Mapping Community College Finance Systems To Develop Equitable And Effective Finance Policy

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March 2023

EXECUTIVE SUMMARY

HCM STRATEGISTS

The Imperative

The stakes for community colleges have never been higher. Growing talent gaps and concerns about student debt levels position them as the most affordable and accessible entry point to high-value credentials and degrees. And they are the main connection between states' education and workforce systems. In short, community colleges are central to building an economy that works for all Americans.

Yet most community colleges are not meeting their potential. Despite years of reforms, outcome gaps persist, leaving too many low-income and historically minoritized students behind. Community college enrollment has been dropping for years, a trend exacerbated by the COVID-19 pandemic. Enrollment of Black students has especially plummeted, erasing two decades of progress.

While many reasons exist for these trends, one root cause stands out: community college funding is largely inadequate, inequitable, and has not kept pace with the needs of students or institutions. Given the direct effect of resources on student success, it is hardly surprising that community colleges struggle to meet the economy's workforce needs and support students through to completion.

Equally important is the fact that community college finance systems are not working: they all too often contribute to inequities rather than address them. Community college finance systems include major recurring revenue sources and the policies that control their amount, distribution and use. These systems are shaped by complex, often contradictory, policies that accumulate over time, and they vary widely from state to state.

For community colleges to reach their full potential as drivers of prosperity and equity, states must create strong, stable, coherent finance systems that enable and incentivize colleges to better meet pressing state interests and student needs. As a first step, policymakers need clear, comprehensive and state-specific pictures of how current finance systems operate — crucial information that was missing from the literature until now.

By mapping and comparing three very different state systems, we reveal the diversity and complexity of how community colleges are financed and provide an analytical framework to support informed and effective reforms.

Mapping Community College Finance Systems

We mapped the community college finance systems in California, Ohio and Texas. These states vary in terms of location, demographics and the size and structure of their community colleges. Yet each state has recently seen notable efforts to change aspects of their community college finance system. Through extensive research and regular engagement with state policymakers, we identified and analyzed the policies that control each state's major revenue streams, their implications for institutional behavior and their effects on equity (see figure).

Figure 1: Four Elements of Community College Finance Systems

The community college finance mapping process includes four steps:

Step 1: MAP MAJOR REVENUE SOURCES. Determine the proportion of total revenue drawn from each of three major community college revenue sources: state appropriations, tuition and local recurring revenue.

Step 2: MAP POLICIES. Indicate how each revenue stream must be calculated, allocated and/or spent according to laws or regulations.

