



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

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Foreword

This report is part of a larger research and policy development project conducted through a partnership between HCM Strategists and the Community College Research Center, where it is housed. The larger project, *Paving the Way to Equitable, Adequate and Effective Community College Funding*, was launched in 2021 and has three main goals: identify and cost out institutional practices that drive student success; determine how state postsecondary funding policies can better deliver adequate, equitable and effective community college funding; and build the capacity of the field to provide funding systems that increase student attainment and reduce equity gaps. A consortium of funders — Lumina Foundation, the Bill & Melinda Gates Foundation and Ascendium Education Group — supports the project.

The HCM team leads the policy strand, focusing on three states with varying economies, demographics, political environments and community college sectors: California, Ohio, and Texas. These states enroll a substantial proportion of the nation's community college students, and they are also at the forefront of recent major postsecondary finance and curricular reforms.

The question driving the policy strand is straightforward but central: How can states create **finance systems** that enable and incentivize community colleges to fully meet their potential? To answer this question, the team reviewed and analyzed state and system budgets, published and unpublished policy documents, and publicly available state and national data. We also conducted regular conversations with key policymakers, institutional leaders, advocacy groups and researchers in each state to ensure that our understanding was complete and comprehensive. Our analysis focused on the 2019–2020 fiscal year, before the COVID-19 pandemic's substantial but mostly temporary effects on both state and federal funding and policies.

Community colleges are key to an equitable and robust 21st-century economy. As states increasingly seek to address talent gaps and maximize education and employment gains, effective and equitable community college finance systems will be foundational to this work. It is our hope that this brief will provide a blueprint for how to achieve these goals.

A Glossary with terminology used in this brief is provided on Page 30.

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EXECUTIVE SUMMARY

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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.

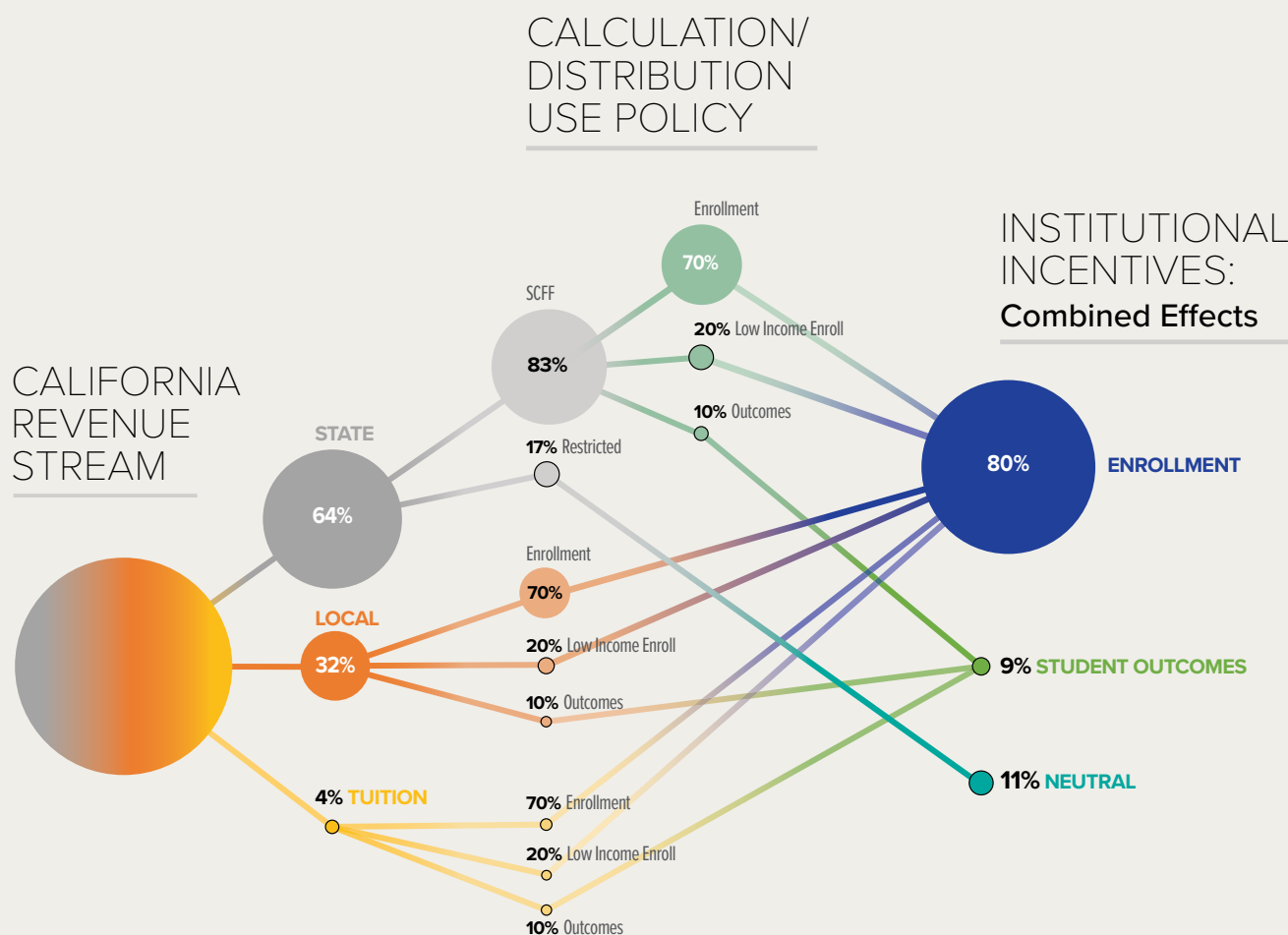
Step 3: MAP INCENTIVES. Determine whether and how each revenue stream and related policies create incentives for community colleges.

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.

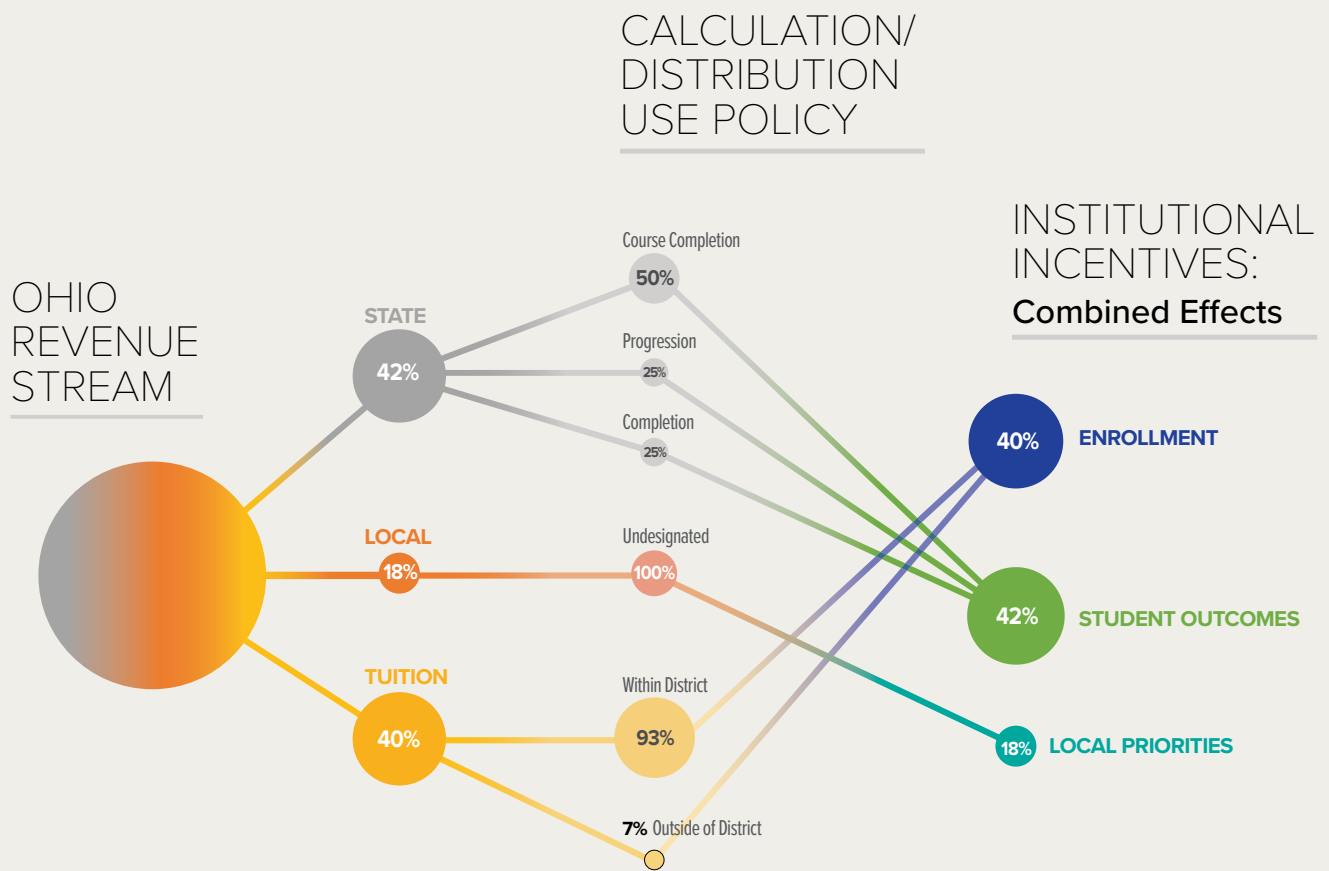
Results of the Mapping Process

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).

