# Does Your State's Community College Finance System Do What You Think it Does?

Map your system to see how all the dollars + policies actually add up
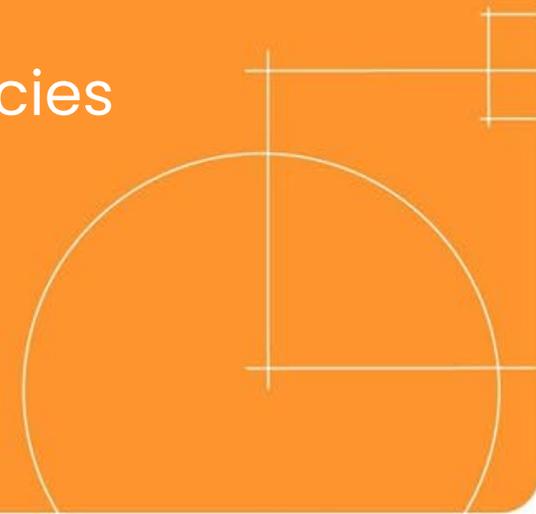
Table of Contents
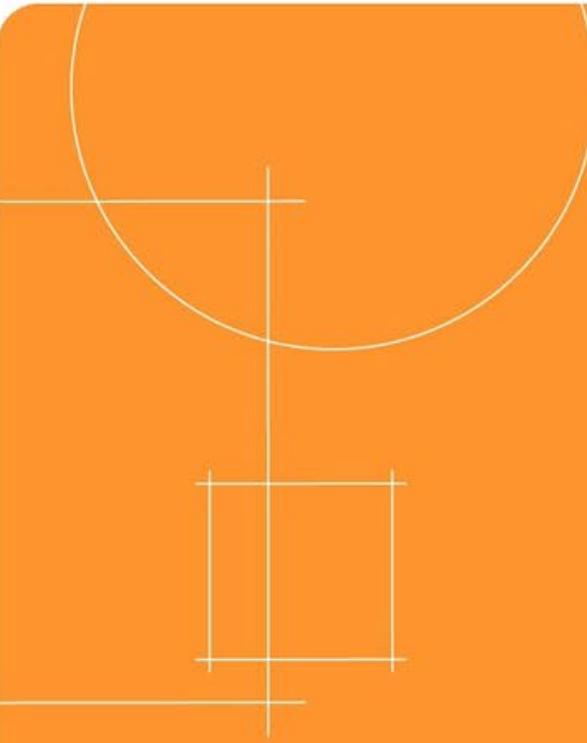
# Why You Need a Map of Your Community College Finance System

Achieving Community Colleges' Full Potential

- Community colleges can be engines of opportunity for individuals and economic drivers for states, but most aren't reaching their potential.
- How community colleges are financed shapes their ability to to attract, retain, and graduate a diverse student body and meet state needs.
- Every state has a different set of financial and policy mechanisms that affect community colleges' resources, priorities, and effectiveness.

You Need a Map to…

<u>SEE</u> a complete overview of your state's community college funding

<u>UNDERSTAND</u> what is – and isn't – working

<u>IDENTIFY</u> levers for policy change

<u>ENVISION</u> a more coherent, effective, and equitable funding system
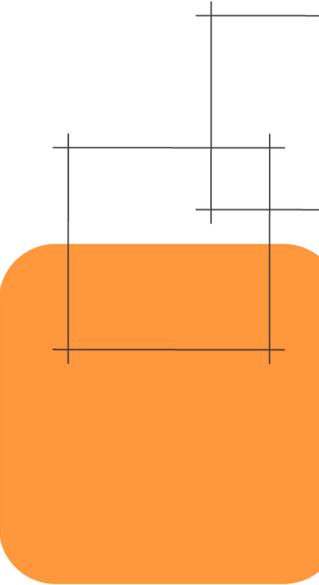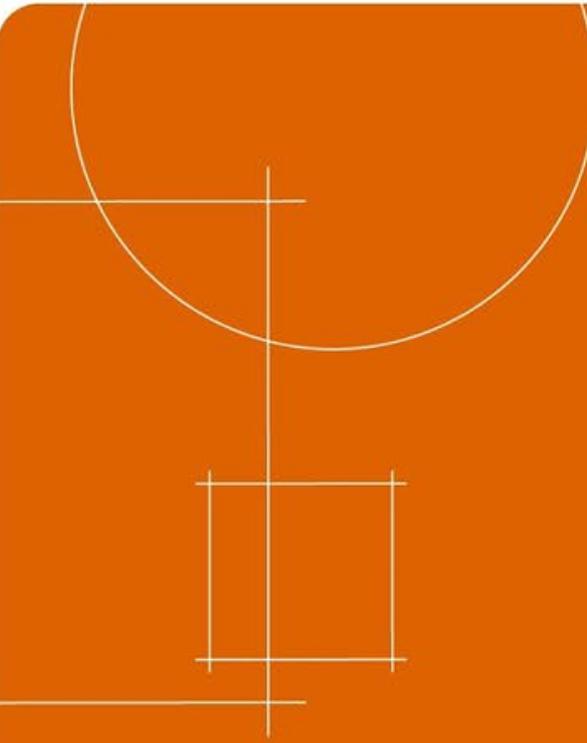
Finance Systems = Revenue Streams + Policies

