



# PERFORMANCE AUDIT REPORT

**Community Colleges: Examining Whether There Are  
Ways To Share Resources To Reduce Costs**

## ***Executive Summary*** ***with Conclusions and Recommendations***

A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
February 2008

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

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February 20, 2008

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Community Colleges: Examining Whether There Are Ways To Share Resources To Reduce Costs*.

The report recommends that community college boards of trustees follow existing law with regard to reducing local property tax revenues and that the appropriate legislative committees consider whether the law needs to be modified to ensure that local property tax relief is realized. It also has several recommendations for ways Coffeyville and Independence and other community colleges could share resources to reduce costs.

The report also contains appendices showing the amount of State operating grants that were expected based on the Act and the amount of grants actually received by the community colleges, as well as revenue, expenditures, and property tax revenue information by community college.

If you would like a copy of the full audit report, please call our office and we will send you one right away. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton  
Legislative Post Auditor



**EXECUTIVE SUMMARY**  
LEGISLATIVE DIVISION OF POST AUDIT

**Overview of Kansas Community Colleges**

**Currently, Kansas has 19 community colleges offering a variety of degree and certificate programs.** ..... page 3  
*Community colleges in Kansas were authorized by the 1917 Legislature and originally meant to be an extension of high schools. By the late 1950s and 1960s, the Legislature had passed laws that allowed community colleges to be separate institutions with separate governing boards—now known as boards of trustees. Community colleges offer a wide variety of academic coursework that can lead to an associate’s degree.*

**Community colleges are supervised by the Board of Regents, and governed by local boards of trustees.** ..... page 4  
*The Higher Education Coordination Act of 1999 changed how higher education was governed in Kansas. It made the State Board of Regents responsible for supervising and coordinating community colleges beginning in fiscal year 2000. Before that, the State Board of Education had responsibility for overseeing community colleges.*

**During fiscal year 2007 Kansas community colleges spent nearly \$460 million, and enrolled more than 46,000 students.** ..... page 4  
*Average spending per student during that time period ranged from a low of \$5,400 to nearly \$14,500. The largest single source of funding for community colleges has been local property taxes.*

**Question 1: Have Community Colleges Used a Portion of Increased State Aid to Reduce Mill Levies, and If Not, Why Not?**

**Legislation passed in 1999 provided additional State funding for community colleges so they could rely less on property tax revenues.** Generally, the provisions of the Act affecting community college funding were as follows:

- “Credit-hour” State aid for community colleges was replaced with operating grants.
- County out-district tuition was to be phased out, and the revenues colleges lost were to be replaced by State aid.
- Performance grants were to be implemented.

*Most of the additional funding provided through the new State operating grants was intended to help provided local property tax relief. When the new operating grants became effective in 2001, community colleges were required to use at least 80% of any increase in the State* ..... page 7

*operating grant over the previous year (less an adjustment for the out of district tuition they received) to reduce the amount of property taxes they levied. The remaining 20% could be used for whatever purposes the colleges wanted.*

**The Act didn't provide as much property tax relief as anticipated mostly because it wasn't fully funded, and also because some community colleges didn't follow the Act.** *Community colleges couldn't reduce their mill levy revenues as much as expected because they didn't receive all the funding called for in the Act. Community colleges should have received about \$751 in State operating grants for fiscal years 2001 through 2007, based on the provisions in the Act. They actually got \$595 million, or about \$157 million (21%) less than anticipated. In addition, under the Act, community colleges were supposed to receive performance grants beginning in fiscal year 2003, but those grants weren't funded until fiscal year 2006.*

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*We identified three reasons why the colleges didn't receive all the funding they should have:*

- *In fiscal years 2001 and 2002 the Board of Regents' request for State operating grants for community colleges somewhat underestimated the number of students who would enroll in the community colleges those years. At the time, the Board didn't estimate for any increases in enrollment. In subsequent years, the Board has used projected enrollment figures.*
- *In subsequent years, the Legislature didn't fully fund the colleges' State aid because of budget shortfalls. Like most states, Kansas experienced serious budget shortfalls because of the general economic downturn that occurred after the terrorist attacks on September 11, 2001.*
- *Overall, funding the Act also turned out to be more costly than anticipated. The fiscal note prepared at the time the Act was considered assumed enrollment at community colleges would remain flat and also underestimated the amount of State aid provided per lower-division student at Kansas' three regional Regents' institutions---which is what State aid to community colleges is based on.*