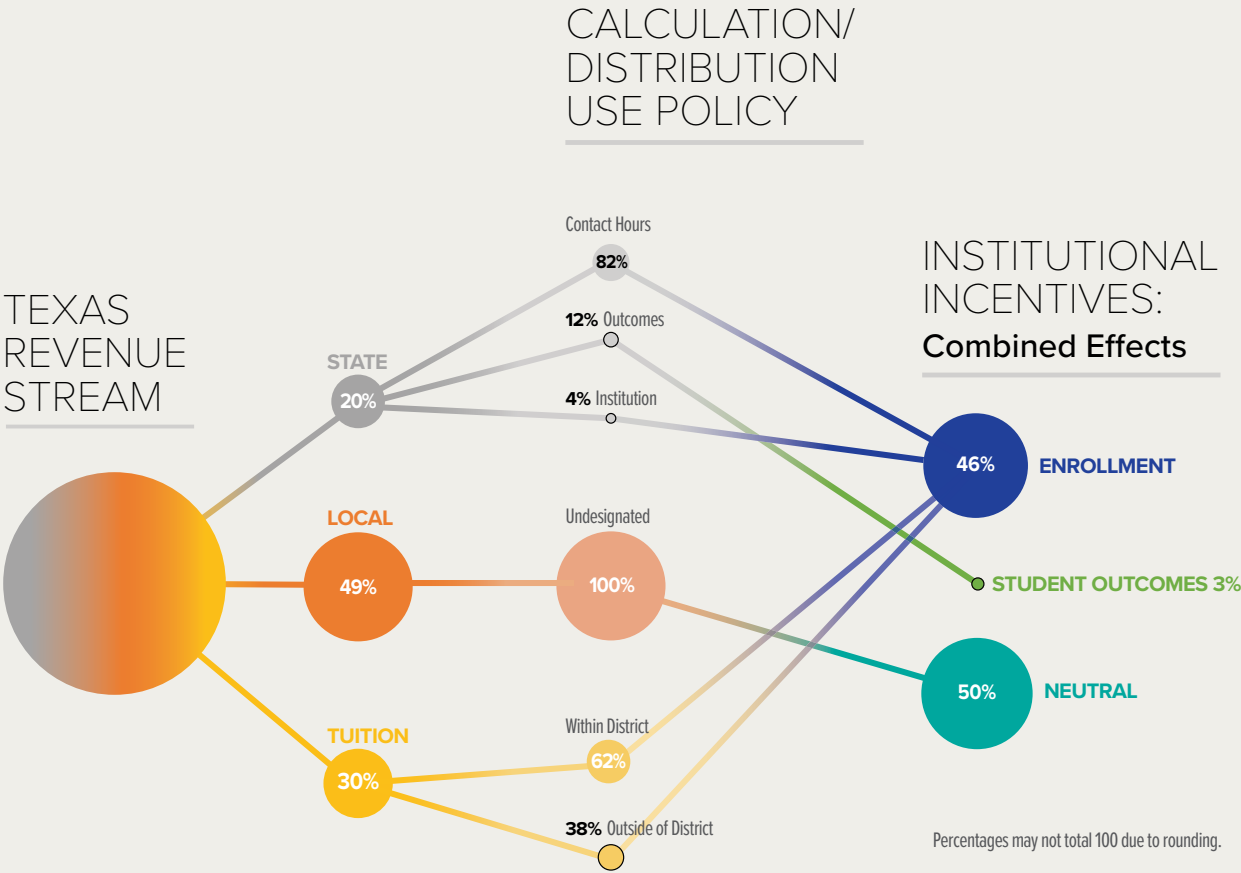
California’s Community College Finance System Map



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

	Equitable Student Access	Equitable Student Outcomes	Equitable Institutional Funding
CALIFORNIA	Strong positive emphasis/effect	Modest positive emphasis/effect	Strong positive emphasis/effect
OHIO	Strong negative emphasis/effect	Strong positive emphasis/effect	Modest negative emphasis/effect
TEXAS	Strong negative emphasis/effect	Strong negative emphasis/effect	Strong negative emphasis/effect

Strong positive emphasis/effect

Modest positive emphasis/effect

Modest negative emphasis/effect

Strong negative emphasis/effect

- 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.

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

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Why Community Colleges and Community College Finance Systems Matter

As states continue to recover from the economic and social effects of the COVID-19 pandemic, they face growing talent gaps and educational and employment disparities that threaten their capacity to attract and retain living-wage jobs. In fact, three-quarters of U.S. businesses report they are struggling to find the talent needed to fill positions.¹ Higher education can provide people with credentials that lead to well-paying jobs in industries with critical skills shortages. Yet recent polls reveal a skeptical American public that questions the value of college due to rising costs, oppressive student debt and weak links to employers.² In particular, young adults ages 18 to 30 have the lowest confidence in the value of higher education.³

Stakes for community colleges have never been higher. In this environment, community colleges stand out as the most affordable and employment-connected sector of higher education. As open-access institutions, they are the portal to postsecondary credentials for large proportions of low-income, Black, Hispanic/Latino, Indigenous and adult students. Moreover, most Americans see

community colleges as the nation's most practical and cost-effective college pathway.⁴

States are increasingly turning to community colleges to serve as one of the primary drivers of economic and workforce development. States as diverse as Texas, Michigan and Virginia are enacting policies that position the sector as the linchpin of their long-term economic future. These policies aim to narrow talent gaps and provide the skills and credentials that living-wage employers — and those seeking living-wage jobs — need. In short, community colleges are becoming ever more central to both individual and collective well-being. As a result, these institutions must be equipped to reduce rather than perpetuate inequities in student access and outcomes.

Community colleges are not reaching their potential. Equity gaps in student outcomes at community colleges, including outcomes by race/ethnicity, are persistent and well-documented.⁵ On average, only 29 percent of community college students obtain a credential or degree within three years of enrollment, including just 18 percent of Black students and 25 percent of Hispanic/Latino students.⁶ As students grapple with increasing economic, mental health and family challenges in the wake of COVID-19, many

community colleges lack the resources or capacity to meet student needs. Meanwhile, changing labor market dynamics and rising costs of living have led many adults to forego education and training and instead prioritize certain current earnings over uncertain future gains.⁷

Students are voting with their feet: 800,000 fewer community college students enrolled in spring 2022 than at the start of the pandemic. This downward trend was exacerbated by COVID-19 but began long before the pandemic. Moreover, the trend shows few signs of abating soon.⁸ Enrollment of Black students has especially plummeted. By 2021 the number of Black community college students had dropped to levels seen in 2000–2001, erasing two decades of progress in educational and economic mobility.⁹

Community college finance systems are not helping. While community colleges are facing myriad troubles, one root cause stands out: community college funding is largely inadequate and inequitable, and has not kept pace with the needs of students or the institutions that serve them. The research is clear that direct funding to institutions significantly affects student success, particularly in institutions such as community colleges whose open-access mission requires more dollars per student to meet widely varying student needs.¹⁰ And within the sector, community colleges serving the most disadvantaged students receive the fewest dollars per student.¹¹ Given the flaws in current community college funding approaches, the sector is ill-equipped to achieve policymakers' ambitious economic and workforce development goals and certainly cannot do so equitably. The traditional three-legged

stool of community college funding — state appropriations, local recurring revenue, and tuition — has become increasingly uneven and unstable.

Just as important is the fact that the policies governing community colleges' three main revenue streams — their amount, sources, distribution and allowable uses — are overly complex, often contradictory and widely variable from state to state. These knotty networks of revenue streams and policies form systems that too often are not transparent, easy to navigate or intentionally designed. And, too frequently, they contribute to substantial inequities for students and the institutions that serve them. Without a clear, comprehensive picture of how their own community college finance system works, state policymakers cannot discern why this system is ineffective and inequitable. Absent this understanding, state policymakers also cannot determine the likely impact of proposed changes or chart a path toward a more effective and equitable community college finance system.



Community college finance systems consist of major recurring revenue sources and the policies that determine the amount, distribution and uses of revenue from each major source. The resulting system as a whole creates institutional incentives and affects equity in institutional resources and student outcomes.

Stronger, more effective community colleges and community college finance systems are needed.

For community colleges to achieve their full potential, states must create strong, stable and coherent finance systems that enable and incentivize these institutions to align their policies and practices with pressing state interests and students' needs. Our nation needs community colleges to help create vibrant, robust state economies. Students and families need them to lower barriers to good jobs and financial security. Employers need them to help meet current and future workforce needs. And, as the starting point for a large proportion of low-income and historically minoritized students, a more effective community college sector can contribute to more equitable education and economic outcomes. Increasingly, the field knows what investments lead to stronger outcomes and, in some cases, how much they cost.¹² Yet without coherent finance systems that enable community colleges and their students to reach their full potential, the status quo will continue to be reinforced: ineffective and inequitable finance systems that do not reliably improve individual or collective well-being.

MAJOR COMMUNITY COLLEGE REVENUE STREAMS

While community colleges can receive resources from different sources, recurring operational revenue comes from three major sources: state appropriations, tuition, and local revenue.

1. **State Appropriations:** recurring revenue the state collects and distributes.
2. **Tuition:** enrollment-driven revenue generated from students and/or financial aid sources.
3. **Local Recurring Revenue:** recurring operating revenue that is derived through taxes or other local funds from counties, districts or regions and that is distributed to community colleges.

Importance of Mapping Community College Finance Systems

Community college funding is a labyrinth of revenue streams and the policies that govern them. By and large, these colleges rely on three major funding sources: state dollars, tuition and local recurring revenue.¹³ The amount and percentage of resources derived from these funding sources vary greatly among states. As state appropriations have shrunk as a percentage of total revenue during the last two decades, community colleges have become increasingly reliant on tuition dollars, with a few notable exceptions. From 2010 to 2020, community college tuition increased 43 percent.¹⁴ In states where community colleges can raise and retain local recurring revenue, those dollars help fill substantial shortfalls in revenue from tuition and

the state. However, local recurring revenue can also create profound funding inequity, depending on the policies that determine how these funds are raised and factored into overall revenue calculations as well as differences in local tax bases and attitudes within states.¹⁵

To maximize the potential and promise of community colleges, states need a reliable map of how current revenue streams and related policies affect the sector's capacity and willingness to meet important state goals. A recent Texas-based study has provided new statewide estimates of the cost to educate community college students, including cost variations associated with specific student and institutional factors.¹⁶ Several other states are also considering the question of funding adequacy. This is a huge step forward, and these methodologies will doubtless be refined in the coming years. Yet higher education is still decades behind the K-12 sector, in which the cost to educate a student is often determined through the courts and/or is grounded in years of strong research and well-tested methodologies. Community colleges are not mentioned in most state constitutions, so they have no mechanism to engage the judicial process to determine the cost to educate a student. Progress toward defining adequacy has therefore been slower and more variable, and no conclusive method exists for determining the best mix of funding sources in a particular state. Nor are there best-practice mechanisms by which revenue sources would best be calculated and distributed. In short, no guidance is available to help states craft community college finance systems that provide adequate funding and coherent and effective incentives for the sector to increase attainment and reduce equity gaps.

In truth, the path to coherent community college finance policy necessarily varies by state. No silver bullet or one-size-fits-all solution exists, and universal assumptions about how community colleges are financed and about how to improve state finance systems are bound to miss the mark. Each state not only has its own community college finance system, but also has its own context (i.e., leadership, demographics, economic conditions, political environment, policy agenda, advocacy ecosystem and postsecondary governance structure).

