

Houston Community College  
International Students and International Initiatives

Houston Community College (HCC) placed a \$425 million bond issue on the November, 2012 ballot. In order to understand the effect this bond issue would have on the ad valorem tax rate in the college's district, I read through many of the publicly available documents published by HCC. As I read through these documents one thing emerged that appeared to be unusual for a community college-HCC claimed a large enrollment of international students. This paper is the result of my inquiry into this aspect of HCC's operation. I used HCC's 2011 statistics and financial reports in writing this paper. I was not able to find a complete set of statistics and financial reports for 2012.

Section 130.0011 of the Texas Education Code states "PUBLIC JUNIOR COLLEGES; ROLE AND MISSION. Texas public junior colleges shall be two-year institutions primarily serving their taxing districts and service areas in Texas and offering vocational, technical, and academic courses for certification or associate degrees". Note: the terms "junior college" and "community college" are used interchangeably, and they have the same functional meaning.

Houston Community College's 2011 Annual Report on page 7 states: "HCC is ranked #1 in international student enrollment of community colleges nationwide with 8,157 international students as of November 2011. It is ranked #6 out of 4,000 U.S. four-year institution with F-1 students. (Open Doors, 2011)". Note: F-1 refers to a visa issued by the United States Department of State that conditionally authorizes a foreign citizen to pursue education in the USA.

Is it possible to reconcile the mandate and guidance as stated in the Texas Education Code with the entry from HCC's 2011 Annual Report? Why does HCC enroll so many international students? Are state and local tax funds which support much of the operation at HCC being used to finance the education of the international students? If yes, why is HCC using such funds to pursue an international agenda that ranks it among some of the largest institutions of higher education in the country in international enrollment when its apparent objective should be "to serve its taxing district and service area"?

HCC is required to annually publish audited financial statements. The adjusted expense information from these publications can be used to compute the average cost for a full-time student. This computation and related computations are presented in a step-by-step, detailed format so that any conclusions derived from these figures can be critically reviewed by a reader.

According to the guidelines published by the Texas Higher Education Coordinating Board (THECB)<sup>1</sup>, a full-time student is one who is taking 30 semester credit hours of work each year. Community colleges serve many students who take a limited course load, say 12 semester credit hours of work in a year. In order to compare and evaluate institutions of higher education, the THECB translates all of the semester credit hours taken by all students into what are referred to as equivalent full-time students. This is

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<sup>1</sup> <http://www.thecb.state.tx.us/index.cfm?objectid=590DB776-049E-7F1F-BA50A97E6E39169D>

done by dividing all of the semester credit hours taken by all students by 30 semester credit hours. HCC's 2011 Annual Report on page 35 states total student enrollment of 75,235 and full-time equivalent enrollment of 41,742.

It is difficult to secure an accurate count of HCC's international students. The audited financial statements do not specifically address the issue. HCC publishes a report called a Fact Book. The HCC 2011-2012 Fact Book on page 15 displays this analysis of international students:

<b>VISA TYPE</b>	Fall 11
Student visas	3,853
Work Authorization	473
Refuges and Asylum	127
Undocumented (Noriega Bill)	1,111
Other Visa Types	<u>355</u>
Total International Students	5,919

A display on page 16 of the 2011-2012 Fact Book indicates that HCC enrolls students from 155 countries. The two countries with the most students are Mexico with 859 and Vietnam with 756.

I made an attempt to reconcile the count of 8,157 international students as written in the 2011 Annual Report with the count of 5,919 as shown above. My request under the Texas Public Information Act read as follows:

Please provide any records that list or display the data that when summarized shows the count of international students in 2011 to be 8,157. Please refer to the passage on page 7 of the Annual Report 2011 which reads: "HCC is ranked #1 in international students enrollment pf community colleges nationwide with 8,157 international students as of November 2011".

Please provide any records which reconcile the count of international students of 8,157, as noted above, with the entry on page 15 of the Houston Community College 2011-2012 Fact Book which lists the number of international students for 2011 as 5,919.

HCC' replied as follows:

"After a thorough search, the College does not have any records responsive to your request. Under the Public Information Act, the College is not required to produce information which is not in existence".