*In addition, 10 community colleges didn't provide all the property tax relief they should have. Given the amounts of the operating grants they received, community colleges should have reduced their property tax levies by \$30.3 million, but overall they reduced their property tax levies by only \$25.2 million or \$5 million less than required.*

**Given the way the law is written, there are no assurances that local property tax revenues for community colleges will decrease, even if community colleges comply with the Act.** *That's because the Act doesn't place any limits on colleges' expenditures or on the amount of local property tax revenues they can generate. Community colleges*

can get around the law by simply inflating their budgeted expenditures to offset the reduction in property tax revenues that is required when they set their mill levy rates.

**Other factors have contributed to changes in the colleges' property tax revenues and mill levy rates since 2000.** Our analysis showed that community colleges tended to fall into three groups:

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- Group 1—10 colleges whose property tax revenues actually dropped as a percent of their total revenues in 2007 compared to 2000.
- Group 2—5 colleges whose property tax revenues became a larger percent of their total revenues in 2007 than in 2000.
- Group 3—4 colleges whose property tax revenues accounted for about the same percent of their total revenues in both years.

The colleges in Group 1 generally shared a number of factors that helped them rely less on property tax revenues and have lower mill levy rates in 2007 than in 2000. In general, they:

- had larger enrollment increases.
- raised their tuition rates higher.
- had larger increases in their non-property-tax sources of revenue.
- were in counties where the assessed valuations grew at a faster rate than the amount of property tax the colleges needed to generate.
- had smaller increases in their ending cash balances.

Community colleges could decrease their cash reserves to reduce their property tax revenues even more in coming years. In 2007, some colleges had cash reserves that totaled up to eight months worth of expenditures. If the colleges reduced cash reserves to only three months worth of expenditures, their total cash balances for that same time period would have been only \$110 million, or \$77 million less.

**Compared to surrounding states, Kansas relies more heavily on local dollars to fund its community colleges.** Except for Nebraska, Kansas depends more heavily on local property tax revenues than neighboring states. We identified a number of ways that other states have limited their reliance on property tax revenues to fund community colleges, including the following:

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- Eliminate property tax as a revenue source for community colleges. In Colorado, property tax revenue can't be used to fund community colleges.
- Limit the amount of property tax revenue that can be levied. Nebraska recently passed legislation establishing such a limit.

- Extend community college taxing districts beyond county lines. Nebraska and Missouri each divided their states into community college taxing districts that include several counties.

**Question 1 Conclusion.** Among other things, the Higher Education Coordination Act of 1999 was intended to increase State funding for community colleges, so that local property taxes could be reduced. So far the Act has had limited success. Because the Act hasn't been fully funded, State operating grants generally haven't become a larger share of colleges' total funding sources—a key factor in allowing them to reduce their reliance on property taxes. Further, some colleges didn't fully comply with the law, or they levied more property tax than they ultimately needed, resulting in large increases in their cash balances. For the 10 colleges whose property tax revenues actually were a smaller share of their funding sources in 2007 than in 2000, factors such as increased enrollments and tuition rates—which brought in additional funding without a commensurate increase in costs—may have contributed as much or more to property-tax-reductions than provisions in the Act. In addition, under the Act, community colleges could inflate their budgeted expenditures enough to offset any required reductions in property taxes. For all these reasons, there's no guarantee the law will provide the full amount of property tax relief that may have been envisioned when it was passed. Because tight budgets make full funding of the Act's provisions unlikely, the Legislature should consider ways it could amend the Act to help bring about additional local property tax relief.

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**Question 1 Recommendations.** We recommended that the boards of trustees for each of the State's 19 community colleges follow the provisions of the law related to reductions in property tax revenues. In addition, we recommended that the House or Senate Education Committees, or other appropriate committees consider whether to cap community college expenditures or mill levy rates or consider whether there should be restrictions on community colleges' cash balances.