Yet states can be assisted in charting an effective and equitable community college finance policy path. **The first step is to develop a clear picture of state-specific community college revenue streams and the policies that govern their amounts, sources, distribution and uses. Together these constitute the state's community college finance system.**

The path to coherent community college finance policy necessarily varies by state. There are no silver bullets, and universal assumptions are bound to miss the mark.

Policymakers cannot be expected to create a coherent and effective approach to community college funding without a full picture of:

- How these institutions are currently funded;
- What incentives are created by existing policies and funding streams;
- How these policies affect equity; and
- Where the best policy levers exist for creating equitable and effective funding.

To map state community college finance systems, we examined major revenue streams, the policies that govern them, the resulting incentives and effects on equity. We focused on community college finance systems in three states: California, Ohio and Texas. We chose these states because they vary in geographical location, demographics, economics, postsecondary governance structures and the size of their community college sector. The team also opted to study them because of notable recent efforts to change major elements of their community college finance systems. We sought and analyzed information on funding levels and systems for the academic year 2019–20, before the COVID-19 pandemic’s substantial and mostly temporary effects on state and federal funding and policies.

This brief shares the study team’s findings. We begin with an overview of important contextual factors then move to finance system mapping and analysis. Single-state and cross-state tables summarize how revenue from the three major sources – state appropriations, tuition and local recurring revenue – is structured and flows to community colleges, including key governing policies. In addition, we identify the main institutional incentives embedded in each revenue stream and the overall finance structure. Then we turn to the finance systems’ effects on equity. We conclude by pointing to key implications for policymakers and institutional leaders.

EQUITY EFFECTS OF COMMUNITY COLLEGE FINANCE SYSTEMS

Community college finance systems affect equity in myriad ways. The source and distribution of revenue streams both individually and jointly can affect **institutional equity** (i.e., the degree to which colleges within a state operate on a level playing field with similar capacity and resources to effectively serve all students). Without equitable resources, colleges vary in their capacity to attract, retain and credential students. This inequity can be exacerbated over time when some portion of revenue is distributed based on enrollment or based on student outcomes, as is the case in many student-centered finance systems. States vary substantially in the degree to which their finance systems result in institutional equity.

Finance systems also affect **student equity**, which includes two elements: equitable access and equitable outcomes, including outcomes related to both progress and attainment. State appropriations formulas can include additional resources for enrolling historically underserved student populations and/or provide additional resources when those students are retained and credentialed. Finance systems can also exacerbate student inequity in multiple ways. For example, this can occur when state policy allows colleges to charge high or vastly different tuition rates or includes few to no incentives for closing equity gaps in access or attainment. Finance systems can also create substantial inequity across colleges in terms of resources per student.

Community Colleges in California, Ohio and Texas

Community colleges in California, Ohio and Texas operate in different contexts (see Table 1). The sector in these states ranges from 23 institutions in Ohio to 116 in California, with full-time equivalent (FTE) student enrollment ranging from about 111,000 in Ohio to more than 1.1 million in California in 2019–20. Enrollment in community colleges has dropped in all three states since 2020, as it has for

their four-year counterparts, but not all to the same degree. Within each state, the size of the community college sector relative to the four-year sector also varies, as does its influence in state capitals. This matters because most often community colleges and universities receive state funds from the same source. Financial allocation policy is often a zero-sum approach; if one sector receives a funding increase it is perceived by the other, often accurately, to be at its expense. Notably, the dynamic differs in

California, where resources are split between the community college and K–12 sectors.

In terms of postsecondary governance, California is the only one of the three states with a statewide community college system, and its governance environment is complicated by the existence of two very prominent four-year public systems. Neither Ohio nor Texas has a community college system. While Ohio also lacks a

four-year system, Texas has six. Both states have a single statewide higher education coordinating board that provides limited oversight of the two- and four-year sectors but exerts substantial influence on policy and state revenue decisions. California has no multisystem coordinating body. These differences in postsecondary and community college governance necessitate different policy development and reform processes.

Table 1. California, Ohio and Texas Community Colleges in Context (2019 – 20)

	CALIFORNIA¹⁷	OHIO¹⁸	TEXAS¹⁹
Postsecondary Governance	Separate statewide governing boards for 3 public systems: one community college system and two 4-year systems. No coordinating agency.	Single statewide coordinating agency. Ohio Department of Higher Education (ODHE) is statutorily established.	Single statewide coordinating agency. Texas Higher Education Coordinating Board (THECB) is statutory coordinating agency for community colleges. 6 major statewide 4-year systems.

COMMUNITY COLLEGE SECTOR

Number of community colleges	116 ²⁰	23	50 community colleges 10-campus technical college system
Number of FTEs	1,149,157,640 ²¹	111,676 ²²	587,381 ²³
Governance	A state-level board of governors appointed by the state's governor oversees the CA community college system. A locally elected board of trustees oversees each of the state's 73 ²⁴ college districts.	OH community colleges are not governed as a system. Community college trustees are appointed according to the type of community college: local, technical or state. ²⁵	TX community colleges are not governed as a system. The state-level THECB coordinates/regulates the locally elected boards of trustees that govern each of the 50 college districts.

4-YEAR SECTOR

	CALIFORNIA ¹⁷	OHIO ¹⁸	TEXAS ¹⁹
Number of public 4-year colleges	33	14	14
Number of public 4-year systems	2 multicampus systems: California State University (CSU) University of California (UC)	None.	6 multicampus systems: University of Texas Texas A&M Texas State University University of North Texas Texas Tech University University of Houston
Governance	CSU's board of trustees has 25 members. The governor appoints most of the trustees. ²⁶ UC's board of regents has 26 members. The governor appoints most of the regents. ²⁷	Each 4-year college is governed by an individual board that the governor appoints. Ohio State University and Ohio University have multicampus governing boards.	The governor appoints, and the state senate confirms, a 9-member board of regents that governs each 4-year system. Regents serve staggered 6-year terms.

These contextual factors pose distinct opportunities and barriers when considering how best to reform and structure effective community college finance systems. Consider these examples.

- The size and prominence of the community college sector relative to its four-year public and private counterparts affect its political position and capacity to advocate for more resources and rational, effective community college finance systems. California's 116 community colleges have a home in every corner of the state and enroll most California undergraduates.²⁸ Their clear mission of open access enables them to serve as the state's main portal to postsecondary education.²⁹ The Texas community college sector is also a major force in the state, enrolling 43 percent of its college students across its 50 colleges, many of which have multiple campuses.³⁰ Ohio's 23 community colleges are somewhat less prominent, leaving some areas of the state without easy access to the sector and enrolling only 25 percent of the state's college students.³¹
- How community colleges are governed and structured affects state capacity to enact and implement consistent fiscal policy. Factors include whether community colleges exist as a system, whether local governance entities are present and how strong they are, and whether a free-standing agency or office provides coordination or governance. Governance or coordination structures also affect the capacity of community colleges to advocate for an adequate slice of each state's postsecondary pie. California's community colleges operate as a statewide system overseen by an appointed board of governors, and each of the state's two public four-year systems has its own statewide governing body. Of the three systems, the community college's governing body has the most limited authority. In contrast, Texas does not have a community college system, but it does have six multicampus four-year systems. No postsecondary systems exist in either the two- or four-year sectors in Ohio. These variations play a role in how current postsecondary finance systems operate and in how each state could advance community college finance system reforms.

Process of Mapping Community College Finance Systems

The field lacks a full and comprehensive picture of how community colleges are financed within states.

Too often, researchers, policymakers, and even some institutional leaders home in on one particular revenue stream or policy without an understanding of how each stream interacts with the others or creates incentives that affect community college policies and practices.

Without this broader comprehensive picture, policymakers are hampered in their ability to identify and craft solutions to problematic finance policy elements. And community college leaders struggle to navigate finance systems to effectively serve their students, communities and states.

To address these gaps in information, we have developed a process for mapping **community college finance systems**. These systems consist of four elements: revenue sources, the policies that govern them, the institutional incentives they create, and their effects on equity (see Figure 1).

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.

While adequate and equitable funding is a necessary condition for high-performing community colleges, alone it is not sufficient. Unless community college finance systems “in their entirety” are driven by consistent, rational and comprehensive policies, they will not provide clear incentives for community colleges to meet state goals, support student success and increase equity in student access and outcomes.

Mapping community college finance systems provides the foundation for policy analysis and reforms that consider all the policy levers that

drive and determine how revenue streams flow to colleges, how these funds can be used and what incentives they create.

What Community College Finance System Mapping Can Reveal in States with Different Policy Environments

Step 1. Mapping Major Revenue Sources

The first step in mapping community college finance systems is to describe the three major revenue sources in terms of their relative size and variability across institutions (see Table 2 and Figure 2 that summarize these factors for California, Ohio, and Texas).

Table 2. Amount, Size and Variation of Three Major Revenue Sources in California, Ohio and Texas (FY 2020)

	REVENUE STREAM A <i>State Appropriations</i>	REVENUE STREAM B <i>Tuition</i>	REVENUE STREAM C <i>Local Recurring Revenue</i>
CALIFORNIA COMMUNITY COLLEGE REVENUE \$10,271,697,000 ³²			
Percentage Of Total Revenue	64%	4%	32%
Variation By College As A Proportion Of Total Revenue ³³	0.0%–63.4%	1.05%–13.8%	0.0%–86.9
OHIO COMMUNITY COLLEGE REVENUE \$1,128,200,000 ³⁴			
Percentage Of Total Revenue	42%	40%	18%
Variation By College As A Proportion Of Total Revenue ³⁵	29%–77%	22%–57%	0%–57% 6 of 23 colleges raise local operating revenue.
TEXAS COMMUNITY COLLEGE REVENUE \$4,583,461,762 ³⁶			
Percentage Of Total Revenue	20%	30%	49%
Variation By College As A Proportion Of Total Revenue ³	13.9%–43.8%	16.6%–71.6%	0.23%–67.5%

Percentages may not total 100 due to rounding.