Do no census records of HCC's international students exist; or is HCC playing a semantic game? Is this conducting the business of a public institution in a transparent manner? I leave it up to the reader to decide. Given the uncertainty about the number of international students enrolled at HCC, I will use the 5,919 to 8,157 range for the analysis which follows.

HCC requires international students to take a full academic load of course work. I have assumed this to be 30 semester course hours. International students pay a higher tuition than in-district students. It is the same rate as the one charged to out-of-state students. According to the 2011 Financial Statement, page 64, the international student tuition and fees for 30 semester hours is:

	\$4,533
Plus: Application Fee	75
Orientation Fee	<u>50</u>
Total	\$4,658

My next objective was to compute HCC's average cost of educating a full time student. This was a step-by-step process which follows with related commentary:

HCC's 2011 Financial Statement on page 12 was used as a source for these entries:

Total Operating Expense	\$357,021,152
Non-Operating Expenses	10,550,397
Interest on Capital Related Debt	29,424,886
Hurricane Ike Expenses	<u>284,103</u>
Total Expenses	\$397,280,538
Some of these expenses were offset by revenue:	
Sales and Services of Educational Activities	369,530
Auxiliary Enterprises	14,535,914
Non-Operating Revenue (Other)	<u>6,153,631</u>
Net Expenses	\$376,221,463
Increase in Net Assets	<u>14,879,995</u>
Net Expenses + Increase In Net Assets	\$391,101,458

An expense category called Public Service is not a core function of HCC related to the education of enrolled students. The THECB defines Public Service as "...funds expended for activities that are primarily to provide non-instructional services beneficial to individuals and groups external to the institution". I deducted expenses attributed to it from Net Expenses + Increase in Net Assets

	\$391,101,458
Less: Public Service	<u>11,766,675</u>
Difference	\$379,334,783

I assumed that Federal Grants of \$16,064,089 paid for all of the Public Service expenses: Federal Grants

Federal Grants	\$16,064,089
Less: Public Service Expenses	<u>11,766,675</u>
Balance in the Federal Grants Account	4,297,414

Hurricane Ike Expenses are one-time, not instructional related expenses, so I deducted them from the remaining Net Expenses + Increase in Net Assets:

	\$379,334,783
	<u>284,103</u>
Balance: Net Expenses + Increase in Net Assets	\$379,050,680

Hurricane Ike Expenses will most likely be reimbursed by the federal government, so I deducted them from the revenue account Federal Grants:

Federal Grants (Balance in Account, from above)	\$4,297,414
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Hurricane Ike Expenses	<u>284,103</u>
Federal Grants (Remaining Balance)	\$4,013,311

All of the remaining sources of revenue must pay for (equal) Net Expenses + Increase in Net Assets. A large portion of this revenue is paid directly by students or on behalf of students through the federal grant program Title IV:

Brought Forward	\$379,050,680
Less: Tuition and Fees	67,907,897
Title IV Grants	<u>96,171,936</u>
Balance Net Expenses + Increase in Net Assets	\$214,970,847
The remaining sources of revenue must balance with	\$214,970,847

Federal Grants (Balance in Account)	\$4,013,311
Non-Government Grants	1,283,150
Gifts	1,573,601
Investment Income	566,945
State Grants	6,448,589
State Appropriations	84,838,315
Local Grants	275,085
Ad Valorem Taxes	115,820,065
Nursing Shortage Grant	<u>151,786</u>
Total	\$214,970,847

Note that state funds and local taxes cover the vast majority of the cash requirements of HCC not paid by students or, on behalf of students, by federal Title IV grants.

Compute the average cost per full time equivalent student:

Net Expenses	\$376,221,463
Less: Public Service Expenses	11,766,675
Hurricane Ike Expenses	<u>284,103</u>
Expenses Attributable to Student Education Activities	\$364,454,788

There are two offices within HCC whose activities are only directed toward international students. The total budget for these offices is \$1,200,000.

