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## THE REVENUE IMPLICATIONS OF COMMUNITY COLLEGES' RELIANCE ON LOCAL FUNDING

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Community colleges play a critical role in nationwide efforts to reduce attainment gaps in American higher education. As open-access institutions, community colleges educate a disproportionate share of low-income, racially minoritized, academically underprepared, and location-constrained students.<sup>1</sup> Community colleges are engines of opportunity that were created to be extremely responsive to the workforce demands of their local economies.<sup>2</sup> Even though community colleges are designed to serve the educational and workforce needs of their local communities, many states provide no local funding to their community colleges. Among those states that do provide local funding for community colleges, the amount of local funds allocated to each community college varies considerably across localities.

Community colleges also receive considerably less government funding per student than four-year institutions. According to a recent policy report by the Center for American Progress, community colleges receive about \$8,800 less in education revenue per student when compared to four-year institutions—this

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<sup>1</sup> Bailey, T. R., Jaggars, S. S., & Jenkins, D. (2015). *Redesigning America's community colleges: A clearer path to student success*. Cambridge, MA: Harvard University Press.

Dowd, A. C. (2003). From access to outcome equity: Revitalizing the democratic mission of the community college. *The Annals of the American Academy of Political and Social Science*, 586(1), 92-119

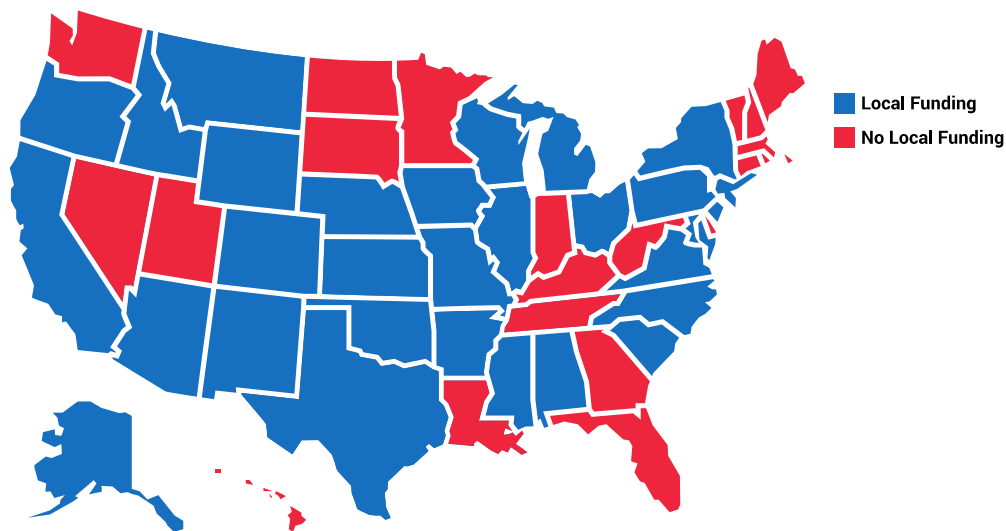
<sup>2</sup> Cohen, A. M., Brawer, F. B., & Kisker, C. B. (2014). *The American community college* (6th ed.). San Francisco, CA: Jossey-Bass.

equates to a \$78 billion difference in education revenue between the two sectors.<sup>3</sup> Local funding has the potential to close the considerable revenue gap between community colleges and four-year institutions, but we know very little about the relationship between community colleges' reliance on local funding and their total institutional revenue.

Due to the uneven ways in which local funds are distributed to postsecondary institutions, local funding has the potential to exacerbate already-existing inequities by using local taxes as a mechanism to provide more funding to community colleges in affluent areas and less funding to community colleges in underprivileged areas. This dynamic has equity implications due to the overrepresentation of rural, low-income, and racially minoritized students enrolled at the community colleges receiving the least amount of public funding. At the K-12 level, roughly two-thirds of state funding formulas recognize that students with greater needs are more expensive to educate and require greater resources.<sup>4</sup> For higher education, a greater number of states now incorporate equity-oriented metrics into their funding formulas, but higher education funding remains unequal across institution types.

In Fiscal Year 2020, 29 states allocated local appropriations to at least one community college. Figure 1 shows which states use or do not use local appropriations to fund community colleges.

Figure 1. Number of states using local funding for community colleges in FY 2020



<sup>3</sup> Yuen, V. (2020). The \$78 billion community college funding shortfall. Washington, DC: Center for American Progress. Retrieved from <https://www.americanprogress.org/issues/educationpostsecondary/reports/2020/10/07/491242/78-billion-community-college-fundingshortfall/>

<sup>4</sup> Kahlenberg, R. (2015). How higher education funding shortchanges community colleges. Washington, DC: The Century Foundation. Retrieved from <https://tcf.org/content/report/how-higher-education-funding-shortchanges-communitycolleges/>

To examine the relationship between community colleges' reliance on local funding<sup>5</sup> and their total institutional revenue, we address the following research questions:

- **Research Question 1:** Are community colleges financially disadvantaged by increasing their level of reliance on local funding?
- **Research Question 2:** Do results vary across specific types of community colleges?

To answer our research questions, we employ a series of regression models with two-way fixed effects. Our first specification for all models is a naïve model including only the independent variable (level of reliance on local funding) and fixed effects. Our second specification for all models includes the independent variable (level of reliance on local funding), fixed effects, and numerous covariates (e.g., institutional size, pricing, instructional expenditures per student, unemployment, proportion of residents who earned a bachelor's degree or higher, proportion of racially minoritized residents, per-capita income).

In our analyses, we found a positive relationship between a community college's level of reliance on local funding and various measures of total institutional revenue; however, these findings did not hold for all types of community colleges. **For rural community colleges, their level of reliance on local funding was negatively related to total institutional revenue.** Specifically, rural community colleges experience a decrease between 3.8 and 5.4 percent in total institutional revenue when their level of reliance on local funding increases by 10 percentage points.

The relationship between a community college's level of reliance on local funding and total institutional revenue appears to be more complicated when examining different types of minority-serving institutions (MSIs).<sup>6</sup> We found no relationship between a community college's level of reliance on local funding and total institutional revenue for community colleges eligible to be Predominantly Black Institutions (PBIs) or Native American-Serving Nontribal Institutions (NASNIs). Surprisingly, we found a positive relationship between level of reliance on local funding and total institutional revenue among community colleges eligible to be Hispanic-Serving Institutions (HSIs) or Asian American and Native American Pacific Islander-Serving Institutions (AANAPISIs).<sup>7</sup>

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<sup>5</sup> We measure a given community college's level of reliance on local funding by capturing its percentage of total revenue derived from local appropriations.

<sup>6</sup> For this study, we focus solely on different types of MSI-eligible community colleges due to data limitations. In doing so, we approximate MSI-eligibility status by following enrollment threshold requirements outlined by the U.S. Department of Education.

<sup>7</sup> Additional analyses will explore whether these findings are driven by individual states, such as California, or indicative of a robust trend across state contexts.

**For community colleges serving an above-average share of low-income students, we found a negative relationship between institutions' level of reliance on local funding and their total revenue.** Community colleges serving an above-average share of low-income students show a decrease between 2.5 and 3.4 percent in total institutional revenue when their level of reliance on local funding increases by 10 percentage points. In contrast, a community college's level of reliance on local funding was positively related to total institutional revenue for the community colleges serving a below-average share of low-income students.

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