Figure 2: Major Revenue Streams: State Appropriations, Local Recurring Revenue and Tuition (2020)

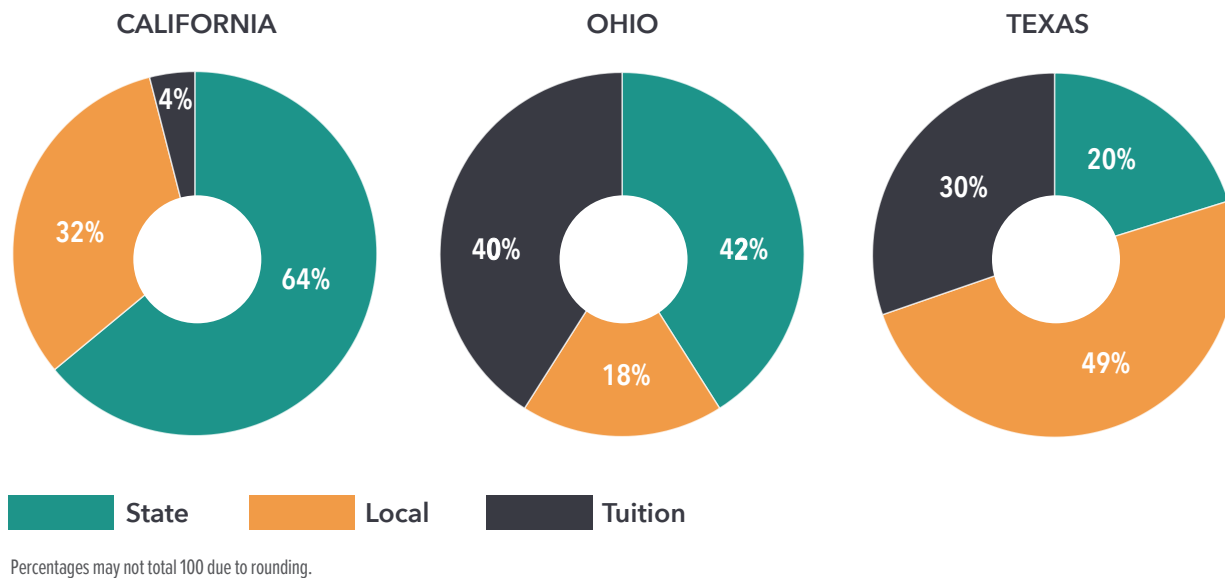


Figure 2³⁷ depicts the percentage of total revenue that community colleges in California, Ohio and Texas derive from each of the three major revenue sources. Notably, these pie charts do not depict whether and to what degree these revenue streams vary across colleges within each state.

- California's community college finance system depends heavily on **state appropriations**. Community colleges receive nearly two-thirds of their total revenue from the state; tuition constitutes less than 5 percent of total revenue.
- Among the three states, Texas relies most on **local recurring revenue** and least on state appropriations. Nearly one-half of total funding for Texas community colleges comes from local recurring revenue, while one-fifth comes from state appropriations. At the institutional level, the proportion and amount of local recurring revenue varies widely, creating a major source of funding inequity.
- Ohio community college funding is driven largely by **state appropriations and tuition**. At 40 percent, the proportion of Ohio's total revenue derived from tuition is highest among the three states. Local recurring revenue is the lowest at 18 percent, and this funding is concentrated in six of the state's 23 colleges. The remainder do not receive local recurring revenue.

Step 2. Mapping Each Community College Revenue Stream and Related Policies

The second step in mapping community college finance systems in their entirety is to examine each revenue stream and the policies that govern their size and distribution. Following is a cross-state comparison of each revenue stream and the policies that dictate how these dollars are calculated, distributed and spent. Also included is an analysis of the incentives these policies create.

Revenue Stream A: State Appropriations

State appropriations to community colleges have been declining as a total percentage of revenue these colleges receive nationally.³⁸ However, they remain a primary driver of community college funding and have been a major focus of postsecondary finance reform during the last decade.³⁹ States have enacted reforms to achieve a wide range of goals, including:

- Incentivizing accountability by distributing a proportion of state revenue to enhance student progression or outcomes;
- Providing more resources to institutions enrolling large proportions of low-income students;
- Rewarding the narrowing of equity gaps; and
- Encouraging training in workforce-relevant credentials.

Table 3 summarizes elements of state policy that dictate how state appropriations are calculated and distributed and notes the implications of these policy approaches.

Table 3. Revenue Stream A: State Appropriations in California, Ohio and Texas (FY 2020)

	CALIFORNIA	OHIO ⁴⁰	TEXAS ⁴¹
PERCENTAGE OF TOTAL REVENUE	64%	42%	20%
Policy Determining Total State Appropriations to Sector	Proposition 98 sets a floor for annual California Community College (CCC) system funding based on a percentage of state revenue. The CCC typically gets 11% of Prop 98 dollars, while the rest goes to public K–12 education.⁴² Additional, restricted state funding for the CCC system varies each year. Of total system revenue, 17% was restricted funding while Prop 98 provided 47%.⁴³	Biennially the legislature sets the State Share of Instruction (SSI) for the entire postsecondary sector, with input from the Ohio Department of Higher Education and individual institutions. Amounts typically increase modestly via a Base Plus approach. Via a longstanding formula, community colleges receive 23.05% of SSI.	The Texas Legislature determines the size of the community college allocation every biennium. These calculations are not derived via a standard approach or formula.
Policy Controlling Revenue Distribution	A Student Centered Funding Formula (SCFF) is used to allocate Prop 98 dollars.⁴⁴ • Enrollment: 70% • Supplemental for enrollment of low-income and undocumented students: 20% • Student Success: 10% Restricted funding: The California Community College Chancellor's Office allocates these funds based on whatever is specified in statute for each designated pot of money.	The allocation formula is a cost-based reimbursement model based on outcomes. 100% of community college funding is distributed via a Student Centered Funding Formula: • Course Completion: 50% • Progression: 25% • Completion: 25%	Texas allocates state dollars via a formula that drives nearly 99% of all state funding. Since 2014–2015, the three formula components have been: • Contact Hours: 82% of state appropriations; 15.8% of total revenue • Core Operations: 4% of state revenue; 1.5% of total revenue • Student Success Points: 12% of state appropriations; 3.43% of total revenue

	CALIFORNIA	OHIO ⁴⁰	TEXAS ⁴¹
Formula Equity Components	Equity Weights: Within the 10% of the SCFF that rewards student outcomes, colleges receive 10% extra when a low-income student meets an outcome. ⁴⁵	Equity Weights: • Financial • Academic Preparation • Age 25+ • Minority Status Formula distribution of equity weights: • 15% for Course Completion • Additive for progression and completion (25%, 66%, 150%, 200%)	• Core Operations: 4% of state revenue; 1.5% of total revenue • Student Success Points: 12% of state appropriations; 3.43% of total revenue
Policy Controlling Revenue Use	50% of the 83% of state dollars distributed via the SCFF must be used for instructional expenses. ⁴⁶ Restricted funding streams (17% of total revenue) are limited to intended use via law and, when necessary, regulations for implementation.	Unrestricted.	Revenue may be used for instruction and administrative costs only. Local recurring revenue funds (i.e., interest and sinking taxes) must be collected for capital projects. These taxes are capped by the state at 50 cents per \$100 of property value.

State Appropriations Implications

Our analysis of the relative importance of state appropriations as well as the substantially varying policies that determine their amount, distribution and use across the three states provides a compelling illustration of the benefits and challenges inherent in the three approaches. All three states have a formula that includes student outcomes to varying degrees.⁴⁷ Those in California and Texas place the greatest weight on enrollment, while Ohio's formula is driven completely by student outcomes. The formulas also differ in terms of how resources are distributed and how the colleges can deploy them as well as in the degree to which funding policies encourage equity.

Of the three states, **California** provides the most resources via state appropriations and is by far the most restrictive in terms of their use. At nearly two-thirds of total revenue in California, state appropriations clearly dominate the community college finance landscape. Once the total amount of resources is calculated for the sector, 83 percent of state dollars are distributed through a funding formula that drives most of the resources based on enrollment. The formula also provides a front-end supplement for community colleges enrolling low-income and undocumented students and sets aside 10 percent for performance calculated using student success metrics. Yet California restricts the use of fully half of the 83 percent of state dollars distributed via the funding formula to instructional expenses; another 17 percent of state appropriations are distributed via restricted

funds that limit their use in a variety of ways. California's formula also provides extra resources to institutions when low-income students achieve targeted persistence and outcomes metrics. Consequently, it provides both front-end and back-end resources for institutions that enroll and/or retain and credential low-income students.

Ohio state dollars comprise about 40 percent of total community college revenue. The total amount of the State Share of Instruction for all postsecondary sectors is set biennially by the legislature, and funding typically increases modestly via a Base Plus approach. State dollars are unrestricted and are distributed via a funding formula that, like those in California and Texas, includes student outcomes. Yet with 100 percent of state dollars distributed via student persistence and credential metrics, Ohio prioritizes student outcomes much more than the other two states. Moreover, Ohio's formula includes substantial and additive weights prioritizing outcomes for a range of equity populations including adults, those having low income, academically underprepared students, and those having minority status. Several recent studies indicate that such approaches have positive effects on the enrollment of low-income and Hispanic/Latino students and, in addition, work to equalize institutional funding for minority-serving institutions.⁴⁸

In contrast, **Texas**⁴⁹ community colleges derive only 20 percent of their revenue from the state. Each biennium, the Legislature determines the total size of the general revenue funding pot that it will appropriate to the 50 community college districts. This amount has been relatively stable over time. A funding formula then determines how roughly 98 percent

of general revenue funds are directed to community colleges across three different components: Core Operations (a fixed amount given to each college regardless of size or location), Student Success Points (10 percent of remaining funds that reward student completion of 11 performance metrics),⁵⁰ and Contact Hours (90 percent of remaining funds that provide money for instructional costs based on a calculation of the cost of course delivery and enrollment). Texas community colleges can use their state appropriations for any instructional and administrative costs. Notably, it is the only one of the three states that does not reward colleges for retaining or graduating students from specific income or demographic groups.

Revenue Stream B: Tuition

As the state share of community college funding has decreased, institutions have often made up the difference by increasing tuition. However, average community college tuition varies widely, ranging from \$1,428 in California to \$8,600 in Vermont.⁵¹ Within some states, varying tuition rates further drive inequity. This is particularly true in states that have no or partial control over tuition or allow institutions to set different rates for different types of students. The percentage of tuition that students pay (i.e., net tuition) varies as well because of state financial aid policies. Tuition can also drive inequity in institutional funding, depending on the degree to which institutions rely on tuition to cover costs, and can increase enrollment.

Table 4 summarizes tuition and related policies in the three study states.