Deducting expenses unique to international students:

Brought Forward	\$364,170,685
International Student Expense	<u>1,200,000</u>
Expenses Attributable to All Students	\$362,970,685

Average Expenses Per Full-Time Equivalent Student

$\$362,970,685 / 41,742 \text{ Students} = \$8,696 / \text{FTE Student}$

Note: This cost/student compares well with the expenditures per full time equivalent student as published by the THECB of \$7,883. The THECB does not include non-operating expenses and interest on the debt which amount to \$958/student at HCC. <sup>2</sup>

Average expenses unique to international an international student:

$\$1,200,000 / 8,157 \text{ students} = \$147 / \text{international student}$

<sup>2</sup> www.thecb.state.tx.us Click as follows>Data Resources and Tools>Accountability Systems>Institutional Efficiency and Effectiveness>Two-Year Institutions>Community Colleges; Select PDF Version "Complete Report" in the top right corner of the page.

Note: This per student expenditure would be \$203 if an international student population of 5,919 were used.

Average cost per international student:

Average Per Student	\$8,696
Unique to an International student	<u>147</u>
Total	\$8,843

Costs per international student not covered by tuition and fees:

Total Cost	\$8,843
Tuition and Fees	<u>4,658</u>
Total Difference	\$4,185/ Student

Two different published counts of HCC's international students exist-8,157 and 5,919. In addition, some adjustments need to be made in these counts to reflect certain conditions under which HCC operates. The term "Undocumented (Noriega Bill)" that names a row in the **VISA TYPE** table (Page 2 ) refers to a bill that passed in the Texas Legislature that allows undocumented students to go to college and pay in-state tuition and fees provided that they have been residents for three years and graduated high school or received a GED in Texas. This is a conscious effort by the legislature to provide for the education of these students who will most likely be citizens of Texas in the future. I assumed that their education at HCC that is not paid for by tuition and fees is fully paid for by state funds. In addition, I assumed that the students under the Refuges and Asylum and Work Authorization classification are enrolled by virtue of decisions made by the federal government over which HCC has virtually no control. My analysis follow:

The in-district tuition and fees for thirty hours is \$2,028.

The average cost attributed to an international student for 30 hours is \$8,843

\$8,843

2,028

\$6,815 Paid by funds other than tuition and fees.

Undocumented (Noriega Bill)-	1,111
Refugees and Asylum	127
Work Authorization	<u>473</u>
Total	1,711

Total expenses not covered by tuition and fees:

1,711 students X \$6,815/student = \$11,660,465

In doing my final analysis of HCC expenses that are covered by public funds, I will be deducting \$11,660,465 from two sources of funding. I assumed that the Work Authorization Visas expense was created by the federal government, so I applied the balance of Federal Grants to this cost:

Total Expenses	\$11,660,465	
Federal Grants Remaining	<u>4,013,311</u>	
Difference	\$7,647,154	Balance in Federal Grants = \$0

1,111 of the VISA students are attending under the provisions of the Noriega Bill, a State of Texas requirement, so I applied the remaining expenses for educating these student to State of Texas accounts:

States Grants Account:	
Remaining Expenses	\$7,647,154
State Grants	<u>6,448,589</u>
Difference	\$ 1,198,565
Balance in State Grants Account = \$0	

Secondly, State Appropriations	
84,838,315	
<u>1,198,565</u>	
\$ 83,639,750	Balance in State Appropriations \$83,639,750

Refer back to Page 3:

Amount that must be accounted for with cash funds-	\$214,970,847
Less: Noriega, Asylum, Work Students	<u>11,660,465</u>
Remaining amount to be accounted for	\$203,310,382

The percentages of funding that accounts for \$203,310,382

State Appropriations	$83,913,587/203,310,382 = 41.1\%$
Ad Valorem Taxes	$115,820,065/203,310,382 = 57.0\%$
Miscellaneous	$3,850,567/203,310.382 = 1.9\%$

Assume the count of international students is	5,919
Less: Modifications as detailed above	<u>1,711</u>
Adjusted count of international students	4,208

Public Subsidy of International Students

$$4,208 \text{ students} \times \$4,185 = \$17,610,480$$

This is covered by:

State Appropriations	$\$17,610,480 \times 41.1\% = \$7,237,907$
Ad Valorem Taxes	$\$17,610,480 \times 57.0\% = \$10,037,974$
Miscellaneous	$\$17,610,480 \times 1.9\% = \underline{334,599}$
	\$17,610,480

