13 percent from local counties, 13 percent from tuition and six percent from other sources. For fiscal year 2008, the NCCCS is slated to receive \$1.1 billion from the state and \$186 million from local governments, along with some federal and private funds.

In-state tuition currently is \$42 per credit hour for a maximum charge of \$672 per semester for a full-time student. Most students, however, attend part-time. And the tuition bill does not account for living costs, which can be a sizable expense for low-income working adults, especially those with children.

### **A Flawed Funding Mechanism: The Full-Time Equivalent Formula (FTE)**

Most state dollars are allocated to local colleges according to a formula measuring the number of full-time equivalent students enrolled. For curriculum students, a college earns one FTE for every 32 credit hours completed over a two-semester period. And a college earns one

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continuing education FTE for every 688 hours of instruction provided over a three-semester period. The cash value of an FTE is set by the legislature; a curriculum FTE now is worth \$3,686, a continuing education FTE \$3,519.

While the basic FTE funding mechanism may have been appropriate when the NCCCS was founded, it is inadequate for a complex, modern system of postsecondary institutions. Numerous studies have documented the formula's flaws, three of which are particularly vexing.

- 1. The FTE formula does not accommodate rapid enrollment growth.** NCCCS enrollments normally rise during economic downturns. Following the last recession, for instance, FTE enrollment jumped by 15,939 between fiscal years 2002 and 2003. As open door institutions, colleges are obligated to take students as they come, but the FTE formula is based on the prior year's enrollment. So, when enrollments jump too quickly, colleges are forced into a situation in which they must serve students for whom no funding is available.
- 2. The NCCCS has a high bar to clear in order to earn an FTE.** While the University of North Carolina also is funded on an FTE basis, it must provide fewer hours of instruction to earn an FTE. And because NCCCS students are more apt to enroll on a part-time basis, a community college must serve more students in order to generate an FTE.
- 3. The FTE formula fails to account for high-cost programs like those in allied health.** On an FTE basis, health programs cost about 1.5 more than the standard allotment. Because colleges lose money on each high-cost enrollment, they must cover the shortfall by capping program size, shifting funds among programs or eliminating non-health programs, especially those in vocational fields.

### **A Looming Challenge: Fiscal Year 2009**

Weakening economic conditions have fueled enrollment increases across the community college system. Fall enrollment was up four percent over the prior year, and spring enrollment is likely to be up as well. Unexpected enrollments have imposed \$12.2 million in unforeseen costs on the NCCCS for fiscal year 2008. In response, the NCCCS drained all \$2 million in its enrollment reserve account, leaving a net unfunded liability of \$10.2 million. Given current economic trends, a similar dynamic is likely to unfold in fiscal year 2009.

In response, the General Assembly should take two steps. In the short-term, the legislature should provide the \$12 million needed to fully fund the enrollment reserve account. And in the long-term, the legislature should reform the FTE formula along the lines proposed by decades' worth of study commissions. Such reforms would equip the NCCCS to prepare the skilled workforce essential to the state's future prosperity.