Table 4. Revenue Stream B: In-State Tuition in California, Ohio and Texas (FY 2020)

	CALIFORNIA ⁵²	OHIO ⁵³	TEXAS ⁵⁴
PERCENTAGE OF TOTAL REVENUE	4.5%	42%	30%
Tuition as a Percent of Total Revenue: Variation by Institution	Variation is not meaningful because the state calculates a revenue floor for each community college and adds state dollars to meet this amount when local recurring revenue and tuition do not.	Minimum: 22% Maximum: 59%	Minimum: 17% Maximum: 72%
Variation in Full-Time Annual Tuition	\$1,104 (flat, statewide rate)	\$3,726–\$6,324 (Average: \$5,085)	\$2,252–\$5,565 (Average: \$3,881)
Policy Controlling Tuition Amounts and Variation	The legislature sets tuition, and the rate and does not vary by college.	As of the 1980s, the general assembly sets tuition increases, and increases are uniform across all community colleges. However, tuition varies by college due to grandfathered variation in tuition prior to state control, against which uniform increases are calculated. Community colleges that receive local recurring revenue can provide a discount for within-district students.	Locally elected trustees set tuition rates. ⁵⁵

Tuition Implications

Table 4 reveals several important insights regarding how tuition and the policies that drive it affect institutional incentives and equity. In **California** tuition is not a major source of either revenue or inequity. Tuition in the state is the lowest in the nation; California sets a standard rate for all community colleges, and tuition comprises less than 5 percent of the system's total revenue. Moreover, because of broad eligibility for tuition waivers, only about half of the system's students pay tuition.⁵⁶ State policy also prevents individual colleges from

raising tuition rates. As a result, tuition in and of itself provides little incentive for colleges to increase enrollment. Yet California's method of calculating the total amount of resources that each college receives clearly incentivizes enrollment.

In contrast, tuition is a major revenue source for both **Ohio** and **Texas** community colleges; this approach creates strong incentives for them to raise enrollment. However, a comparison of these two states reveals why state policy is so important when considering the effects of community college revenue

streams. While Texas community colleges derive about 10 percent less of their total revenue from tuition than those in Ohio, the policies governing this revenue source in Texas have outsized influence on colleges in terms of both incentives and equity. First, individual community college boards set their own tuition, thereby creating substantial inequity in basic tuition rates across the colleges. Second, Texas community colleges currently charge up to 250 percent more in tuition to students who live outside a college's taxing district, creating vastly different tuition rates within some colleges. Colleges charge tuition that varies from \$1,200 to \$4,400 per year, and the proportion of total revenue derived from tuition ranges from less than 17 percent up to nearly 72 percent. Between 2014 and 2021, average tuition across Texas community colleges increased 25.2 percent.⁵⁷ These facts, coupled with variation in the population size surrounding districts and the capacity of taxing areas to raise revenue, create an uneven playing field for the colleges and the students who attend them. While tuition policy creates major incentives for enrollment, institutional capacity to increase enrollment varies substantially as does the capacity to raise local recurring revenue.

At 40 percent of total **Ohio** community college revenue, tuition creates a strong enrollment incentive. Yet variation in tuition is somewhat constrained by state policy, which caps percentage tuition increases. [The percentage increases are applied to the varying tuition rates that still exist across colleges.] And, until recently, only six of Ohio's 23 community colleges could raise local recurring revenue for operational expenses. Those that do so are allowed to charge different tuition depending

on residence, but not to the degree that colleges in Texas do. Thus while enrollment is incentivized in both states, tuition policy allows for greater variation in tuition charges in Texas than is the case in Ohio.

Revenue Stream C: Local Recurring Revenue

Policy in 37 states allows community colleges to raise local recurring revenue, and reliance on local resources varies widely. In these states, the total percentage of community college revenue derived from local recurring revenue ranges from less than 20 percent to more than 60 percent. Moreover, the proportion of local recurring revenue typically varies substantially across colleges within a single state, because regions within a state have differing capacity to raise local recurring revenue. Finally, state policy can create parameters to reduce the inequities that differences in local recurring revenue can create.⁵⁸ For example, states such as California and Oregon have policies that address inequities in local recurring revenue via formulas that ensure roughly equivalent resources per FTE across colleges.⁵⁹

While all three of the study states allow community colleges to raise local recurring revenue, Table 5 highlights substantial variation in the prominence of local recurring revenue in their community college finance systems. The table also summarizes important similarities and differences in how these dollars are distributed and used.

Table 5. Revenue Stream C: Local Recurring Revenue in California, Ohio and Texas (FY 2020)

	CALIFORNIA ⁶⁰	OHIO ⁶¹	TEXAS ⁶²
PERCENTAGE OF TOTAL REVENUE	32%	18%	49%
Policy Controlling Revenue Collection	State laws (Prop 98 and AB 8) control the local property tax rate, give the state authority over the revenue allocation within local tax areas, and set the allocation formula.	Prior to 2020, only local and technical community colleges could raise taxes. As of 2020, state community colleges may also raise local revenue. Local voters determine whether to raise taxes. Six of 23 community colleges raise local recurring revenue.	Community colleges serve as the local taxing entity. Local property taxes may be used for maintenance, operations and construction. District voters can vote to establish a maintenance tax and its cap. The only way to raise the cap is with further voter approval.
Policy Controlling Revenue Distribution	Community colleges retain all local recurring revenue.	Community colleges that raise local recurring revenue retain all of it.	Community colleges are Locally elected trustees set tax caps that are then approved by district voters. The total tax is capped at \$1.00 per \$100 of valuation. If the assessed tax rate exceeds a certain amount, voters must approve the rate. The baseline for the cap is based on the historical tax levy of the college. While the cap is consistent, the tax rate is not.
Policy Controlling Revenue Use	The use of local recurring revenue is restricted by a state law requiring colleges to spend 50% of the funds that flow through the Student Success Formula – including nearly all local recurring revenue – on instructional costs. ⁶³ The remaining 50% is unrestricted.	The use of local recurring revenue is unrestricted for local and technical colleges. State community colleges may only use local recurring revenue for maintenance and operations.	Community colleges are expected to use local recurring revenue to purchase and maintain physical plants and related expenses, such as utilities. However, the funds can also be used for other purposes. ⁶⁴

Local Recurring Revenue Implications

The three study states can be positioned along a continuum regarding the incentives and inequity that local recurring revenue creates vis a vis community college financing.

In **California** state policy renders local recurring revenue essentially incentive-neutral. This is because the state calculates a total revenue amount for each community college, then subtracts from that total all dollars generated by local recurring revenue and tuition. The state provides the remainder.⁶⁵ By leveling the total revenue playing field,

this policy greatly reduces the impact of local revenue on institutional incentives.

Ohio's community colleges can raise local operating revenue, but only six of 23 currently do so. And, for those that do, local revenue is a dominant revenue source in only one community college. Because referenda approving local revenue for community colleges occur every 10 years, the six colleges that receive such funds are incentivized to address the needs and priorities of their funding districts. Colleges receiving local operating revenue can charge different tuition rates to those living within taxing districts and those residing outside them, but the differences are not substantial. However, Ohio's calculation of state appropriations for each college does not take local recurring revenue into account, which contributes to inequities in overall funding per FTE between those colleges with local funding and those without. Thus, while this revenue is a meaningful source of additional resources for a subset of Ohio's community colleges and drives inequities in institutional resources, its use is not widespread. The limited use is due, in part, to prohibitions on raising local revenue for some colleges that have only recently been repealed. In addition, raising taxes is unpopular and requires a local referendum.

In **Texas** property tax funds dominate the current community college finance system and create the most substantial institutional and student inequity among the study states. While local recurring revenue is less subject to variation from year to year than state appropriations, wide variation exists across the state in how much revenue districts can obtain from local sources. There are several reasons for this variation. First, the capacity to

raise local taxes differs greatly. The community college with the most lucrative taxing district reports revenue from local sources that is about 650 percent higher than the amount reported by the college in the least lucrative taxing district. Second, the greatest variation comes from property valuation; community colleges in sparsely populated and/or high-poverty areas can raise little to no local recurring revenue.

As in Ohio, distribution of state revenue in Texas does not account for local recurring revenue, which adds to the inequities in total revenue across colleges. And, because Texas community colleges themselves serve as the taxing authority, there is little incentive for the colleges to align with locally driven priorities.

Step 3. Mapping Community College Finance System Revenue Streams, Related Policies, and Incentives

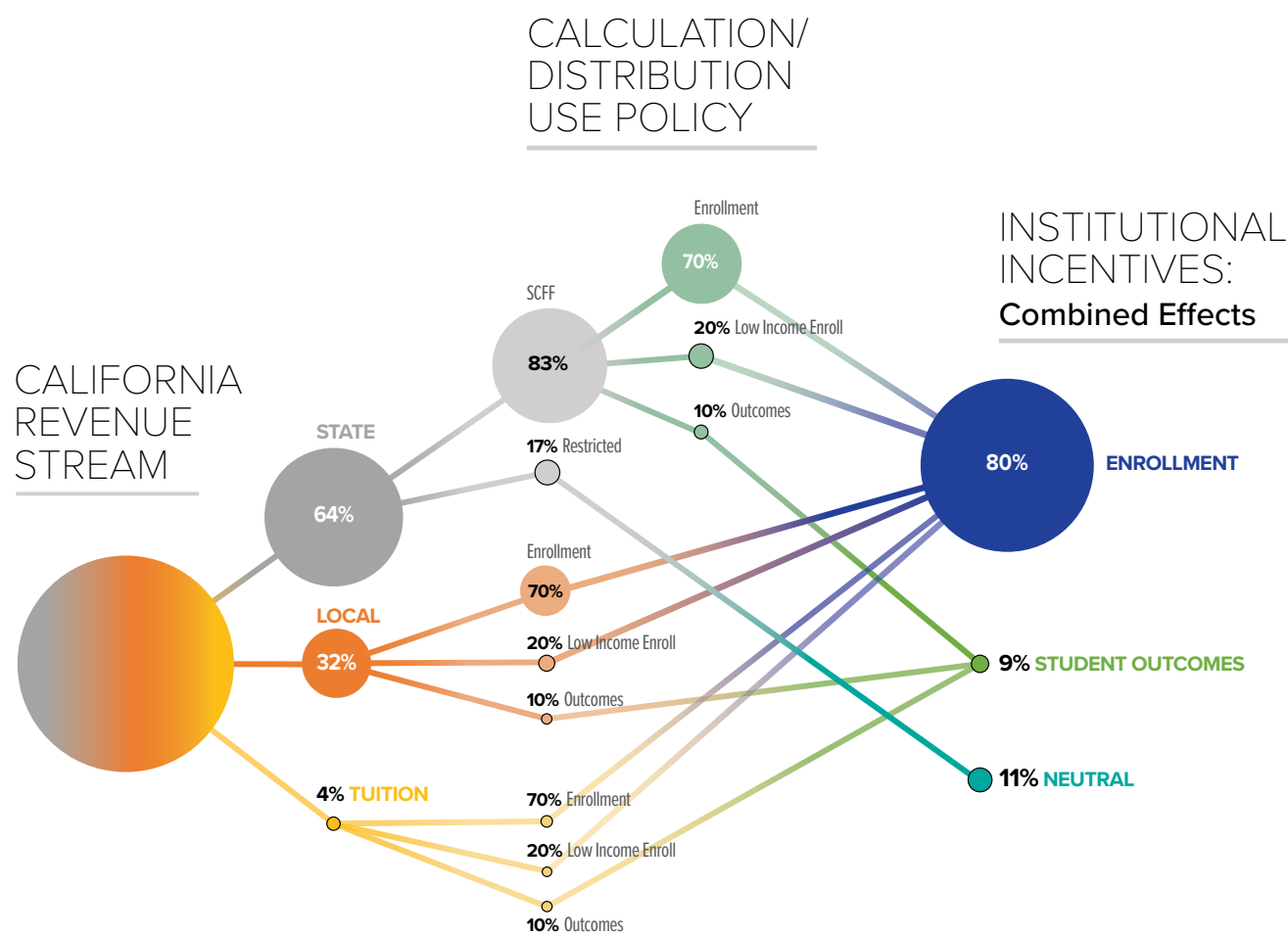
Community colleges operate in funding environments that often do not provide enough resources to meet the ever-increasing pressures placed on them by the economic and workforce needs of states. Moreover, as our analysis makes clear, the policies that govern the amount, distribution and use of the three major revenue streams can create a labyrinth that colleges must navigate to continue operating and can make it harder for colleges to deploy funds to support evidence-based practices. This is not sound fiscal policy and can substantially hamper the capacity of community colleges to best serve their students, communities and states.

