The New Learning Contract:
FINANCING TRANSFORMATION

Reimagining Resource Allocation for Learning-Centered Education in California's Community Colleges

This is the third in a series of companion briefs accompanying *The New Learning Contract: California's Path to Direct Assessment Competency-Based Education*, which treats DA-CBE as a lever for broader transformation of higher education. The first brief established learning as the organizing principle of that transformation, defining learning as what students know and can do rather than what courses they have taken. The second extended that argument into the labor market, making the case for a reorientation of workforce education around learners' long-term employment trajectories rather than employers' short-term demand signals. This brief addresses the condition on which both arguments depend. California has made an early investment in DA-CBE. Without redesigning how that investment is financed long-term, it will remain aspirational rather than operational, at risk of being pulled back into the structures it was designed to escape.



DA-CBE requires a financing foundation that is not built on the credit hour. Financing reform is the key to creating and sustaining that new foundation.

Why the Financing System Has to Change

The credit hour organizes California's community college courses, and it also organizes funding, financial aid eligibility, faculty workload, and institutional accountability. It is the load-bearing assumption of the entire architecture. DA-CBE does not offer an alternative delivery model within that architecture. It removes the credit hour from the foundation. That is why financing reform is not a downstream implementation detail. It is what determines whether the vision of learning-centered, trajectory-oriented education[1] can be sustained at scale or whether it remains a demonstration project the fiscal structure cannot support without pulling back to the traditional architecture.

The second brief argues that workforce education has been oriented toward the preferences of its most deferred-to stakeholder, employers, rather than the needs of its most important one, students. Similarly, financing has been organized around what is administratively legible rather than what is educationally meaningful. Seat time is easy to count, audit, and fund. Mastery, learning, and competency development are harder to measure and thus harder to price. The system defaulted to the former not because anyone decided learning did not matter, but because the alternative required infrastructure that did not yet exist. DA-CBE builds that infrastructure.

Structural Challenges the Current System Cannot Resolve

Three compounding challenges make clear that incremental adjustment of the current financing model is not sufficient, and each one is structural. Together, they describe a system that has reached the limits of what its original design can support.

Student Cost and Liability

Students bear the financial risk of non-completion course by course, without knowing what the full program will cost.

Compensation and Revenue Limitations

Personnel costs consume 80–85% of district budgets, leaving almost no room for modernization or infrastructure investment.

The Eroding Business Model

The current model was built for growth and stable costs. It was not built for declining enrollment, volatile revenues, or rising fixed expenses.

Student Cost and Liability

Across public higher education, students bear the financial risk of their educational investment course by course, without a guarantee of financing to reach credential completion. At the same time, public confidence in the value of that investment has fallen sharply. In 2015, 57 percent of Americans reported confidence in higher education. By 2024, that figure had dropped to 36 percent, with cost cited as one of the three leading drivers of declining trust.[2] Time spent without a credential, accumulated fees without a return, and the risk of non-completion all fall on the learner rather than on the institution that designed the program or the state that authorized it.

The course-based tuition model emerged from an era in which completion was the expected norm and the financial risk of not completing was not a design consideration. That logic made sense for a different labor market, a relatively accessible price point, and a different student population. It does not make sense for the continuous, trajectory-oriented model that DA-CBE requires, or for a moment in which students and families are asking with increasing urgency whether the investment is worth it.

Compensation and Revenue Limitations

When 80 to 85 percent of a California community college district's budget goes to compensation-related costs, including salaries, retirement, health care, and related expenses, the share available for modernization, experimentation, or infrastructure investment shrinks to near zero.[3] The core problem is not that personnel costs are too high, but that a financing structure built around them leaves institutions with almost no capacity to build what a learning-centered model requires. The people who staff these institutions, from faculty to student support to administration, are working inside a fiscal architecture that was not designed to support the kind of work they are increasingly being asked to do. What limits them is not their ambition but the structure around them.

The challenge extends beyond personnel costs to the revenue limitations that compound them. Community colleges have limited ability to generate the alternative revenue streams, state or otherwise, that modernization would require. Categorical programs are narrow by design, the base apportionment formula was not built to reward innovation, and regulatory constraints limit the kinds of partnerships and pricing arrangements that might otherwise create reinvestment capacity. The result is institutions facing growing pressure to evolve but without the fiscal capacity to fund their own transformation. Personnel costs consume what the state provides, and everything else has to come from a place the financing architecture was not designed to reach.