Key Elements of Community College Finance Systems

Revenues + Policies = Systems

Main Revenue Streams:

State Appropriations

Local Revenue

Tuition

Layers of <u>policies</u> that:

- (policy type) Govern the amount, distribution, and/or use of funding
- (policy type) Apply only to certain sources of funding
- (policy layering) Accumulate over time
- (policy layering) Interact in complex and often contradictory ways

Revenues x Policies = Incentives

To see how finance systems contribute to current results, and how they could do better, you need to know the cumulative incentives that the main revenue streams and policies create.

Revenues

where $ comes from and how much

x

Policies

what determines revenue amounts, amount each college gets, and how they can spend it

=

Incentives

how the combo shapes priorities (e.g., enrollment, completion, narrowing equity gaps)
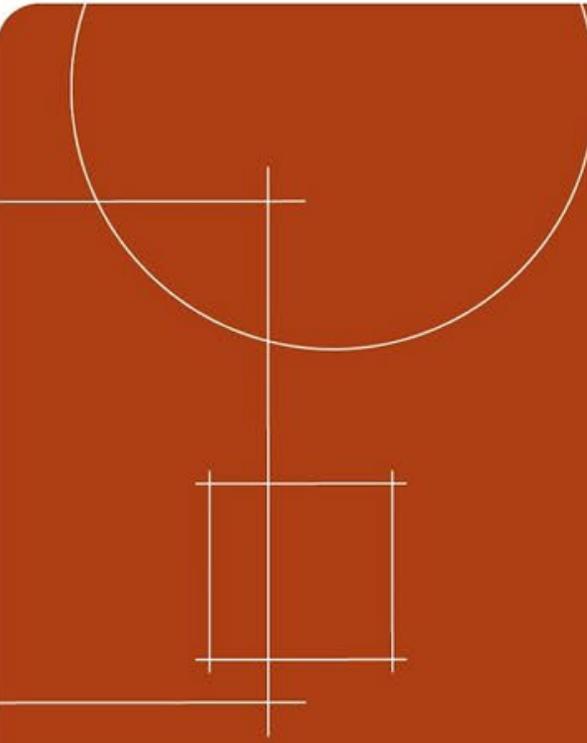
Building Your Map

Gather Information
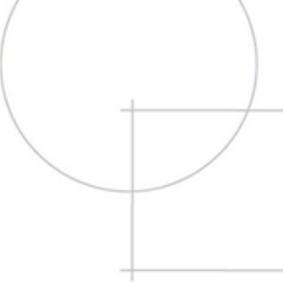
Start by determining the total revenue for all community colleges in your state:

- From all **3 main funding streams**: state, local, tuition
- For **all community colleges** combined
- From a **non-COVID year** (no temporary bump from federal funds)
- Using **confirmed, good-enough data**

Then identify the main policies that, for each revenue stream, determine:

- Total **amount** each year
- **Distribution** across colleges
- **Use** restrictions (if any): what colleges can and can't spend it on

Build Your Map (1/4)

The elements of community college finance systems

| Revenue Sources | Controlling Policies | Institutional Incentives |

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.

Build Your Map (2/4)

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.*

Revenues: % of total funding from each of the 3 major revenue sources (state appropriations, local recurring revenue, and tuition).