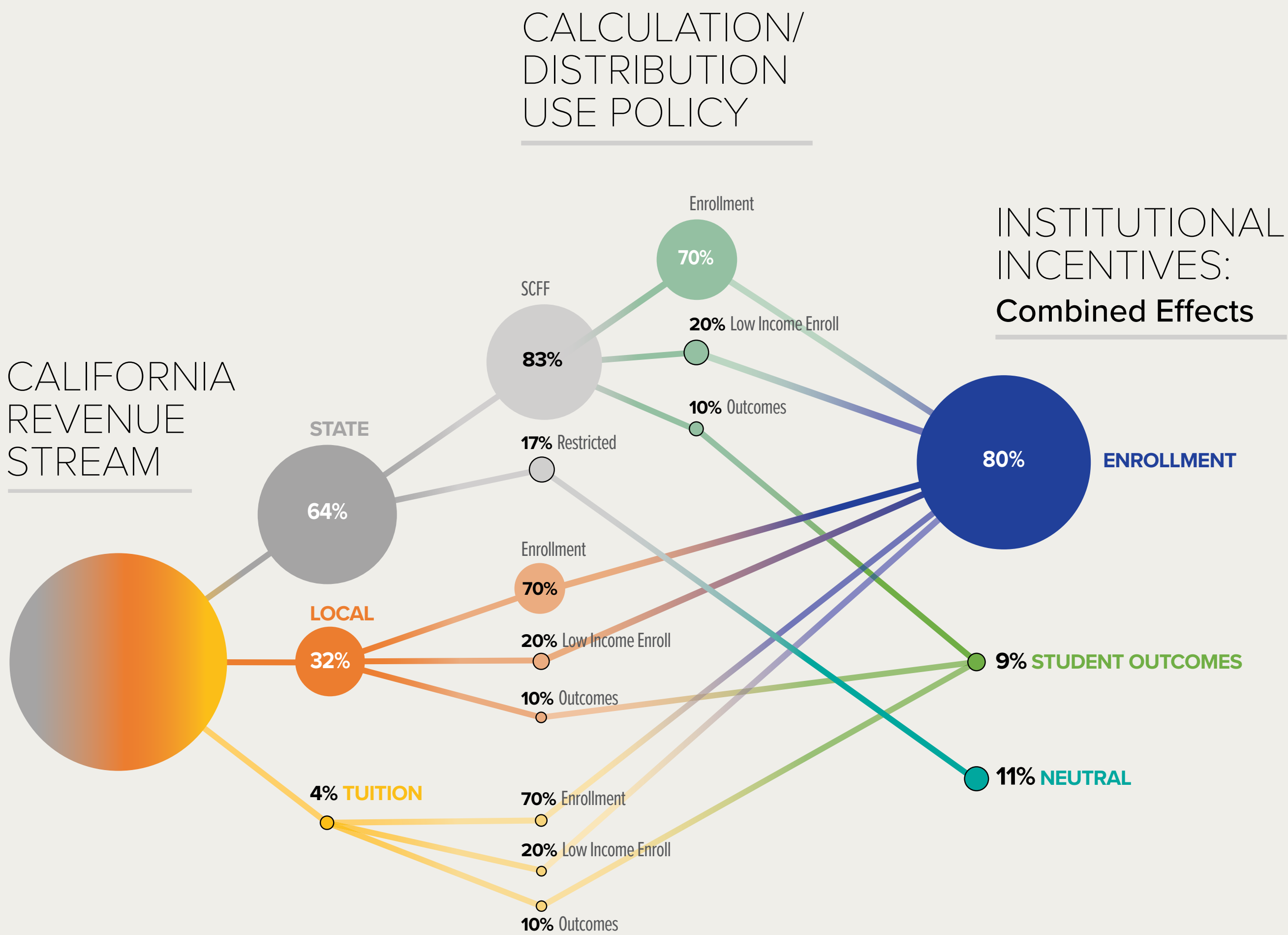
Step 3: MAP INCENTIVES. Determine whether and how each revenue stream and related policies create incentives for community colleges.

Step 4: MAP EQUITY IMPLICATIONS. Determine how revenue streams and related policies positively or negatively affect equitable funding across institutions and equitable outcomes for students.