The Eroding Business Model

The two challenges above are symptoms of a deeper structural condition. The higher education business model that California's community colleges were built around is failing. It was built on assumptions of continued enrollment growth and relatively static expenses, and it depends on state revenues that carry unpredictable fluctuations.

Institutions in declining industries often attempt to optimize the existing system while the conditions that made that system viable continue to erode. The alternative is not to abandon what works but to focus on building what comes next before the need becomes a crisis.

Between 2010 and 2025, the share of Americans who considered college "very important" dropped from 70 percent to 35 percent.[4] Demographic shifts are reducing the traditional college-age population in many regions. Federal and state funding instability is compressing institutional budgets nationally. Public skepticism about the return on educational investment is shaping enrollment behavior in ways the current financing model did not anticipate and cannot easily absorb.

Without deliberate investment in testing new financing models, California's community colleges risk doing what institutions in declining industries often do, which is to attempt to optimize the existing system while the conditions that made that system viable continue to erode. The alternative is not to abandon what works but to focus on building what comes next before the need becomes a crisis.

Toward a New Financing Architecture

DA-CBE's instructional model makes a different financing logic both possible and necessary, and that connection has not yet been realized in how the state has approached funding innovation. When learning is organized around validated competencies rather than bundled courses, the true costs of education become visible. Assessment development, coaching, competency validation, and credential issuance are costs that the credit hour bundles and obscures. Making them visible is the precondition for funding them appropriately, and it is the precondition for the kind of transparent program pricing that shifts risk from learner to institution.

DA-CBE does not just offer a new delivery model. It makes the true costs of education visible, disaggregating what the credit hour has long bundled and obscured. That transparency is the precondition for funding those costs appropriately.

This is the as yet unrealized opportunity. In an era of rising student cost, declining public trust, and real scrutiny of whether higher education delivers on its promise, DA-CBE is the concrete place where delivery model and financing model can finally be reconciled. The instructional architecture makes the financing reform possible, and the financing reform is what makes the instructional architecture sustainable at scale.

What follows is a framework for what financing reform could look like in practice, organized around four distinct revenue streams that together constitute a foundation for a new financing architecture for California's community colleges. Each stream addresses a different dimension of the structures needed to effectively support modern learners over a lifetime. Each has a distinct funding logic. And each is enabled, in ways prior reforms were not, by the competency-assessment infrastructure that DA-CBE builds. None of the funding constructs described below exists yet in California policy. Each is offered as a framework for what the DA-CBE pilots could test and what future legislative and technical work could build toward.

Revenue Stream	*Purpose and Funding Logic*
Base Institutional Funding	Sustains institutional capacity, keeps doors open, and supports the community mission regardless of enrollment fluctuations
Whole Program Cost	Funds milestone credentials at the program level, creating relative stability through a knowable, multi-year price point and shifting financial risk from learner to institution
Career Mobility and Employability Infrastructure	Funds the sustained walk-alongside relationship and the career navigation infrastructure that trajectory-oriented education requires
Learner Competency Portfolio Development	Funds discrete competency validation and portfolio development as a fundable infrastructure and activity in its own right, so that demonstrated learning counts toward credentials whether it occurs in credit, noncredit, or workplace settings.

Base Institutional Funding

No new financing architecture succeeds if the institutions that must implement it cannot keep their doors open. The first revenue stream is foundational. It provides a stable base of institutional funding, untethered to apportionment, that sustains the capacity to serve communities, regardless of short-term enrollment fluctuations or the uneven pace of reform implementation.

This stream is not a new idea, but it requires explicit recommitment in the current fiscal environment. Declining enrollment demographics, volatile state revenues, and rising fixed costs are creating pressure on institutional viability in ways the current apportionment formula was not designed to absorb. California does not want higher education deserts, and the legislature has consistently acted on that value. What this architecture asks is that the commitment be made explicit, and that base funding be designed to hold institutions steady while the other three streams are built and tested.

Whole Program Cost

The most direct structural failure of the current model is that students do not know what completing a credential will cost when they begin, and institutions have no mechanism to price or fund full programs rather than individual courses.

Currently, students pay per course and institutions receive state funding based on cumulative credit enrollment each term. This creates a quiet but consequential misalignment: the financial incentive for colleges is to maximize credit accumulation, not credential completion. A student who takes courses outside their program of study, repeats a course, or simply enrolls in more units than their program requires generates more apportionment than one who moves through efficiently. Students bear the cost, in both time and money. Reform efforts have attempted to address this by layering performance-based incentives on top of the existing structure, but the national research has shown that this has not demonstrated meaningful change.[5] When total state funding remains relatively static and safeguards are built in to prevent significant institutional revenue swings, performance-based funding cannot drive meaningful change because the financial stakes attached to it are too small to shift institutional behavior.