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

CALIFORNIA — State 64%, Local 32%, Tuition 4%

OHIO — State 42%, Local 18%, Tuition 40%

TEXAS — State 20%, Local 49%, Tuition 30%

Legend: State | Local | Tuition
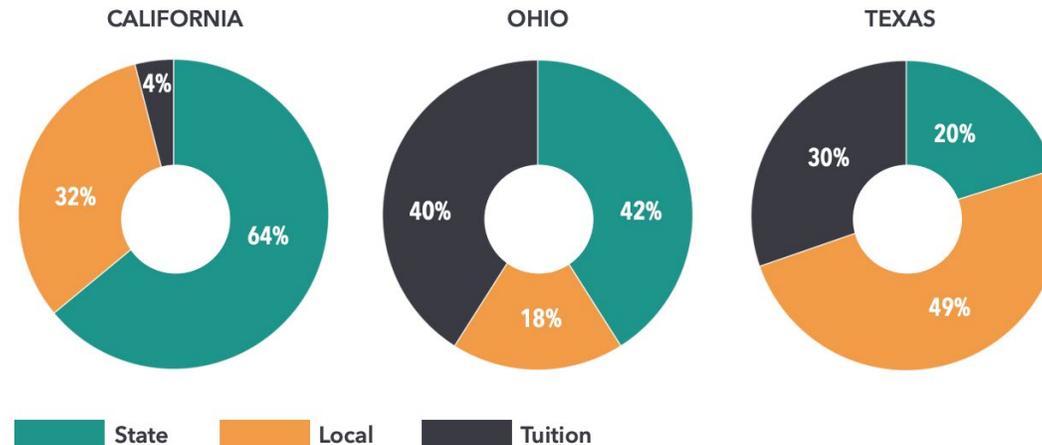
Percentages may not total 100 due to rounding.

Building Your Map (3/4)

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

Policies: % of each revenue source and % of total revenue each major policy controls. For example:
- In a finance system where 30% of total funding comes from the state, and the student-centered funding formula applies to 50% of state appropriations, the formula controls 15% of total revenue (.30 x .50 = .15)
- If that formula ties 10% of the funding it controls to student success outcomes, that part of the formula drives 1.5% of total revenue (.10 x .15 = .015)

Building Your Map (4/4)
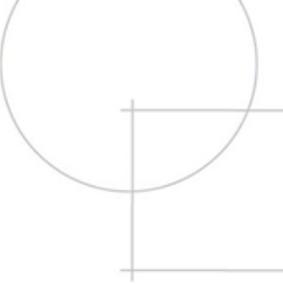
Step 3: MAP INCENTIVES. Determine whether and how each revenue stream and related policies create incentives for community colleges.

Institutional Incentives: % of total funding tied to incentives for college priorities, policies, and practices:
- Enrollment
- Student Outcomes
- Local Priorities
- Neutral (unrestricted or no clear/primary incentive)

Maps of 3 State Finance Systems

We developed this framework and figured out what works by mapping three very different state finance systems, based on 2019-20 (pre-Covid) funding and policies.