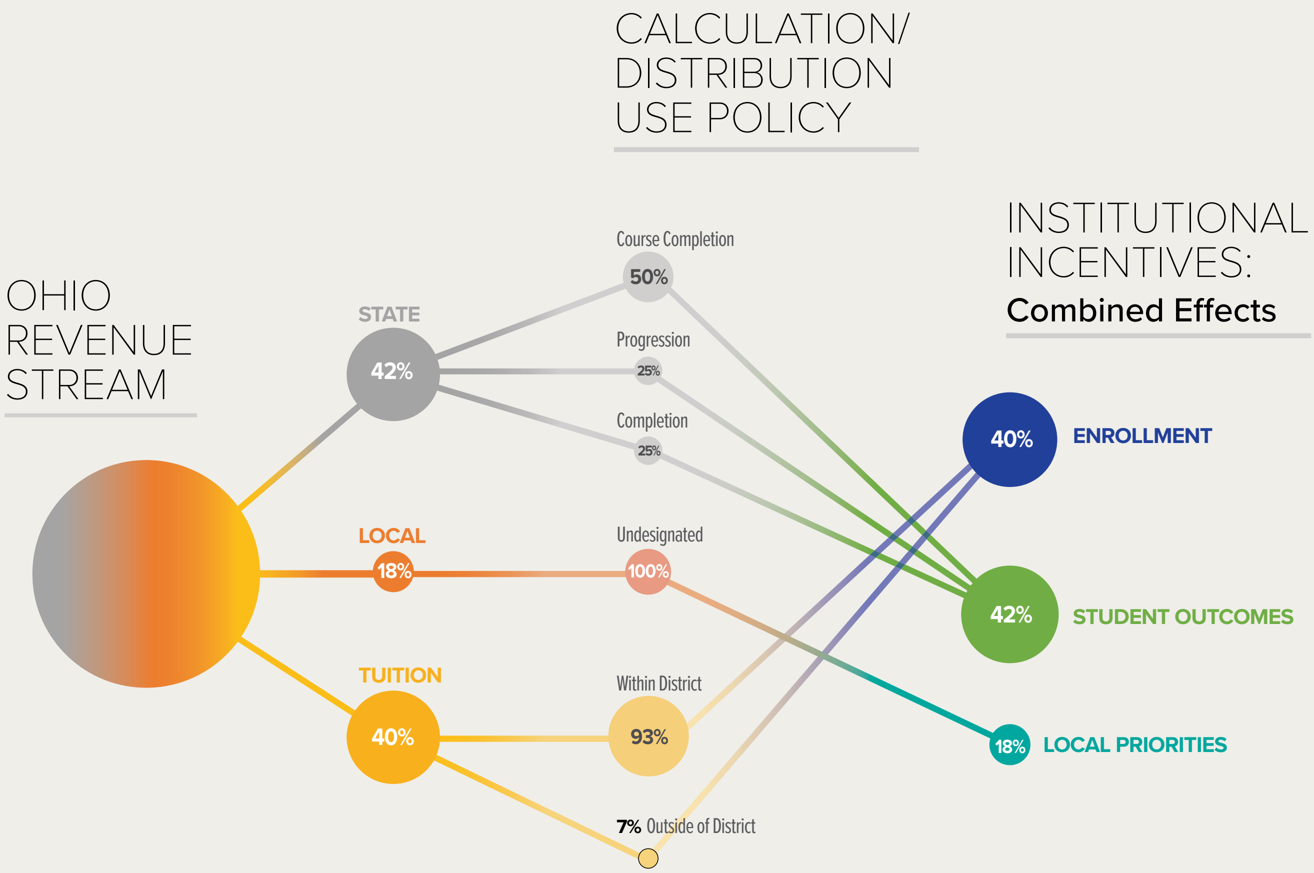
Results of the Mapping Process

The multistep, iterative mapping process provides a clear picture of how each state's policies drive the calculation, distribution and use of the three major community college revenue streams: state appropriations, tuition and local recurring revenue. Perhaps more importantly, it also produces a comprehensive picture of how these revenue streams and policies interact to create a finance system with distinct incentives for colleges and implications for both equitable institutional funding and equitable student outcomes (see figures for California, Ohio and Texas).