Whole Program Cost pricing and funding keeps the price point and apportionment static while leveraging validated competency achievement as a trigger for the release of funds. Institutions are paid for each competency milestone a student reaches. The financial incentive now points in the same direction as the outcome the state actually wants. DA-CBE programs are the right place to test this funding model because they already have the infrastructure it requires. Assessing students against defined competencies and documenting when those competencies are demonstrated is the core of how the model works.

But designing this funding model requires solving a problem the current system has never had to answer. Pricing a whole program requires understanding what delivering that program actually costs, and in a DA-CBE model, that cost structure looks meaningfully different from traditional instruction. Faculty roles shift from content delivery toward competency coaching and assessment, reducing some

costs while increasing others. Technology infrastructure carries more of the instructional load. Industry partners may take on roles in competency validation that were previously internal. These examples represent a different allocation of labor and resources that current cost-accounting frameworks aren't designed to capture. Any serious attempt to set whole program pricing must grapple with this new cost structure, or it risks either underpricing programs in ways that threaten institutional sustainability or overpricing them by carrying forward cost assumptions that no longer apply.

Career Mobility and Employability Infrastructure

There is a growing expectation, from policymakers, employers, and students themselves, that higher education should deliver a measurable return on investment. That expectation is relatively reasonable. Delivering on that return, however, requires institutions to address mobility outcomes directly, and most were designed to provide access and instruction while leaving employment mobility outcomes to the labor market. To consistently produce economic mobility outcomes at scale, the infrastructure to support workers through career placement and transitions over a lifetime has to be deliberately built and deliberately funded.

This stream creates two mechanisms to do that. A continuous enrollment framework allows credential completers to maintain lower-cost enrollment status, preserving access to coaching, competency validation, and portfolio development without requiring course re-enrollment. Paired with this is a trajectory account, a portable, state-supported learning credit that workers draw on across institutions and over time, at the moments their careers require it rather than when a semester calendar permits. The Employment Training Panel, already oriented toward incumbent worker development and funded through employer payroll taxes, is one example of this type of funding mechanism.[6]

Both mechanisms depend on the assessment and portfolio infrastructure that DA-CBE builds. Without a system for tracking and validating competencies across time and institutions, neither continuous enrollment nor trajectory accounts can function with integrity. These mechanisms also depend on the availability of a portable, validated record of what a worker knows and can do that persists across employers, institutions, and career transitions. Building and maintaining that record, and funding the institutional infrastructure to do so, is what the following stream addresses.

Learner Competency Portfolio Development

California's community colleges have always served workers, whether as points of entry, as pathways to new careers, or as places to build foundational skills. What the information and technology economy now demands is that higher education play a more enduring role in that relationship. Skills evolve faster than credentials can track them. Workers build capabilities on the job, through experience, and through transitions that no transcript currently captures. The institution that can

validate and document that ongoing development, not just at the moment of initial credential, but across the arc of a career, is doing something higher education has rarely been structured or funded to do.



DA-CBE enables that shift from point-in-time credentialing to lifelong validation of capability. When the currency of education is demonstrated competency rather than credit hours, the distinction between credit and noncredit instruction becomes irrelevant. A worker validating a skill developed on the job is doing the same thing the system was deliberately designed to do. This stream funds the institutional infrastructure to serve that worker, not on a semester schedule, based on a course design, or in a fixed program format, but on demand, episodically, and over time. A worker returns not to take a course but to demonstrate what they know, have it assessed against a defined standard, access supplemental instruction where needed, and have the result added to a portable record that travels with them and grows with each return.

The funding construct matches that reality. It is organized around the individual, not the enrollment category. A learner holds access to a validation infrastructure that can be accessed as their career requires it, funded through familiar financing vehicles such as student-paid subscriptions, a state-supported account similar in logic to an individual training account, an employer investing in their existing workforce, or workforce development funds supporting a worker in transition. The revenue source may shift with the worker's circumstances. What stays constant is the institution's role as the ongoing provider of competency validation.

Design Shifts for a New Financing Model

The financing model that DA-CBE requires is not a modification of the existing one. It assumes a fundamentally different relationship between institution and learner, one in which students are not one-time customers moving through a single credential event but ongoing participants whose engagement with the institution extends across the arc of their working lives. That shift has practical implications across three dimensions of institutional design. The first is how learning is measured and funded. The second is how instruction is staffed and delivered. The third is how the institution sustains its relationship with the learner beyond a single credential event. The shifts below name what each dimension requires.