California
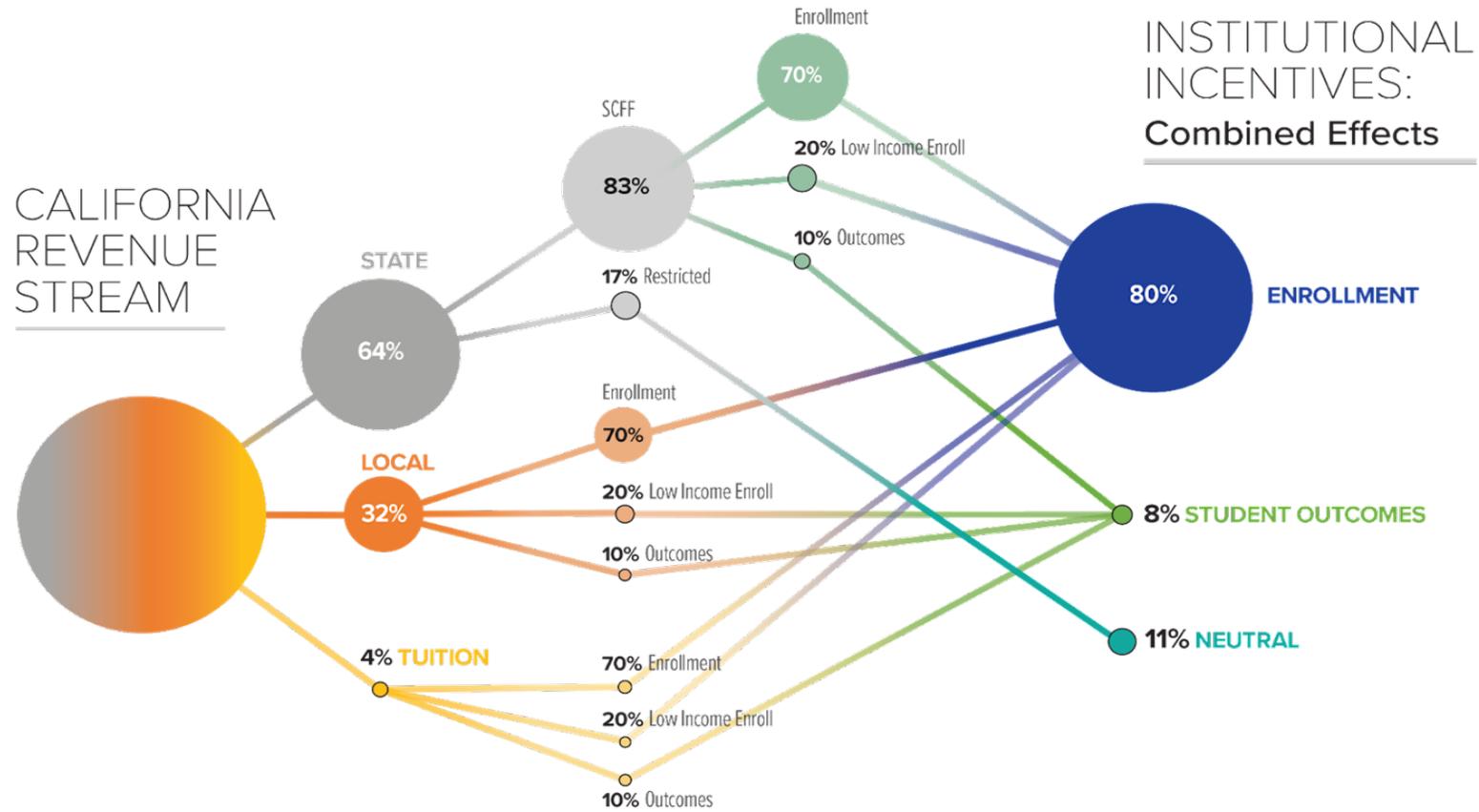
Ohio

CALCULATION/
DISTRIBUTION
USE POLICY

INSTITUTIONAL
INCENTIVES:
Combined Effects

OHIO
REVENUE
STREAM

STATE
42%

Course Completion
50%

Progression
25%

Completion
25%

LOCAL
18%

Unrestricted
100%

TUITION
41%

Within District
85%

15% Outside of District

62% ENROLLMENT

21% STUDENT OUTCOMES

18% NEUTRAL

Texas

CALCULATION/
DISTRIBUTION
USE POLICY

TEXAS
REVENUE
STREAM

INSTITUTIONAL
INCENTIVES:
Combined Effects

Contact Hours **82%**

12% Outcomes

STATE **20%**

4% Institution

46% ENROLLMENT

LOCAL **49%**

Unrestricted **100%**