Assume that the number of international students is 8,157 as claimed in HCC's 2011 Annual Report instead of 5,919 as indicated in the 2011-2012 Fact Book:

International Students 2011 Annual Report	8,157
Adjustment : Noriega, Asylum, Work Students	<u>1,711</u>

Adjusted Count International Students                      6,446

Cost of international students not covered by tuition and fees:  
 6,446 students X \$4,185/student = \$26,976,510

This subsidy is covered by:

State Appropriations	$\$26,976,510 \times 41.1\% = \$11,087,346$
Ad Valorem Taxes	$\$27,976,510 \times 57.0\% = \$15,376,610$
Miscellaneous	$\$27,976,510 \times 1.9\% = \$ \underline{512,554}$
	26,976,510

HCC's Board of Trustees and HCC's management has apparently made a decision to encourage a substantial number of international students to enroll. They tout their apparent success in this effort by publicizing that "HCC is ranked #1 in international students enrollment of community colleges nationwide...". My concern is that they are doing this at a cost between \$17,275,881 and \$26,463,956 in tax money. Tax money that can be directed wholly or substantially to addressing local needs or returned to taxpayers. As best I can determine, HCC has done nothing illegal or unethical in emphasizing international effort. But what may be legal or ethical may not constitute a wise use of limited resources.

Much of the economic and cultural activity in Houston is influenced by international business and social exchanges. It is reasonable to assume that local schools will be similarly influenced. It is also reasonable to assume that expending some local resources on providing an international perspective for local students constitutes a good investment in enriching their education. The question becomes one of how much to spend given a defined education objective.

The United States has many institution of higher education that actively encourage foreign students to enroll. These colleges offer some of the best educational services available anywhere in the world. Foreign countries realize the value of the educational opportunities available in the USA, so they willing pay the full cost of an education for their student to study here. The University of Washington charges foreign students over \$28,000/year to study full time. This covers the full cost of the foreign student while allowing the university to incorporate an international ambience into campus life. Many other universities promote similar educational opportunities, and they charge similar tuition to cover the cost of foreign students.

The federal government has prime responsibility in this country for foreign affairs and relations. The discharge of this responsibility is reflected in the operation and funding of the Fullbright Program. This program provides scholarships for USA student to study abroad and for foreign students to study in USA institutions. The scholarships are jointly funded by the USA and the participating foreign governments. The current USA budget for this program is \$238 million per year. This program is funded by all federal taxpayers with the objective of fostering international understanding and cooperation.

Given that the federal government is active in financing international education and that many nations are more than willing to pay the full cost for the education of their students

at USA institutions, how much should state and local taxpayers invest in educating foreign students? I contend that this commitment should be very modest. If HCC wants to offer educational services to the international market at price that cover their full cost, I would encourage it. The school and the community would both benefit from the international commerce and cultural contacts. If HCC wants state and local taxpayers to finance their international initiatives, I raise my voice in respectful disagreement.

HCC's taxing district overlaps several other taxing districts. If HCC were not directing the current tax sums to financing international students, other taxing entities could raise taxes for many pressing local issues without causing the tax burden on individual taxpayers to increase. HCC's tax reduction would offset other local tax increases. Local roads need repair and replacement; drainage work is a pressing need in many neighborhoods; and many neighborhoods need more police officers on patrol.

Another alternative is to apply the tax subsidies that currently finance the education of international students to an across-the-board reduction in tuition and fees for in-district students.

There is always the alternative of returning the tax money to the ones who currently pay it. We have a choice. We can subsidize the education of student from around the globe or we can direct the tax to local or state issues. The world will no doubt be better off if we do the former, but we will sacrifice the opportunity to enhance local public benefits in order to reach such international objectives.

I presented an early draft of this paper to an official at HCC. This official responded informally via email to the issues I raised with one of the most deceptive and specious series of arguments that I have ever encountered. Naturally this informal response is not an official policy statement, but I have good reason to believe that it represents what such a statement would look like should one be issued. My best guess is that this official was coached by someone who wished to defend current HCC policy. Mentioning this official's name accomplishes nothing of value, so this official shall remain anonymous. I will summarize each of the official's responses, and I will attach my point-by-point refutations.