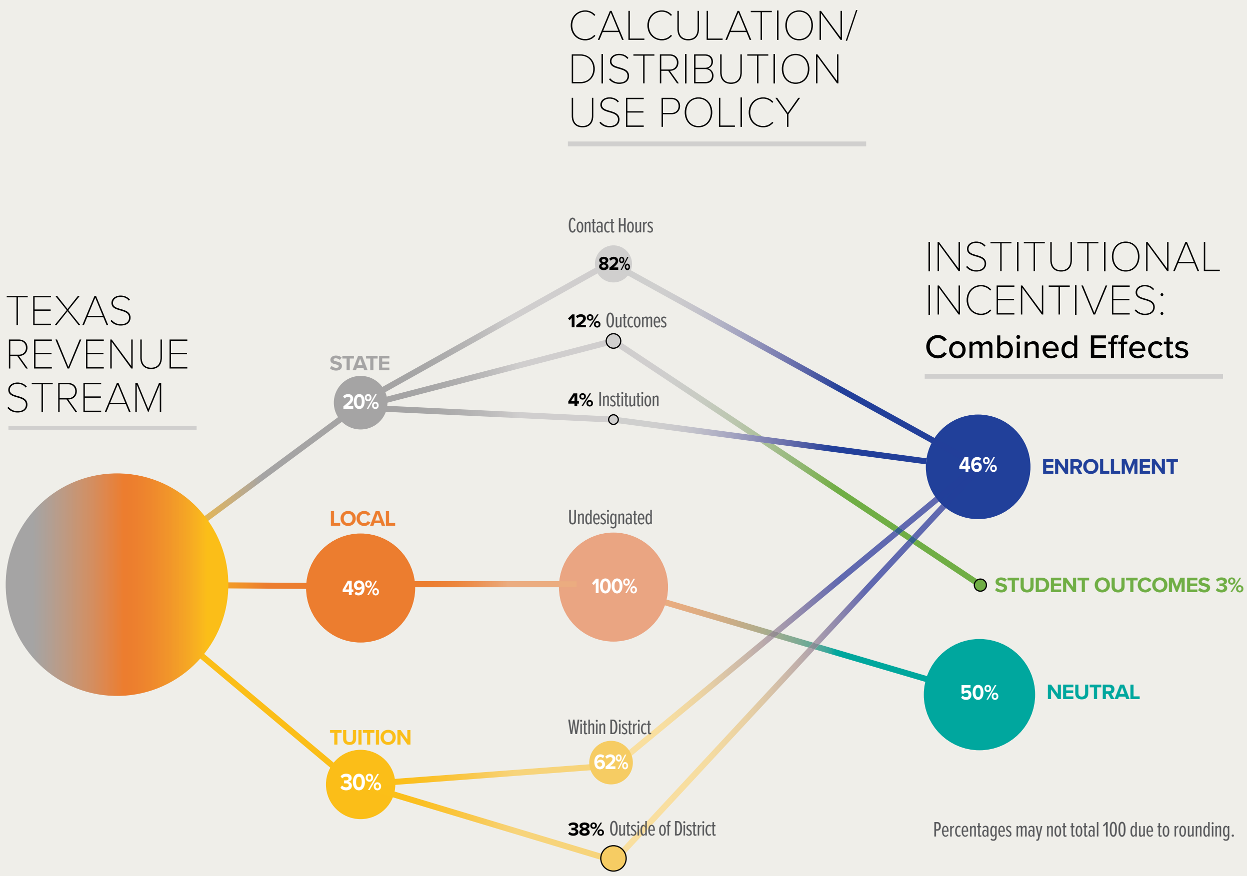
California's Community College Finance System Map



Ohio's Community College Finance System Map



Texas' Community College Finance System Map



These maps and our related analyses provide important insights, including:

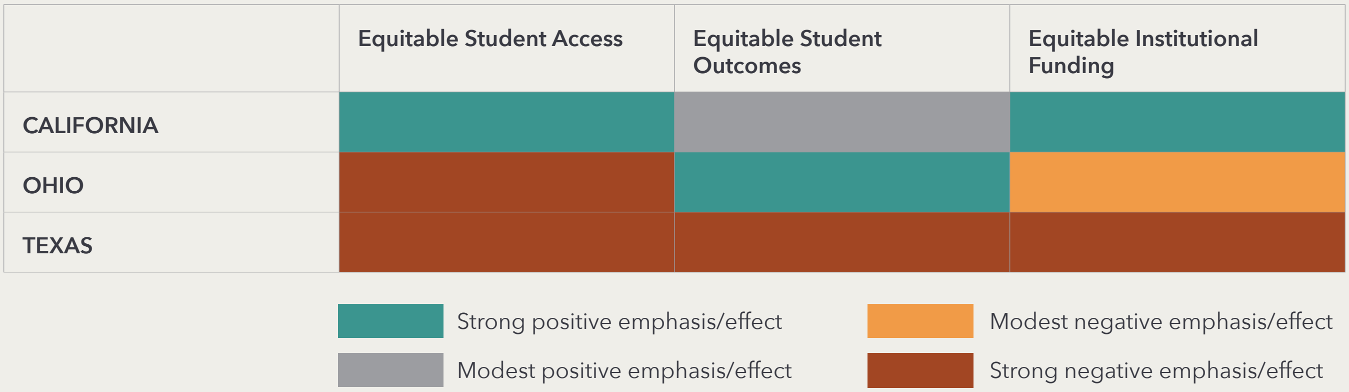
- The proportions of state, local, and tuition revenue vary substantially by state, but policies, not percentages, determine how much these differences matter. All three state finance systems strongly incentivize community colleges to focus on enrollment, with 80 percent of total revenue tied to enrollment in California, 40 percent in Ohio, and 46 percent in Texas.