STUDENT OUTCOMES 3%

50% NEUTRAL

TUITION **30%**

Within District **62%**

38% Outside of District
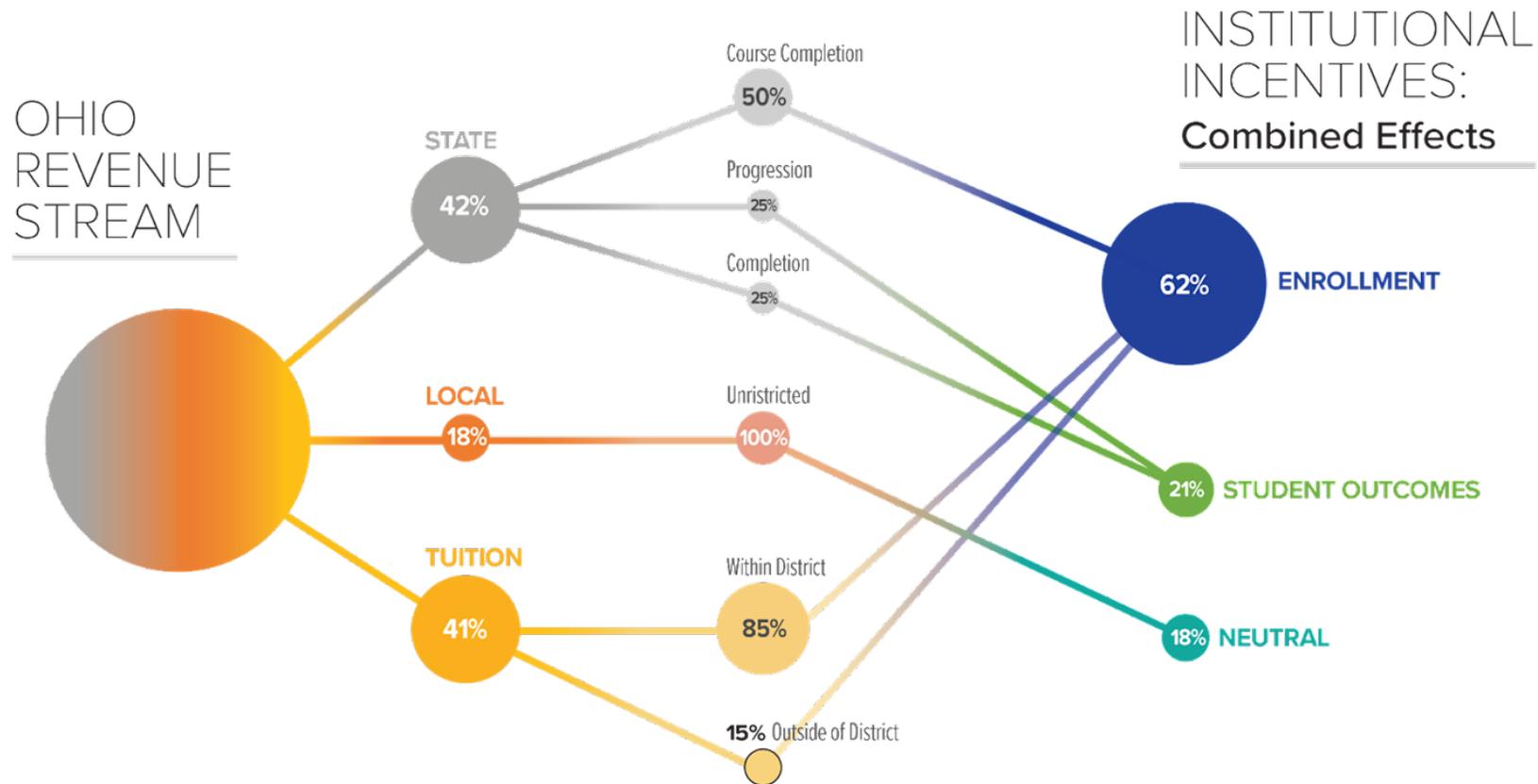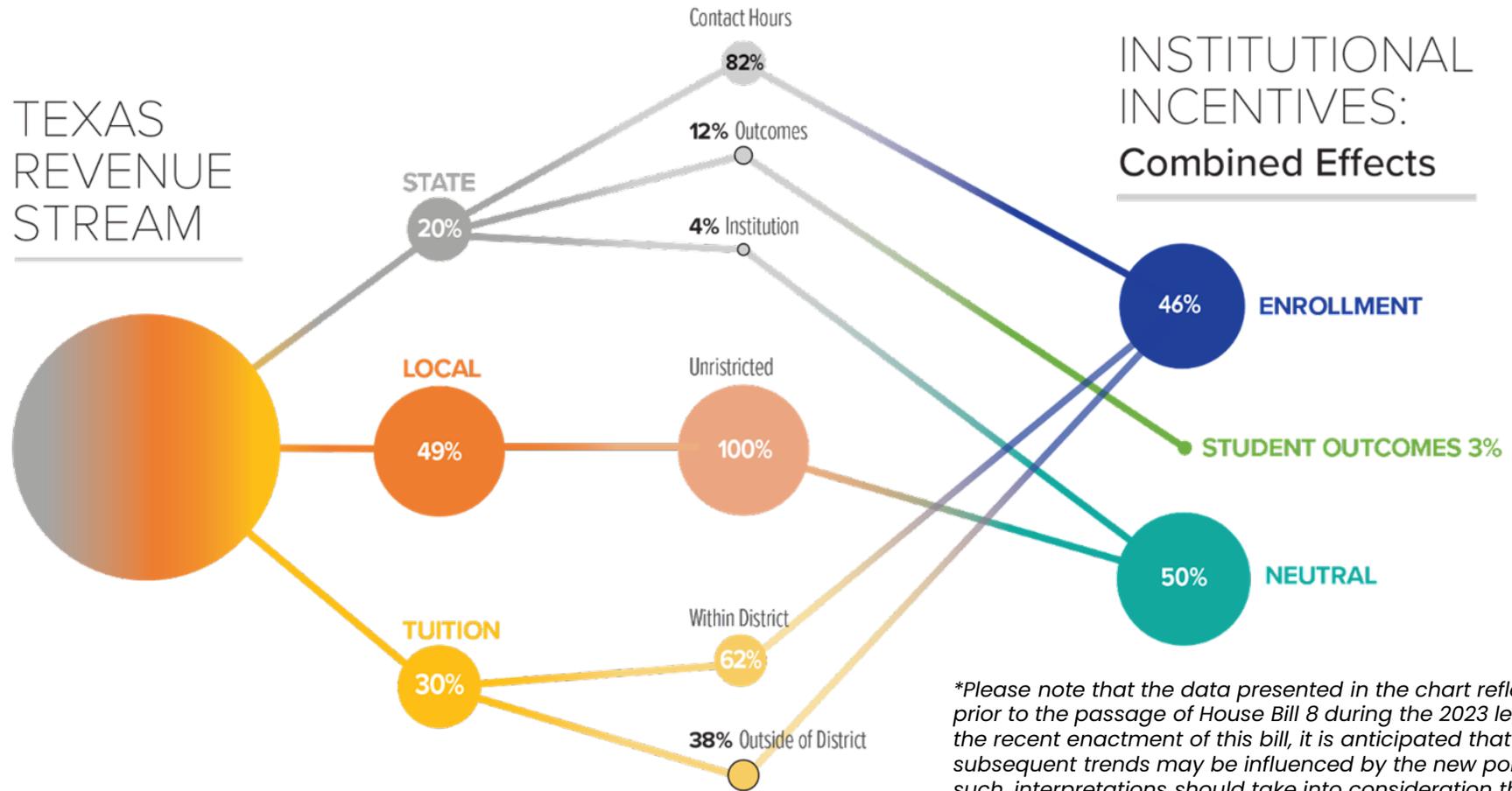
Please note that the data presented in the chart reflect policies in effect prior to the passage of House Bill 8 during the 2023 legislative session. Given the recent enactment of this bill, it is anticipated that the analysis and subsequent trends may be influenced by the new policies introduced. As such, interpretations should take into consideration the evolving landscape of higher education policies in Texas.