This official indicated that I made the following errors in analysis:

**1. The HCC official stated:** "You included in expenses monies we do not use for educating our students such as depreciation and auxiliary expenses."

First, auxiliary enterprises needs to be defined. Auxiliary enterprises are separate business activities at a college that furnish goods and service to students, faculty, staff, other institutional departments, or incidentally to the general public. Auxiliary enterprises charge a fee directly related to, although not necessarily equal to, the cost of providing the good or service. Some examples are food services, health services, athletics, and parking.

My response: I specifically offset auxiliary expenses with auxiliary revenue. The 2011 entries are:

Auxiliary Revenue	\$14,535,914
Auxiliary Expenses	<u>14,607,330</u>
Deficit	(71,416)

This small operating deficit is an expense that HCC must cover with revenue from other operations. The other operations are educating students, so this expense gets added to the expenses associated with educating students.

Depreciation is an accounting convention that reflects the empirical reality that there is a cost associated with providing the services of long-lived assets like buildings, classroom furnishings and information technology equipment. All of these long-lived assets are used in the education of students so their costs should be properly reflected in the cost of educating the students.

**2. The HCC official stated:** "International students move here and pay various taxes (ie. sales tax, property tax, gas tax, etc.)."

My response: Yes, international students pay certain local taxes directly and indirectly. They also benefit from local public services. How much in taxes would an international student living in Houston have to pay per year in order to offset the \$4,185 that his or her education is subsidized?

Rental of property on the tax roll for \$100,000 :

HISD	\$100,000 X \$1.160/\$100	\$1,160
Harris County	" .400/\$100	400
H.C. Flood Control	" .028	28
Port of Houston	" .019	19
H.C. Hospital	" .182	182
H.C. Dept. of Edu.	" .006	6
HCC	" .097	97
City of Houston	" .638	<u>638</u>
Sub Total		\$2,530
Taxable purchases of \$20,061 (8.25%)		<u>1,655</u>
Total-		\$4,185

I leave it up to the reader to decide if the average international student lives in a \$100,000 residence and purchases as much as \$20,000 in taxable products and services. This would be the gross taxes paid. Every resident of Houston receives benefits from taxes paid such as police and fire services and transportation services, so the net contribution to taxing entities is going to be the difference between the gross taxes paid and the services or benefits received. Given this scenario, an international student would indirectly pay taxes to HISD and receive few or no benefits in return. Compare this scenario to the taxes paid to the City of Houston which provides public safety services that benefit the student. Taking this analysis one step further, the student pays state sales tax some of which is returned to HCC to finance the education of the student.

A complete economic analysis of international students at HCC is complex and well beyond the scope of this paper. If the reader is interested in the methodology used in such an analysis, refer to: Economic Impact of International Education at Public Post-Secondary Institutions.<sup>3</sup> This report is predicated on the assumption that the surveyed schools set their tuition and fees at "cost-recovery level" (page 9). HCC does not fully cover its costs for international students, so any macroeconomic analysis of HCC's education of international students would have to factor in the state and local tax subsidies. Suffice it to say that the average international student at HCC would have to live well and spend generously to provide a net economic benefit to the local economy.

Consider an alternative. Use the funds that currently subsidize the education of international students to lower taxes paid by local citizens and property owners. These citizens, on average, currently pay the full cost of the public benefits they receive, so a tax savings would add directly to their discretionary income. They could purchase additional products and services, or they could save the amount of the tax reduction. In either case, local citizens benefit.

**3.The HCC official stated:** "HCC budgets for a designated number of students each year, say 75,000 total students which translated into roughly 34,000 full-time equivalent students. HCC can add approximately 7,500 additional international students at virtually no additional cost; therefore, the additional revenue associated with these students represents a profit for HCC. This additional revenue includes both tuition paid by international students and state appropriations paid based on the number of semester credit hours taught."

My response: Well managed business entities will pursue profitable opportunities until there is no profit remaining in the particular activity. If HCC is making a good profit on international students, HCC should continue to enroll more international students. In fact, HCC could make so much profit on international students that local taxpayers will no longer have to subsidize its operations through ad valorem taxes.