Design Shift	*From:*	*To:*
How education is priced	FTE and seat time	A committed program price, set before enrollment begins, that covers the full cost of completion regardless of duration
How credentials are defined and funded	One-time, transactional credential event funded through tuition and apportionment based on the credit hour	Ongoing learner relationship, with distinct financing constructs for foundational credentials and continuous career mobility
How instruction is staffed	Solo faculty, course-centric staffing model	Team-based instruction that aligns staffing with learning needs, with coaches, assessors, and technology infrastructure as core to the instructional model
How institutions serve learners	Episodic, transactional enrollment relationship	Ongoing relationship with the learner across the full arc of credential completion, career transition, and continuous upskilling
How institutions fund innovation	Budgets constrained by fixed personnel costs and limited revenue flexibility	Structured financing pathways for institutions to test, modernize, and sustain innovation

The four revenue streams described in the preceding section are the practical expression of these shifts. Base funding, coupled with full funding for the whole program costs, reorients the apportionment logic away from credit accumulation and toward competency achievement. Institutions are compensated for validated learning, not seat time. That single shift changes both what gets measured and what gets resourced, addressing the pricing and staffing dimensions at the same time. Whole Program Cost pricing operationalizes committed program pricing directly, capping institutional revenue at the cost of completion and shifting financial risk from student to institution. The Career Mobility stream is the most direct response to the walk-alongside funding gap. It facilitates the enrollment status and trajectory account mechanisms that sustain the institutional relationship beyond credential completion, filling a category the current apportionment structure does not have. The Learner Portfolio stream closes the loop by funding the individual-based validation infrastructure that makes the other three streams function with integrity. Without a portable, persistent competency record, neither program pricing nor career mobility support has the evidence base it requires to operate. Together, the four streams attempt to restructure the institutional incentives that determine what colleges build, who they serve, and how long that relationship lasts.

The four revenue streams outlined in this brief are intended to signal the financial architecture of a higher education enterprise designed for the economy that exists, one where the institution's value is not measured by the credential it confers at the end of a program, but by the relationship it sustains across the arc of a working life.

Higher education has operated on a business model built for a different economy, one where a single credential event generated sufficient revenue and delivered sufficient value to justify the transaction, but that model is losing its hold. Individuals need institutions that can serve them across a career, not just credential them at the start of one. The economy needs partners that can develop and validate workforce capability on an ongoing basis, not episodic employer relationships built around curriculum input and advisory committees. The state needs a system that produces mobility outcomes at scale, not completion rates untethered to what comes next. The four revenue streams outlined in this brief are intended to signal the financial architecture of a higher education enterprise designed for the economy that exists, one where the institution's value is not measured by the credential it confers at the end of a program, but by the relationship it sustains across the arc of a working life.

Design Tensions and Honest Challenges

Advancing a new financing architecture requires honest accounting of the tensions it creates. Three deserve direct acknowledgment.

Tension	*Design Response*
Equity tensions need structural solutions.	Any move toward flexible, outcomes-based funding creates risk that equity commitments protected by currently funded categorical designations will be diluted. The counter-argument is that categorical fragmentation itself produces inequitable outcomes, and that students who most need coordinated support are most harmed by a system requiring them to navigate multiple disconnected programs. Both things are true. The design response is non-negotiable: explicit equity metrics built into every stream as a condition of funding flexibility, and disaggregated outcome reporting by student population as a structural requirement rather than an aspiration.
Assessment integrity is the load-bearing constraint.	Any model that ties funding to competency achievement risks creating an institutional incentive to credential students whether or not competency has been demonstrated. Statewide competency frameworks are the safeguard. Without a common external standard defining what counts as demonstrated competency, the incentive to credential will outpace the integrity of assessment. The case for common frameworks and the case for competency-based funding must be developed together, not sequentially.
Finance policy modernization is a requirement.	The finance policy environment, such as the 50 percent law, the Faculty Obligation Number, and federal financial aid regulations were each designed for a credit-hour-based system of education.[7] DA-CBE operates outside that system, which means these policies do not need updating. Instead, the finance policy environment for DA-CBE needs to be reconceived. A new business model requires new revenue stream constructs, new fund source negotiations, and new accountability structures, which requires an entirely new policy environment.

A Call to Build What Comes Next

The financing structure that California's community colleges operate within was built for a different theory of education, a different labor market, and a different relationship between learners and institutions. It was well-designed for its moment, and that moment has passed.