Tips for Map-Building

Assume no one knows or sees the whole finance system
Consider legislative, regulatory, and higher education system policies
Check assumptions and conclusions with relevant policy and finance experts
**Prioritize proportions over precision**: if sources for dollar figures conflict, focus on big differences with system-level implications and let small ones go

Where to look for the financial and policy information you need:
- State Budget
- State Higher Education Agency or Commission (where applicable)
- State Finance Department or Governor's Finance Office
- State Legislative Committees: committees or subcommittees covering higher education, budget, revenue/ways and means
- State Legislative Analyst and/or Budget Office (where applicable)
- Community College System Office (where applicable)
- Community College District or Campus Budgets (if necessary)
- Community College Leaders
- Researchers and Policy Experts (at universities and nonprofits)
- State Higher Education Executive Officers Association reports (SHEEO)
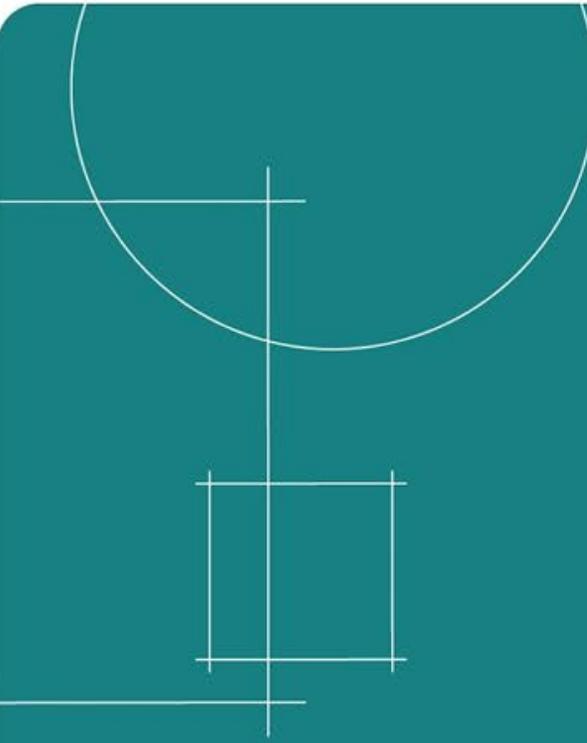
How to Use Your Map