Our team’s review of the *individual* revenue streams and the policies that govern them reveals several important factors to consider as states assess the effectiveness of their finance systems and determine whether reforms are needed. Yet it is also critical to examine the whole finance system. When examined in its entirety, how does each state’s community college finance system operate? How do revenue streams and related policies intersect to create incentives? To what degree are those incentives consistent with each other and aligned with pressing state policy goals? The

answers to these questions provide crucial insight to policymakers and key stakeholders as they determine how to craft more rational, equitable, adequate and effective community college finance systems.

A flow chart for each state illustrates how the policies that control the distribution and use of each funding stream create institutional incentives that may not always be consistent or align with the needs of students or states (see Figures 3, 4 and 5).

Figure 3. California’s Community College Finance System Map



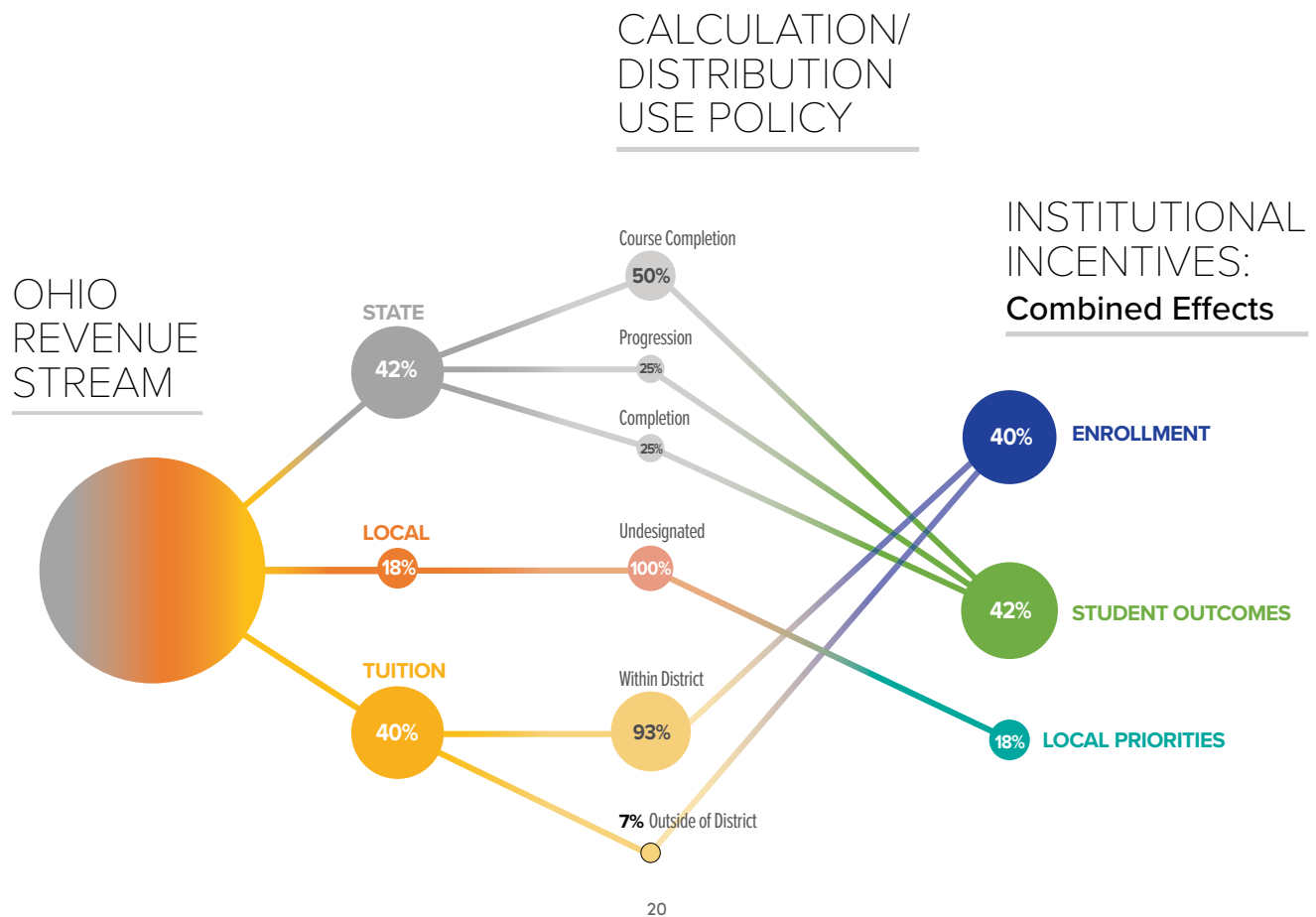
California’s community college finance system differs greatly from both the Texas and Ohio systems. In California, state policy largely controls how dollars from each revenue source are distributed *and* used. Every year, the state sets a funding target for each community college district, then adds state appropriations to tuition and local recurring revenue to reach that target. This policy largely eliminates the inequities between districts that reliance on local recurring revenue can create.

Nearly 100 percent of tuition, 100 percent of local recurring revenue and 83 percent of state appropriations flow through California’s Student Centered Funding Formula. The SCFF primarily incentivizes enrollment because it distributes 70 percent of its dollars based on FTE.⁶⁶ Yet it also

includes some incentives for equitable access and attainment: 20 percent of SCFF funds are based on the enrollment of low-income and undocumented students, and the remaining 10 percent is tied to student outcomes with a premium for low-income students.⁶⁷

Notably, most community college revenue is restricted in some way by state policy. Half of the 83 percent of total system revenue that flows through the SCFF must be spent on instructional costs,⁶⁸ and the remaining 17 percent is restricted in other ways. The combined effect of these policies is that of California’s total system revenue, 80 percent incentivizes enrollment, 9 percent incentivizes outcomes and 59 percent is restricted in some way.

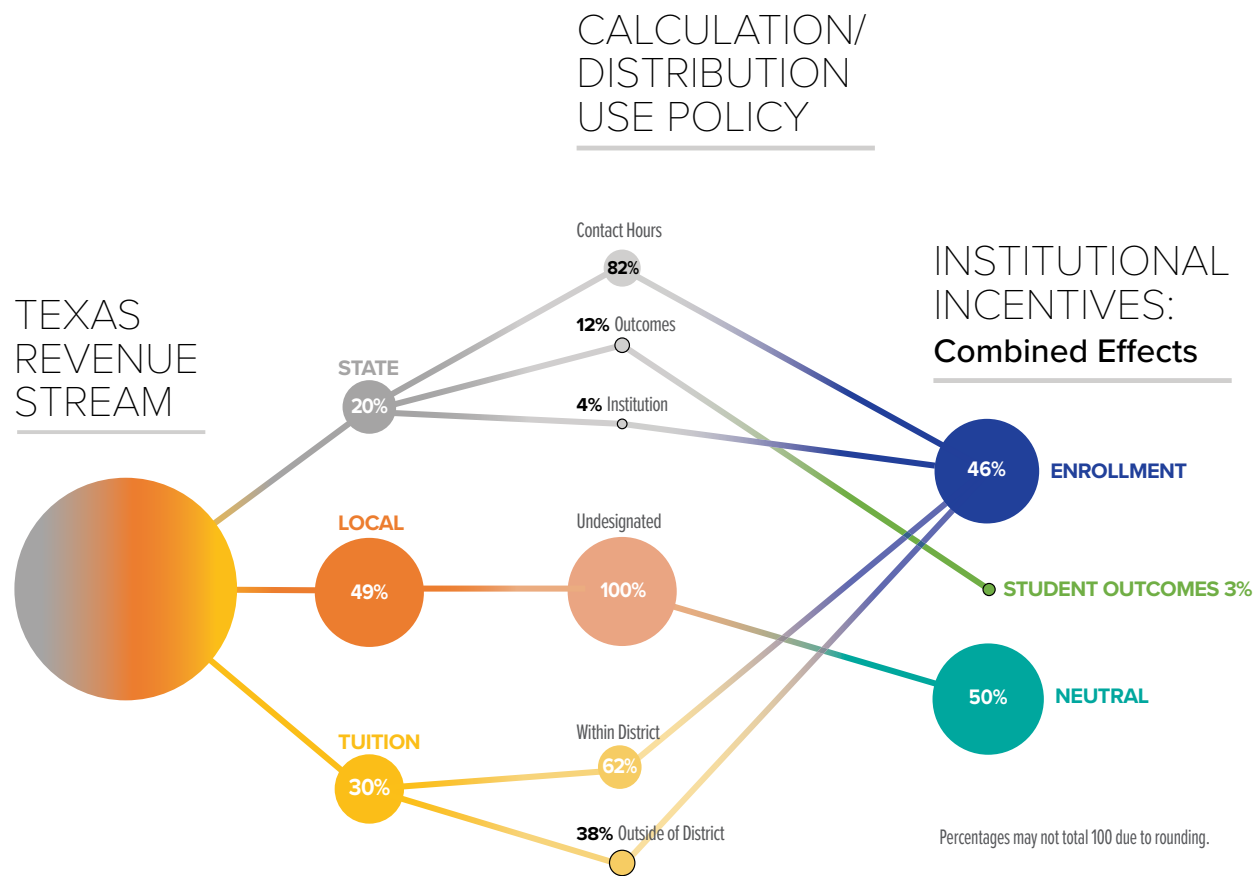
Figure 4. Ohio’s Community College Finance System



Of the three study states, Ohio’s finance system incentivizes enrollment and student outcomes most evenly. The system has a relatively low reliance on local recurring revenue, with most community colleges receiving none. Given that local voter referendum determines whether and how much local recurring revenue each college receives, the six colleges receiving local recurring revenue are incentivized to address local needs. Yet the state does not consider local recurring revenue when distributing state appropriations, leading to moderate levels of inequity in institutional funding.

