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New Report Looks Under the Hood of State Community College Finance Systems, Finds Things Aren't Always What They Seem

Innovative analysis finds complexity, competing incentives, and implications for equity; provides framework for states to map their own systems and make more impactful reforms.

AUSTIN, TX—How much do we really know about community college finance systems: not just particular policies or revenue streams, but the way they combine to create state-specific conditions and incentives for colleges? How do these systems drive or reduce inequities in campus funding, student access, and student outcomes? What do we need to know about our own state's community college finance system to make it more equitable and effective?

Today, a new report from HCM Strategists provides needed answers for state policymakers, community college leaders, and higher education advocates and researchers. *Mapping Community College Finance Systems to Develop Equitable and Effective Finance Policy* reveals the diversity and complexity of state finance systems, and how to identify the often competing incentives within them, by comparing the systems of three very different states: California, Ohio, and Texas.

"With declining enrollment, pressing state workforce needs, tightening state budgets, and persistent equity gaps in student outcomes, the stakes for community colleges have never been higher," said the report's lead author and former HCM senior adviser, Dr. Kate Shaw.* "Too many community colleges aren't reaching their potential to improve lives and local economies, and the way we fund these colleges is a big part of the problem. By mapping how revenues and related policies intersect, we reveal how community college finance systems contribute to current results, and how they could be more intentionally designed to help colleges and their students succeed."

The authors conducted extensive research, engaged with state policymakers, and created an analytical framework to fill a major gap in existing research, which largely focuses on individual elements of community college funding or policy rather than how they all add up. In contrast, the report's maps of the California, Ohio, and Texas finance systems include: the share of total funding from each of three main revenue streams – state appropriations, tuition, and recurring local revenue; the policies that control how those revenues are generated, distributed, and used; the combined incentives for colleges; and the distinct equity implications for institutions and for students.

Among the report's key findings:

- Even though each of the three state's finance systems includes a student-centered funding formula, the percentage of total revenue directly tied to student outcomes ranges widely: from 3% in Texas and 8% in California to 42% in Ohio. These differences are due to the intersection of the formula's design, the share of total funding the formula controls, and the prominence of other funding streams.

- All three state finance systems strongly incentivize community colleges to focus on enrollment, with 80% of total revenue tied to enrollment in California, 40% in Ohio, and 46% in Texas.

- Relying on local revenue does not necessarily lead to inequitable funding between colleges. Some states, such as California, have policies that level the funding playing field, while others do not.

- Net incentives for community colleges to increase equity in student outcomes are highest in Ohio and lowest in Texas, while California's finance system prioritizes equity in student access.

"State finance systems include layers of policies that drive not only how much money colleges can get from different sources, but also how those dollars are distributed and spent. Only by looking under the hood can we diagnose where the real problems are, what impact different reforms could have, and how to build a stronger engine for equity and effectiveness," said Lauren Asher, one of the report's co-authors.

The three states featured in the report enroll a substantial proportion of U.S. community college students, have divergent postsecondary structures and finance systems. The report's findings are based on a snapshot of academic year 2019-20, before the pandemic's substantial and mostly temporary effects on relevant funding and policies. More recently, all three states have considered significant finance and/or curricular reforms.

Graphic representations of each state's community college finance system depict how revenue streams and policies interact to produce multiple – and sometimes competing – incentives for colleges. The report also includes cross-state analysis of each major revenue stream and key policies in the three focus states, as well as their implications for equity. And it provides a clear, four-step framework for mapping state finance systems.

"For community colleges to reach their full potential as drivers of prosperity and equity, states must create stable, coherent finance systems that enable and incentivize colleges to better meet the needs of their students, communities, and state," said Stephanie Murphy of HCM and one of the report's co-authors. "Community college finance system maps enable each state to determine its own best path forward."

To read the report, please click here.

* *Press note:* On March 13, 2023, lead author Dr. Kate Shaw began her tenure as Pennsylvania's new Deputy Secretary and Commissioner for Postsecondary and Higher Education, as appointed by Governor Josh Shapiro. Contact HCM to reach available spokespeople for this report.

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Mapping Community College Finance Systems to Develop Equitable and Effective Finance Policy 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. Titled Paving the Way to Equitable, Adequate and Effective Community College Funding, the project 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.

HCM Strategists, founded in 2008, is an impact-driven consulting firm that believes 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.