Analyze Equity Implications

Different aspects of state finance systems can affect equity in different ways.

You now have the information you need to **analyze the implications of your state finance system for 3 types of equity**:
- Student Access
- Student Outcomes
- Institutional Funding

And you can see where policy changes could make a difference.

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.		Strong positive	
Percentage of total community college revenue aligned with low-income student success is 1.9%.		Modest positive	
Policies that restrict how resources can be used affect 59% of total revenue.		Modest negative	
Funding formula distributes about 18% of total revenue to colleges as upfront additional funding to serve low-income students.		Strong positive	Strong positive
Tuition is low, consistent across colleges and waived for low-income students.	Strong positive		
State policy is designed to equalize per-FTE total revenue across colleges.			Strong positive

Legend:
- Strong positive emphasis/effect
- Modest positive emphasis/effect
- Modest negative emphasis/effect
- Strong negative emphasis/effect

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

Equity Lever	Equitable Student Access	Equitable Student Outcomes	Institutional Equity
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.		🟩 Strong positive	
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.	🟥 Strong negative		
State does not consider variation in local resources when distributing state dollars to individual colleges, but the variation is modest.			🟧 Modest negative
State does not provide colleges with upfront additional funding to support historically underserved students.			🟥 Strong negative
College tuition varies across colleges and within several colleges, but the variation is relatively modest.	🟧 Modest negative		🟧 Modest negative

🟩 Strong positive emphasis/effect 🟧 Modest negative emphasis/effect

⬜ Modest positive emphasis/effect 🟥 Strong negative emphasis/effect

# Policy Levers and Their Effects on Equity in California, Ohio and Texas

Equity Lever	Equitable Student Access	Equitable Student Outcomes	Institutional Equity
TEXAS			
Funding formula does not include weights for the success of any equity populations.		■ (Strong negative)	
Tuition varies widely both across and within colleges.	■ (Strong negative)		
State does not provide colleges with upfront additional funding to support historically underserved students.			■ (Strong negative)
Colleges rely heavily on local recurring revenue the receipt of which varies substantially by college.			■ (Strong negative)
State does not consider variation in local recurring revenue resources when distributing state dollars to individual colleges.			■ (Strong negative)

Legend:
- Strong positive emphasis/effect
- Modest positive emphasis/effect
- Modest negative emphasis/effect
- Strong negative emphasis/effect

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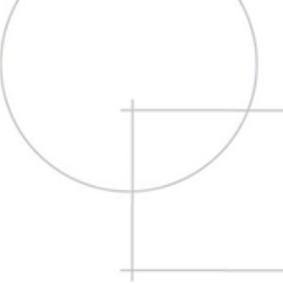
Finance System Effects on Incentives for Equitable Student Access, Equitable Student Outcomes and Equitable Institutional Funding

	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

Legend:
- Strong positive emphasis/effect
- Modest positive emphasis/effect
- Modest negative emphasis/effect
- Strong negative emphasis/effect

Determine the Best Path Forward for Your State

Develop options and models for reform that will enable and incentivize colleges to better meet the needs of their students, communities, and state. Now that you have a full picture of the current system's elements, strengths, and weaknesses:

- Envision a stronger, more coherent and effective finance system that:
    - Delivers more adequate, equitable, and stable resources to community colleges
    - Incentivizes increased student success and reduced equity gaps
    - Enables colleges to invest in evidence-based approaches
    - Takes increasing pressures on enrollment into account

- Identify levers for policy change with good odds of working as intended:
    - Simpler/low-hanging fruit and more complex reforms
    - Within current and under different governance, political, and economic conditions

- Learn from other states' finance systems and reform efforts

- Develop priorities for change and start building support

Questions?

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