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**Question 2: What Options Exist for Community Colleges that Are in Close Proximity, Such as Independence and Coffeyville, to Share Resources To Reduce Costs and Mill Levies?**

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**Options for community colleges to coordinate activities or share resources exist in the areas of academics, support functions, and purchasing.** Opportunities for coordinating or sharing resources in the academic area stem from making the best use of teaching resources. Support functions are the areas that support the teaching mission of community colleges and opportunities for sharing in that area could range from sharing employees or equipment to consolidating a function at one college. Finally, in the area of joint purchasing, many vendors offer price breaks for customers who can purchase in larger quantities.

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## OPTIONS FOR SHARING RESOURCES RELATED TO ACADEMICS

**Community colleges in Kansas currently share academic resources on a limited basis.** *Sharing resources among community colleges hasn't been widespread. Sharing agreements related either to on-line courses or to courses taught in a traditional classroom setting.*

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*For example, through the EduKan Program, several community colleges in southwest Kansas share on-line courses.*

**Independence and Coffeyville have agreements with other colleges to share resources related to specialized programs, but no agreements with each other.** *By entering into agreements with other community colleges, Coffeyville and Independence have avoided duplicating specialized academic programs. For example, a fire science program and an associate degree in medical laboratory technology are provided by Barton County Community College at Coffeyville Community College. Fort Scott Community College provides a wastewater management certificate program, also at Coffeyville. At Independence Community College, Neosho Community College provided a licensed practical nurse program.*

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**Coffeyville and Independence could share academic resources in a number of ways.** *We identified several specific areas where the colleges could potentially share academic resources to share costs. Those areas include the following:*

- *Coordinate their specialized programs to eliminate some program duplication. The colleges offer several of the same certificate and Associate in Applied Science degree programs. Although some of the programs such as the certified nurse/geriatric aid program, may have sufficient demand to warrant having them offered by two colleges in the same county, other programs could be offered at only one college.*
- *Eliminate the duplication that exists when one college has established a more-specialized program, and the other college offers individual elective classes in that same subject area. For example, in Spring 2007, Coffeyville had 59 students enrolled in its technical welding programs, while Independence had two welding courses with six students enrolled. Similarly, Independence offers an Associate of Science degree in criminal justice, while Coffeyville offers a single elective class in criminal justice.*
- *Sharing teaching resources related to higher-level math and science courses. A number of math and science courses offered in Spring 2007 at one or both colleges tended to have very small enrollments. Options currently exist to make sharing teaching resources for these courses easier, including on-line courses and interactive videoconferencing.*

A number of variables can affect the amount of money that could be saved by having Independence and Coffeyville share academic resources, including the following:

- *Eliminating some degree programs at one college may not result in any savings because no courses would be eliminated. That's because for some degree programs, like pre-law, the courses aren't unique only to that degree—they are general academic courses such as English composition or political science which are common to many degrees.*
- *If a class is taught by a full-time faculty member, eliminating it may not always save money because, under certain circumstances, the faculty member may not be getting paid extra for teaching the class.*
- *If courses are taught by a part-time faculty member, the savings related to single courses may be relatively small. Part time faculty are typically paid \$400-\$450 per credit hour taught.*

*We also noticed some opportunity for savings if Independence Community College internally merged multiple sections of the same course that have low enrollments.*

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## **OPTIONS FOR SHARING RESOURCES RELATED TO SUPPORT FUNCTIONS**

**Community colleges generally perform the same types of administrative activities.** *Support functions such as human resources, fiscal operations and accounting, building maintenance, information technology, and the like may be performed differently at each community college, but the functions themselves are basically the same.*

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**In reality, it may be difficult to achieve large-scale savings from sharing support functions while maintaining two separate institutions.** *The areas we noted that appeared to have the most potential for sharing at Coffeyville and Independence were information technology and payroll processing. Both colleges might benefit from having a standardized computer system and software, but officials from both colleges estimated that making their computer system compatible would cost about \$500,000 total.*

*We found significant issues that could make it difficult to share some of the other support functions. Some of those issues include the following:*

- *Sharing management positions is difficult because many managers already are shared internally with other departments or functions, or they are providing direct services. For example, several management staff already wear multiple hats—they have responsibilities in multiple departments in the same community college. In addition, many management staff aren't doing exclusively management work, they may be performing a significant amount of hands-on work.*

- The potential for sharing non-management positions is relatively limited, either because there is minimal staff already or because a staff presence is required at each college. For example, some functions such as financial aid involve a lot of student interaction and staff has to be present to provide services.
- Sharing support processes creates a number of significant issues with standardizing policies and procedures and determining who would resolve conflicts in priorities. There are a number of significant impediments that make sharing support functions more difficult, including that:
  - both colleges compete for the same students.
  - provisions would need to be made for how conflicts would be resolved between two boards of trustees.
  - policies and processes would need to be standardized at both colleges.
  - historically, there's a strong rivalry between the two community colleges and they've been reluctant to share.