- The percentage of total revenue that incentivizes student outcomes is quite modest in Texas (3 percent) and California (9 percent) and much larger in Ohio (42 percent), even though each state's finance system includes a student-centered funding formula.

Equity Effects of Community College Finance Systems

Community college finance systems also affect several aspects of equity: equitable student access and outcomes and equitable institutional funding. Breaking equity into these components provides insight on which finance system elements could be strengthened to increase equity (see table).

Finance System Effects on Incentives for Equitable Student Access, Equitable Student Outcomes and Equitable Institutional Funding



- California's finance system incentivizes equitable student access via low tuition rates, tuition waivers for low-income students, and tying part of each college's revenue to the number of low-income and undocumented students it enrolls. Incentives for equitable student outcomes are limited, but the state formula provides additional upfront dollars to serve low-income students. Institutional equity is high because of a key policy that directs state appropriations to make up for differences in local and tuition revenue, resulting in similar total funding per FTE student across colleges.
- Ohio's finance system does not incentivize equitable access, but robust equity metrics in the state appropriations formula encourage equitable outcomes. Local recurring revenue contributes to institutional funding inequities, but state control of tuition rate increases and the community college sector's relatively small reliance on local recurring revenue moderate that effect.
- The Texas finance system does not incentivize institutional or student equity. Policies allowing wide variation in tuition result in inequitable access. The current state appropriations formula lacks equity weights. Wide variations in total revenue due to different levels of local funding and the absence of state policy designed to equalize funding produce inequitable institutional funding.

How States Can Use Mapping to Develop an Effective and Equitable Community College Finance System

This is a time of both promise and peril for community colleges. As the most accessible and affordable pathway to postsecondary credentials, their importance to individual and collective well-being is likely to grow in the coming decades. A strong, effective community college sector is critical to the prosperity of people, communities, states and our nation.

Mapping community college finance systems reveals how state policy affects whether community colleges can meet their potential. By analyzing both the revenue streams and the policies that control them, these maps expose the diversity and complexity of community college finance systems. The maps also reveal competing incentives, misalignments with state priorities, and embedded inequities for both students and institutions. Moreover, they point to policy reforms that can create more coherent, equitable and effective funding environments.

The field is quickly reaching a consensus that community colleges must be funded effectively. Yet to truly enable community colleges to fulfill their potential, finance systems must be intentionally designed to incentivize and support institutional behavior that prioritizes student success, increases equity, and meets states' education goals and economic needs. The path forward is neither straight nor uniform. Each state must chart its own course, starting with a clear, usable map of where it is now and what policy levers can be reformed to create an effective finance system. Community college finance system maps provide the foundation for this process.

This report is part of Paving the Way to Equitable, Adequate and Effective Community College Funding, a research and policy development project conducted by HCM Strategists and Community College Research Center, where it is also housed. Launched in 2021, the project is funded by Lumina Foundation, the Bill & Melinda Gates Foundation, and Ascendium Education Group.

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