Ohio incentivizes student outcomes — and, in particular, equitable outcomes — much more than the other study states. Its Student Centered Funding Formula ties all state appropriations to outcomes, and it heavily weights outcomes achieved by a broad range of students requiring more resources and support. As a result, about 42 percent of Ohio’s total community college revenue is focused on outcomes; substantial additional resources are set aside for institutions that enroll, support and credential low-income, Black, Hispanic/Latino, adult and underprepared students.

Figure 5. Texas Community College Finance System



The disproportionately high reliance on local recurring revenue among Texas community colleges has had the effect of driving institutional funding inequities across some districts. Yet because community colleges themselves are the taxing entity, the structure of the current local funding system does not incentivize institutions to align their efforts with local needs or state goals. Moreover, while state funds incentivize enrollment and outcomes, policies regarding the use of local recurring revenue are not tied to either enrollment or improved student outcomes — a fact that tends to minimize the overall emphasis on institutional performance among the state’s community colleges within this funding stream.

Student outcomes are incentivized by a very small proportion of the overall current Texas community college finance system. They are tied to only 3 percent of total revenue via the general revenue’s Student Success Points performance model.

Step 4. Mapping Equity Levers in Community College Finance Systems

Examining community college finance systems with an equity lens is a critical part of this analysis. Which finance system elements — alone and in combination — have the most effect on equitable and effective distribution

of resources and, in turn, incentivize equitable student outcomes? Finance systems affect two major types of equity:

- **Institutional equity** focuses on policies that affect whether institutions within a particular state have adequate and/or similar levels of resources and capacity to effectively serve all their students. This is an important indicator of equity, because wide institution-level variation in the amount of revenue per student creates an uneven playing field as community colleges seek to retain and credential students.
- **Student equity** refers to policies that directly affect equitable access⁶⁹ to community colleges and equity in terms of three types of outcomes: retention, progress and credential attainment.

Specific equity levers vary by state and policy. Institutional and student equity levers can overlap and influence each other. Yet it is instructive to separate the two types of equity because adequate, effective and equitable finance systems require attention to both.

Table 6 provides a high-level summary and comparison of the degree to which elements of each state’s community college finance system cumulatively encourage or result in equitable student access, equitable student outcomes and equitable institutional funding. Table 7 identifies specific policy levers and their effects on equity in each of the three study states.

Table 6. Finance System Alignment with Equitable Student Access, Equitable Student Outcomes and Equitable Institutional Funding in California, Ohio and Texas

	Equitable Student Access	Equitable Student Outcomes	Equitable Institutional Funding
CALIFORNIA	Strong positive emphasis/effect	Modest positive emphasis/effect	Strong positive emphasis/effect
OHIO	Strong negative emphasis/effect	Strong positive emphasis/effect	Modest negative emphasis/effect
TEXAS	Strong negative emphasis/effect	Strong negative emphasis/effect	Strong negative emphasis/effect

Strong positive emphasis/effect

Modest positive emphasis/effect

Modest negative emphasis/effect

Strong negative emphasis/effect

- California’s finance system incentivizes equitable student enrollment or access, with about 18 percent of each community college’s total revenue linked to the number of low-income and undocumented students it enrolls. This incentive is created via the Student Success Formula, which controls the distribution of all tuition and local recurring revenue and 83 percent of state appropriations as well as drives 20 percent of those resources toward low-income enrollment. In addition, while California’s lowest-in-the-nation tuition approach removes direct cost barriers to access, it also minimizes tuition as a major source of revenue. Finally, only 1.2 percent of total community college revenue in California incentivizes equitable student outcomes.
- Ohio’s finance system does not incentivize equitable enrollment, but the robust equity metrics that are included in the formula that distributes state appropriations ties about 13 percent of those funds to equitable student outcomes.⁷⁰ State control of tuition increases, as well as the sector’s relatively small reliance on local recurring revenue, merits a moderately negative rating on equitable institutional funding.
- The Texas finance system does not incentivize institutional or student equity. 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. Policies allowing wide variation in tuition rates result in inequitable student access. The current state appropriations formula lacks equity weights for any student populations.

Table 7. Policy Levers and Their Effects on Equity in California, Ohio and Texas

Equity Lever	Equitable Student Access	Equitable Student Outcomes	Institutional Equity
CALIFORNIA			
Student Centered Funding Formula includes 10% for student outcomes, with weights for low-income students.			
Percentage of total community college revenue aligned with low-income student success is 1.9%.			
Policies that restrict how resources can be used affect 59% of total revenue.			
Funding formula distributes about 18% of total revenue to colleges as upfront additional funding to serve low-income students.			
Tuition is low, consistent across colleges and waived for low-income students.			
State policy is designed to equalize per-FTE total revenue across colleges.			
OHIO			
Student Centered Funding Formula includes equity weights for outcomes of students who are low-income, lack adequate academic preparation, are adults and are Black and Latinx.			
Average community college tuition is 6th highest in the nation, and community college students are ineligible for the state's largest needs-based financial aid program.			
State does not consider variation in local resources when distributing state dollars to individual colleges, but the variation is modest.			
State does not provide colleges with upfront additional funding to support historically underserved students.			
College tuition varies across colleges and within several colleges, but the variation is relatively modest.			
TEXAS			
Funding formula does not include weights for the success of any equity populations.			
Tuition varies widely both across and within colleges.			
State does not provide colleges with upfront additional funding to support historically underserved students.			
Colleges rely heavily on local recurring revenue the receipt of which varies substantially by college.			
State does not consider variation in local recurring revenue resources when distributing state dollars to individual colleges.			



Cross-State Comparison of Institutional Incentives and Equity Levers in Community College Finance Systems

A comparison of the entirety of community college finance systems in California, Ohio and Texas reveals one striking similarity: the incentives and equity effects created by each are inconsistent and at times contradictory. This environment makes it difficult for community colleges to align their policies and practices to best serve the needs of students and states.

Despite their marked differences, **enrollment is strongly incentivized in all three states.** The prominence of enrollment incentives varies across the three states, but their influence is strong in all three despite outcomes incentives in each state that explicitly aim to focus institutions on retention and credential attainment and, in two states, equity gap reduction.

While enrollment incentives may be instrumental in improving college access and providing a substantial flow of revenue, access alone will not solve the needs of students or the states in which they reside. And, as recent trends have shown, enrollment is a highly variable source of revenue.

When college finances depend heavily on tuition and state revenue driven by formulas that prioritize enrollment, community colleges can lose sight of student and equity outcomes that may or may not generate revenue.

Enrollment incentives must be coupled with equally strong incentives to close equity gaps, retain and credential students, and meet state economic and workforce needs while reducing income and wealth disparities. State community college finance systems are not now designed to provide balanced, rational revenue that is insulated from wide swings; nor are they governed by policies that create consistent, effective and intentional incentives.

The total percentage of revenue that incentivizes student outcomes is modest in two of the three study states: 3 percent in Texas and 9 percent in California. In contrast, 100 percent of Ohio's state appropriations is distributed based on students' progression, retention and outcomes, resulting in 42 percent of total community college revenue incentivizing outcomes.

Policies determine whether the size and proportion of local recurring revenue streams exacerbate inequality.

For example, while local recurring revenue comprises about one-third of total revenue for the California community college system, state policy ensures that nearly all colleges receive roughly equivalent total revenue per FTE student. This fact is not apparent without a close analysis of the policies that govern the distribution of local funding in California.

In contrast, policies related to local operating revenue drive institutional funding inequity

to some degree in Ohio and to a significant degree in Texas. Unlike California, neither Ohio nor Texas uses state policy to account for variation in local revenue across the colleges, resulting in wide institutional variation in total funding per FTE in both states. However, the impact on equitable institutional funding differs in these two states. Local revenue comprises the lowest proportion of Ohio's total revenue among the three study states: only about a quarter of Ohio community colleges raise any local operating revenue and, for most of those, local dollars are a modest portion of their total revenue. In Texas the story is very different. Not only does local revenue comprise nearly half of all funds received by community colleges, but also the prominence of local funds varies enormously across colleges. Moreover, because Texas does not take this fact into consideration when distributing state funds, there are large disparities in overall community college funding levels across the state.

Examining each finance system through an equity lens, as can be seen in Tables 6 and 7, reveals that **California's** community college finance system most strongly supports institutional funding equity and student access. Via its Student Centered Funding Formula, enrollment of low-income and undocumented students determines about 18 percent of total revenue for each college — an enrollment emphasis with an equity lens. And low and consistent tuition, which is waived for most low-income students, results in little to no cost barrier to student access. Yet the amount of total funding that incentivizes equitable student outcomes is quite low at about 1.19 percent of total revenue. Meanwhile, the substantial restrictions that California places on the use of community college resources reduces

institutional autonomy to deploy resources as needed to meet critical goals.

The most notable and substantial equity element of **Ohio's** community college finance system is the strong emphasis placed on the success of a broad range of equity populations in its Student Centered Funding Formula — a formula element for which Ohio has deservedly received national recognition. Over time, this focus on equitable outcomes drives substantial additional resources to colleges that retain and credential students in these target populations. Yet colleges that enroll few students in these target populations, or that do not retain and graduate them, lose state appropriations over time. This dynamic renders some colleges increasingly less capable of achieving strong outcomes for their students. The effect of Ohio's finance system on equity is further complicated by high and varying tuition as well as the absence of policy that would equalize FTE funding across institutions or provide more resources upfront for colleges to serve students who require more support. In addition, the state's last-dollar student aid can create a cost barrier to access and retention.