This is obviously taking the HCC official's argument and pushing it to an extreme in order to demonstrate that the initial claim of "profitability" has no merit. Given HCC's costs and tuition rates there is no chance that enrolling any additional students will be, on average, profitable for HCC if quality standards are to be maintained.

The contention that some additional students can be enrolled at HCC without imposing additional costs has some validity in the short run(1-2 years). If faculty members are employed so as to establish a student to faculty ratio of 17, one or two additional students can be added, in the short run, to each class at little or no additional cost. Naturally, if the 1 to 17 ratio was initially established so that professors can have adequate time to address student concerns and needs, the higher ratios will eventually affect the quality of the learning experience as the additional students place demands on the professor. In the long run, a college must hire additional professors if it intends to maintain a student to faculty ratio of 17. When these professors are hired their cost must be accounted for by the extra

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<sup>3</sup> <http://www.aved.gov.bc.ca/publications/docs/int-ed-report060405.pdf>. This paper analyzed the economic impact of international education in British Columbia.

students who pushed the student-to-faculty over the 17 mark(tipping point)that was established as a benchmark for quality. In the final analysis, the cost, on average, of every student must be covered by revenue. This revenue can be various combinations of tuition, taxes and other funds. The total of all of these revenue sources per student must on average, equal or exceed the average cost per student or the college will lose money. The contention that HCC can enroll between 5,919 and 8,157 international students at costs per student lower than the cost per student of its in-district and in-state students is nothing but an effort on HCC's part to justify a policy that is being heavily subsidized by state and local taxpayers. It's a deceptive argument that raises serious questions about HCC's willingness to transparently report its true costs to the public.

Readers who have some training in business accounting and economics will recognize that the above argument is bases on "marginal cost pricing". The paragraph below addresses this idea as it applies to HCC.

The HCC official additionally indicated that HCC could not reduce it total operating cost if the international students were not enrolled suggesting that their presence has little or no effect on operating costs. This is not accurate. HCC provides a service-education. While HCC incurs certain fixed costs that can not be materially reduced in the long-run such as the cost of buildings, most of HCC's costs are for personnel which can be reduced significantly in the long-run. Fewer students; hire fewer professors, administrators and counselors.

As noted at the beginning of #3, the HCC official included the state appropriation as part of the revenue that produced the so-called profit on international students. This state appropriation is based on the number of semester credit hours taught and classroom contact hours. This official is essentially treating state money as if it came from the international students in a two-party transaction as payment for services received. This is tax money exacted from state citizens and residents for the purpose of subsidizing higher education so that it is affordable to a large percentage of the citizens(a merit good). The HCC official was treating HCC as a operating entity separate from the state and taxpayers who subsidize it. This strongly suggests that HCC is taking a very narrow view of its obligation as a state entity to use resources providently as it expands its activities into foreign countries.

HCC's international interests are numerous and varied. These varied interests include:  
 Office of International Student Services  
 Office of International Initiatives  
 Community College of Qatar, since May, 2010  
 Saigon Institute of Information Technology, since June, 2001

The financial statements covering HCC's operating agreement with the Community College of Qatar (CCQ) show:

	<u>2010</u>	<u>2011</u>	<u>2012-unaudited</u>
Income	\$1,358,845	\$4,587,566	\$6,682,193
Expenses	<u>1,513,132</u>	<u>4,411,036</u>	<u>6,128,576</u>
Net	(154,287)	176,530	553,617 = \$575,860

The CCQ reimburses HCC for expenses plus some provision for overhead costs. This working agreement is a good illustration that HCC can sell some well-designed education service in the international market and recover the full costs of providing those services.

The 2011 Statement of Revenue & Expense for Saigon Tech is reproduced in Exhibit 2, page 13. This venture lost money in 2011. This loss was offset by a cash profit on the operation at the CCQ; still, the loss raises the question of whether the benefits are worth the costs.