What this brief calls for is not a comprehensive redesign delivered at once, but a commitment by the state and legislature to invest in building the research base and testing the models that a new financing architecture will require. The DA-CBE pilots are California's testing ground, and what they demonstrate about what trajectory-oriented education costs, what it produces, and what accountability structures can sustain it is the evidence base that both state and federal reform will need.

California led the nation in making community college accessible. The financing work ahead is about making it coherent, building a system in which the money flows toward what the state has said it values, and the architecture of support matches the ambition of the learning contract it asks students to enter.

Institutions that cannot modernize their financing will not be able to build or sustain learning-centered, trajectory-oriented education at scale, and without that, demonstration projects remain demonstrations, the space between vision and execution persists, and students who most need a system organized around their trajectories will continue to navigate one organized around administrative convenience.

California led the nation in making community college accessible. The financing work ahead is about making it coherent, building a system in which the money flows toward what the state has said it values, and the architecture of support matches the ambition of the learning contract it asks students to enter. California's current DA-CBE pilots are the beginning of that work. The legislature's investment in building and testing what comes next is what makes it real.

About This Series

This brief is the third of three companion pieces accompanying *The New Learning Contract: California's Path to Direct Assessment Competency-Based Education*. Companion Brief 1 establishes learning as the organizing principle of DA-CBE transformation and introduces the competency portfolio as an evolving record of demonstrated capability. Companion Brief 2 extends that foundation into the labor market, making the case for a reorientation of workforce education around learner trajectories. This brief examines the financing structures needed to sustain trajectory-oriented, continuous-enrollment models at scale, and argues that fiscal reform is not downstream from the learning and workforce arguments. It is what makes them operational rather than rhetorical.

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Endnotes

1 Trajectory-oriented education organizes learning around the full arc of a learner's working life rather than around a single credential event. Rather than treating education as a front-loaded activity completed before a career begins, it treats learning as continuous and responsive to where a learner is in their employment journey. The institution's role extends beyond credential completion to include ongoing support for career navigation, competency development, and re-engagement over time.

2 Gallup. "U.S. Confidence in Higher Education Now Closely Divided." *Gallup News*, July 8, 2024. https://news.gallup.com/poll/646880/confidence-higher-education-closely-divided.aspx.

3 Legislative Analyst's Office. "The 2024-25 Budget: California Community Colleges." February 2024. https://lao.ca.gov/Publications/Report/4853.

4 *Education Next*. "The Consequences of Shattered Trust." March 2025. Citing Gallup survey data tracking the share of Americans who considered college 'very important,' 2010 to 2025.

5 Ortagus, J.C., Kelchen, R., Rosinger, K., and Voorhees, N. "Performance-Based Funding in American Higher Education: A Systematic Synthesis of the Intended and Unintended Consequences." *Educational Evaluation and Policy Analysis*, 42(4), 2020. https://journals.sagepub.com/doi/10.3102/0162373720953128.

6 California Employment Training Panel. "About ETP." https://etp.ca.gov/about-us/. See also: California Community Colleges Chancellor's Office. "Employment Training Panel." https://www.cccco.edu/About-Us/Chancellors-Office/Divisions/Workforce-and-Economic-Development/Contract-Education/Employment-Training-Panel.

7 The 50 percent law requires California community colleges to spend at least half their budgets on direct instruction, a protection designed to keep resources close to students. In a DA-CBE model, it draws the line in the wrong place, treating coaching, competency assessment, and technology infrastructure as non-instructional costs rather than core to the learning relationship. The Faculty Obligation Number anchors institutional staffing accountability to a solo faculty, course-centric model that DA-CBE does not use. Federal financial aid remains tethered to the credit hour through definitions of enrollment status, satisfactory academic progress, and program length, creating regulatory constraints on how DA-CBE programs can be designed and how students move through them. See: California State Auditor. California Community Colleges: The Fifty Percent Law Limits Districts' Ability to Fund Services Outside of the Classroom That May Better Support Student Success. Report 2023-126, October 2025. https://www.auditor.ca.gov/reports/2023-126/. See also: California Community Colleges Chancellor's Office. Full-Time Faculty Obligation. https://www.cccco.edu/About-Us/Chancellors-Office/Divisions/College-Finance-and-Facilities-Planning/Fiscal-Standards-and-Accountability-Unit/Full-Time-Faculty-Obligation. See also: U.S. Department of Education. Competency-Based Education Programs: Questions and Answers. Dear Colleague Letter GEN-14-23, December 2014. https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2014-12-19/gen-14-23-subject-competency-based-education-programs-questions-and-answers.