The current community college finance system in **Texas** contains the fewest elements contributing to equity. Its funding formula includes no equity metrics; tuition is widely disparate both across and within many colleges, and large variations in local revenue are not offset via state policy. In theory, local recurring revenue can be used to address inequities that state funds do not; however, in practice, many colleges are in small or low-taxing districts and a few others do not serve a tax-paying base. This means these institutions cannot generate enough local

recurring revenue to simultaneously support physical plant operations, which state dollars do not cover; augment general revenue funds for instruction and administrative costs; and address inequities. As a result, Texas faces multiple policy barriers to ensuring that institutions have the resources and incentives to enroll, support and credential all students or to reduce equity gaps.

Components of community college finance systems that create inconsistent or unclear incentives are potential levers for increasing alignment with critical state attainment, workforce and equity goals. As can be seen in Figure 5, clear and consistent policy incentives are lacking for about 50 percent of the total community college revenue in Texas. And, where clear incentives exist, the cumulative policy incentives weigh heavily toward enrollment rather than outcomes or equity within outcomes in both California and Texas (see Figures 3 and 5). California does require most state funds as well as all tuition and local recurring revenue to be distributed via its funding formula, which provides modest incentives for improvements in student outcomes and reductions in equity gaps. This is one example of how states could use state policy to better align resources derived from all revenue streams — not just state appropriations — to meet the pressing needs of the state and its residents.

Next Steps for Constructing Adequate, Equitable And Effective Community College Finance Systems

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 certain to grow in the coming decades. A strong, effective community college sector will be key to the prosperity of our people, communities, states and the nation.

This report reveals that the structure of states' community college finance systems strongly influences whether community colleges can meet their potential. By mapping and comparing three very different state finance systems, we expose the diversity and complexity of how community colleges are financed. We also provide an analytical framework to support informed and effective state-level reforms. Because this framework takes both revenue streams and related policies into account, it exposes competing incentives, misalignments with state priorities, inequities for both students and institutions, and complexities that can mask the likely impact (or lack of impact) of past and potential reforms.

Despite the presence of policies intended to incentivize improvements in student outcomes in the three study states, we found that enrollment is a strong incentive in all three states. We also identified several finance system elements that hold promise for increasing adequacy, equity and effectiveness.

These include policies that contribute to more equitable institutional funding, prioritize the success of underserved students and provide upfront resources to support their success. These insights would not be possible without a comprehensive analysis of how each major revenue source functions individually and in concert to create community college funding environments.

For community colleges to succeed as engines of prosperity, states will need to enact coherent and effective funding policies that deliver more adequate and equitable resources, incentivize increasing credential attainment and reducing equity gaps, and equitably distribute enough resources to allow institutions to effectively meet these goals. Mapping community college finance systems is an essential first step in that process.

student success, increases equity, and meets state 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. We hope this brief encourages policymakers and advocates to map the finance system for community colleges within their state so they can identify the policy levers most likely to create a much more adequate, equitable and effective community college finance system.



How community colleges are funded in each state is the result of accrued policy and revenue decisions--which are unclear without a full analysis of its community college finance system. Mapping these systems is the foundation for creating equitable and effective finance policy aligned with state priorities.

The field is quickly reaching a consensus that community colleges must be funded adequately and equitably. Yet to encourage and enable community colleges to fulfill their potential, their finance systems must be intentionally designed to incentivize and support institutional behavior that prioritizes

ABOUT THE PROJECT

This analysis 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. Other project strands include 10 institutional case studies, cost analyses of evidence-based practices designed to improve student outcomes and reduce equity gaps, the development of finance tools and methods, and assistance to the field.

HCM Strategists (HCM) is an impact-driven public policy and advocacy consulting firm founded in 2008. We believe in the transformative power of education and work-based learning to improve social and economic mobility for communities that have been marginalized or historically underserved. Our work delivers a consequential impact on the national narrative, policy options and leaders responsible for change.

The Community College Research Center (CCRC), Teachers College, Columbia University, has been a leader in the field of community college research and reform for over 25 years. Our work provides a foundation for innovations in policy and practice that help give every community college student the best chance of success.

ABOUT THE FUNDERS

Lumina Foundation is an independent, private foundation in Indianapolis that is committed to making opportunities for learning beyond high school available to all. We envision a system that is easy to navigate, delivers fair results, and meets the nation's need for talent through a broad range of credentials. Our goal is to prepare people for informed citizenship and for success in a global economy.

Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to help all people lead healthy, productive lives. In developing countries, it focuses on improving people's health and giving them the chance to lift themselves out of hunger and extreme poverty. In the United States, it seeks to ensure that all people—especially those with the fewest resources—have access to the opportunities they need to succeed in school and life. Based in Seattle, Washington, the foundation is led by CEO Mark Suzman, under the direction of co-chairs Bill Gates and Melinda French Gates and the board of trustees.

Ascendium Education Group is a 501(c)(3) nonprofit organization committed to helping people reach the education and career goals that matter to them. Ascendium invests in initiatives designed to increase the number of students from low-income backgrounds who complete postsecondary degrees, certificates and workforce training programs, with an emphasis on first-generation students, incarcerated adults, rural community members, students of color and veterans. Ascendium's work identifies, validates and expands best practices to promote large-scale change at the institutional, system and state levels, with the intention of elevating opportunity for all.

GLOSSARY OF TERMS

Following are definitions of terms the study team used in the brief.

ACADEMIC YEAR. The 12-month period schools use to measure a quantity of study, generally extending from September to August.

AD VALOREM TAX. A property tax computed as a percentage of the value of taxable property.

ALLOCATION FORMULA. The division or distribution of set resources to community colleges according to a formula or plan. See Funding Formula for comparison.

BASE PLUS FUNDING. A method by which states allocate higher education funding to postsecondary institutions. The calculation begins with an established institutional or sector base amount from prior fiscal years. The state budgeting authority then determines the new fiscal year allocations by adding to or subtracting from this base, or by making no changes to the previous year's base funding amount.

BIENNIUM. The two-year budget period used by multiple states, including Ohio and Texas. Each biennium contains two state fiscal years.

COMMUNITY COLLEGE FINANCE SYSTEM. Major community college revenue streams and the policies that determine their calculation, distribution and use.

CONTACT HOUR. A standard Carnegie Unit that represents one hour of scheduled instruction given to students of which 50 minutes must be of direct instruction, or 12 hours of class time per week over a semester.

CORE OPERATIONS. Regardless of size or geographic location, a uniform amount each Texas community college/junior college receives from the state to help cover basic operating costs.

COMMUNITY COLLEGE SYSTEM. A group of community colleges overseen at the state level by a governing body or agency that does not have authority over other types of postsecondary institutions.

FISCAL YEAR. In California and Ohio, the period beginning July 1 and ending June 30. In Texas the fiscal year begins September 1 and ends August 31. Federally- funded programs use a fiscal year beginning October 1 and ending September 30.

FULL-TIME EQUIVALENT (FTE) STUDENT. A measure of semester student enrollment calculated based on the total number of student credit hours (SCHs). Every 12 SCHs at the undergraduate level equals 1.0 FTE.

FUNDING FORMULA. A formula that calculates the resources that each education entity requires to effectively serve all students and that distributes resources accordingly. In contrast, allocation formulas distribute preset resources. Funding formulas include both the calculation and distribution of resources. Funding formulas are common in the K–12 sector; this type of formula has yet to be implemented in the postsecondary sector, though several states seem to be considering this approach.

GENERAL REVENUE. Revenue collected and appropriated at the state level.

IN-DISTRICT STUDENTS. Refers to students who live in an area from which the community college they attend collects local taxes in some of the states that allow community colleges to raise local recurring revenue and charge differential tuition. If state policy allows, the institution may choose to charge in-district students lower tuition rates than students from outside the district.

INTEREST AND SINKING TAX. The tax rate levied by districts in Texas to pay for any bond debt that may have been issued to fund the construction of schools and facilities.

LOCAL FUNDING. Recurring community college revenue collected and generated by local governments, usually from property taxes.

MAINTENANCE AND OPERATIONS TAX. The portion of an ad valorem tax rate used for maintenance and operation.

MAJOR COMMUNITY COLLEGE REVENUE STREAMS. Refers to the three major sources of community college revenue: state appropriations, tuition and local recurring revenue.

OPEN-ACCESS INSTITUTION. Colleges that admit all eligible students. Community colleges typically are open-access institutions, though they may have some individual programs of study that have waiting lists or that have specific eligibility criteria (e.g., nursing).

OUT-OF-DISTRICT STUDENTS. Refers to students who do not live in an area from which the community college they attend collects local taxes in some of the states that allow community colleges to raise local revenue and charge differential tuition. If state policy allows, the institution may choose to charge out-of-district students higher tuition rates than students from inside the district.

PLANT OPERATIONS AND MAINTENANCE. Expense function covering the operation and maintenance of the physical plant, including grounds, facilities, utilities and property insurance.

POSTSECONDARY GOVERNANCE. Method by which states oversee postsecondary education. Postsecondary governance systems vary in terms of the degree of centralization, oversight and concentration.

PROPOSITION 98. A 1988 constitutional amendment in California that sets a minimum funding level for public K–12 schools and community colleges, often referred to as the minimum guarantee, which is funded by state general fund revenue and local property taxes as well as, in the case of community colleges, tuition.

STATE APPROPRIATIONS. State dollars collected and distributed to community colleges by the state.

STATE SHARE OF INSTRUCTION (SSI). Refers to the community college state allocation formula in Ohio. All funds are distributed based on student outcomes and related equity metrics.

STUDENT CENTERED FUNDING FORMULA (SCFF). The primary mechanism for distributing 100% of state resources (42% of total revenue) to community colleges in Ohio; in California 83% of state revenue and 100% of local recurring revenue and tuition (89% of total revenue) is distributed through the SCFF. These formulas allocate funds to community colleges based, at least in part, on how well their students are faring.

STUDENT SUCCESS POINTS. Refers to the element of Texas' community college funding formula that distributes approximately 12 percent of state appropriations based on the completion of 11 outcome metrics.

TEXAS HIGHER EDUCATION COORDINATING BOARD (THECB). The Texas government agency that oversees all public postsecondary education in the state.

TUITION. The amount of money colleges charge students for instructional services. Tuition may be charged per term, per course or per credit. Students are sometimes required to pay certain fees in addition to tuition to enroll.

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