In summary, HCC has apparently made a conscious decision to expand its local mandate and become one of the national leaders in the education of international students. This initiative can benefit local students by exposing them to the diverse cultures and perspectives in the global environment. In addition, the community can benefit from the international contacts and exchanges. Given that the vast majority of HCC's expenses are paid with tax funds of various kinds, the issue becomes one of how much are taxpayers willing to pay to secure these benefits for local students and the community. I contend that 1% of total expenses, approximately \$4,000,000, is a reasonable amount to invest in international ventures. Compare this amount to the estimated cost of the current subsidy for international students of \$17,275,881 to \$26,463,956.

There are many compelling alternative local public uses for funds HCC currently devotes to educating international students. In addition, our society is already devoting resources to the education of international students through activities like the Fulbright Program. Texas institutions of higher education that offer baccalaureate, masters and doctors degrees enroll many international students. HCC needs to reevaluate its international operations. It should significantly reduce the number of enrolled, subsidized international students. It needs to acknowledge that its international interests should be modest unless such efforts are fully self-funded. This more modest operating agenda may not be glamorous and it may not garner as many headlines, but it will show respect to the citizens who finance most of HCC's operations and allegiance to the spirit of Education Code's mandate "to primarily serve its taxing district".

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Exhibit 1

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

OPERATING REVENUE	<u>2012</u>	<u>2011</u>
Tuition and Fees, Net of Discounts	\$ 70,263,778	\$ 67,907,897
Federal Grants and Contracts	16,848,269	16,064,089
State Grants and Contracts	5,152,251	6,448,589
Local Grants and Contracts	95,226	275,085
Non-Government Grants and Contracts	2,497,892	1,283,150
Sales and Services of Educational Activities	329,383	369,530
Auxiliary Enterprises	<u>17,248,673</u>	<u>14,535,914</u>
Total Operating Revenues	<u>112,435,472</u>	<u>106,884,25</u>
OPERATING EXPENSES		
Instruction	105,922,654	112,617,878
Public Service	11,893,218	11,766,675
Academic Support	19,766,340	19,616,391
Student Services	30,377,150	31,901,438
Institutional Support	50,823,418	55,747,070
Operations and Maintenance	28,005,711	28,350,817
Scholarships and Fellowships	61,504,372	65,346,087
Auxiliary Enterprises	18,848,802	17,067,466
Depreciation	<u>18,848,802</u>	<u>17,067,466</u>
Total Operating Expenses	<u>342,878,460</u>	<u>357,021,152</u>
OPERATING LOSS	<u>(230,442,988)</u>	<u>(250,136,898)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	81,839,826	84,838,315
Maintenance Ad Valorem Taxes	105,943,722	94,083,625
Debt Service Ad Valorem Taxes	17,694,297	21,736,440
Gifts	2,053,638	1,573,601
Investment Income, Net	789,917	566,945
Interest on Capital Related Debt	(28,498,392)	(29,424,886)
Title IV Grants	102,023,662	96,171,936
Nursing Shortage Reduction	14,038	151,786
Hurricane Ike Expenses (Net of Recoveries)	11,635	(284,103)
Other Nonoperating Revenues	9,329,493	6,153,631
Other Nonoperating Expenses	<u>(11,256,714)</u>	<u>(10,550,397)</u>
Net Nonoperating Revenues	<u>279,945,122</u>	<u>265,016,893</u>
INCREASE IN NET ASSETS	49,502,134	14,879,995
NET ASSETS, BEGINNING OF YEAR	<u>282,424,690</u>	<u>267,544,695</u>
NET ASSETS, END OF YEAR	<u>\$ 331,926,824</u>	<u>\$ 282,424,690</u>

Exhibit 2  
Reproduction of Income Statement for Saigon Tech

Houston Community College  
Statement of Revenue & Expense  
Saigon Tech  
Fiscal Year Ended August 31, 2011

REVENUE	
Other Sales and Service Non Tax	<u>\$48,000</u>
Total Revenue	\$48,000
EXPENDITURE	
Supplies and General Exp.	57,468
Credit Card/Tele Ck Exp.	24,814
Other Supplies & General	500
Travel in District	(548)
Travel International	<u>71,048</u>
Total Expenditure <sup>i</sup>	153,282
Revenue Minus Expense	(\$105,282)

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<sup>i</sup> This figure includes one-time expenses associated with the reaffirmation of HCC'S accreditation with the Southern Association of Colleges and Schools Commission of Colleges (SACSCOC)