Regardless of any issues that make sharing resources difficult, voters ..... page 34 in Montgomery County and college officials have made some overtures toward sharing. In a February 2007 non-binding advisory election, voters were asked whether Montgomery County should have one community college—64% responded yes. In addition, Coffeyville officials suggested in a letter to Independence that the colleges meet and discuss merging.

## **OPTIONS FOR SAVINGS MONEY BY JOINTLY PURCHASING GOODS OR SERVICES**

**Significant cost savings are likely through joint purchasing agreements.** ..... page 35  
 Most goods and services that community colleges buy could be jointly purchased. We selected a sample of nine commonly purchased items and our findings are summarized below.

- **Natural Gas**—estimated savings of \$27,500 and \$36,000 are possible if Coffeyville and Independence join an existing gas purchasing consortium.
- **Software**—additional savings are possible if community colleges and universities combine their purchasing power.
- **Telephone**—if at least some of the 19 community colleges banded together to purchase telephone-related services, additional savings are possible.
- **Security Services**—savings are likely if Coffeyville and Independence negotiated for one contract with a single security provider. They both currently pay \$12 per hour for security.

- **Health Insurance**—savings may be possible if community colleges are willing to jointly purchase one health plan or join the State health plan. For example, cost for single coverage through the State health plan is \$4,400 compared to \$6,700 for single coverage at Coffeyville.
- **Property Insurance**—if Coffeyville and Independence negotiate with their common insurance provider, savings might be possible.
- **Paper**—savings may be possible if Coffeyville and Independence jointly purchase from a single provider, but currently they're receiving discounted prices.
- **Computers**—savings on computer purchases appears to be unlikely because community colleges already appear to receive low prices, and pooling purchasing power wouldn't affect cost.
- **Electricity**—savings are unlikely because of how electricity is regulated.

**Question Two Conclusion.** *Because of the similarities between them, community colleges located in close proximity to each other could find ways to share many resources if they wanted to, or if they had to. That's generally not the case. We noted few instances of sharing between community colleges in Kansas or in other states, and almost no sharing between Independence and Coffeyville Community Colleges. On the academic front, our work identified opportunities to share academic resources related to specialized academic programs, higher-level math and science courses, and on-line courses, especially in instances where community colleges have duplicate programs and enrollment at one college is much less than at the other. Realistically, options for Independence and Coffeyville to share support functions appeared to be more limited—given that they are two separate institutions in competition with each other. At a minimum, however, the areas of information technology and payroll processing offer possibilities, either in the short term or over the long term. The greatest potential for near-term savings may be in the area of joint purchasing to obtain goods or services at a lower price through volume discounts. However, even that effort may take a significant amount of coordination and encouragement because of the colleges' desire to "buy locally" whenever possible.*

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**Recommendations.** *We recommended that Coffeyville and Independence consider equitable ways to eliminate duplicate degree programs and course offerings with low enrollment at one or both colleges. In addition, we recommended that Independence Community College’s Board of Trustees review its class roster to identify any small class sections that have the potential to be combed with other classes. Coffeyville and Independence’s Boards of Trustees should discuss possibilities for combining or streamlining administration functions such as payroll processing and information technology. Finally, we recommended that the Board of Regents meet with the Kansas Association of Community College Business Officers and the Kansas Association of Community College Trustees to facilitate more joint purchasing opportunities and provide that information to all community colleges and their boards of trustees.* ..... page 39

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**APPENDIX B:** *Actual vs. Expected State Operating Grant by Community College.* ..... page 42

**APPENDIX C:** *Revenue, Expenditure, and Property Tax Information by Community College.* ..... page 43

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This audit was conducted by Laurel Murdie, Dan Bryan, Brad Hoff and Justin Stowe. Leo Hafner was the audit manager. If you need any additional information about the audit’s findings, please contact Laurel Murdie at the Division’s offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).