Funding for Fairness: How States Address Cost Variation in Community College Funding Systems

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Introduction

Community colleges are a cornerstone of American higher education, enrolling nearly half of all undergraduates and expanding access for students who have historically been excluded from postsecondary educational opportunities (Kisker et al., 2023). While every state invests in its community colleges, they differ markedly in how they structure and distribute that support – through their appropriations and the formulas, metrics, and priorities they use to allocate dollars across community colleges (Kelchen et al., 2024). The ways states structure their funding policy can channel different levels of funding to certain institutions and regions, and shape whether colleges have the resources needed to help students persist, complete, and earn the degrees or credentials they set out to achieve.

At the same time, there is growing recognition that community colleges may face different costs to educate students (Baker & Levin, 2017; Levin et al., 2022). Some of the differences are predictable and structural – colleges differ in their enrollment size and location, which can drive differences in labor and other operating costs. Colleges also offer different programs, degrees and credentials, which have different costs depending on what is required to provide high-quality programming to students. Costs are also driven by the student populations colleges serve and the resources that are needed to ensure student success, including the intensity of supports needed for students balancing work and family responsibilities or academic preparation gaps.

Because many states rely on performance-based funding models to allocate dollars across institutions (Kelchen et al., 2023; Rosinger et al., 2022), the presence – or absence – of adjustments that account for these differences in costs among community colleges is a key mechanism through which state funding policy can promote equitable outcomes for students, regardless of which institution they attend. However, it remains unclear whether states consistently or comprehensively incorporate these cost adjustments in their community college funding policies. Understanding whether and how states account for cost differences – such as those related to student needs, institutional characteristics, and local economic conditions – is essential for ensuring community colleges have the resources needed to

serve all students effectively. Without such adjustments, state funding policies risk generating resource inequities among community colleges rather than addressing them.

This policy brief takes a first step toward better understanding how states adjust for cost differences in their community college funding policies. Drawing on well-established concepts and methods from the K-12 education finance literature (Baker et al., 2022), we explore how a similar approach may be applied in the community college context and what additional considerations are necessary for extending cost adjustments to state funding models for community colleges. Specifically, the brief provides a descriptive profile of how state funding approaches attempt to explicitly account for cost differences related to student populations, institutional context, and geographic variation, and identifies other cost adjustments states include in their formula. By applying this framework, the brief sheds light on current funding practices and highlights key gaps in the extent to which state systems address the varied cost pressures community colleges face in ensuring all students have an equal opportunity to attain states' postsecondary goals.

Common Approaches States Use to Fund Community Colleges

States take different approaches to determining how to allocate funding among their community colleges (Kelchen et al., 2024; Layzell, 2007; Mullin et al., 2015). One common approach to funding community colleges is base-plus or incremental funding, where states make marginal adjustments to the funding levels awarded in the previous funding cycle, often based on factors like inflation or available state revenues. According to one estimate, in Academic Year (AY) 2019-20, 41 states used base-plus funding for at least a portion of their allocations to at least one community college (Kelchen et al., 2023). Depending on how state funding allocations were originally determined, base-plus funding can perpetuate and possibly even increase inequities existing in prior funding allocations (Kelchen et al., 2023). For instance, institutions that were previously well-funded, which tend to be those with greater political power, retain their advantage (Gándara, 2020).

Considering Cost Adjustments in Community College Funding

A **cost adjustment** refers to a characteristic associated with institutions or learners that affects the amount of funding needed to provide community college students with an equal educational opportunity.

Cost adjustments recognize that the **resources needed to educate students are not the same in all places or for all students** – some students or institutions require more investment to provide a comparable educational opportunity.

Another prevalent approach is performance or outcomes-based funding, where state funds are distributed to community colleges based on student outcomes such as credit hour or credential completion. This approach fundamentally differs from cost-based funding because it rewards institutional results rather than addressing the varying resource requirements needed to achieve those results. Performance-based funding is often combined with base-plus funding, where a portion of funding is determined based on previous allocations and another

is tied to pre-determined performance metrics (Kelchen et al., 2024).[1] As of AY 2019-20, 30 states funded community colleges at least partly using performance-based funding (Rosinger et al., 2022).

As described in the findings from our policy scan below, some states combine cost-based elements into a performance-based funding approach, providing differentiated rewards for achieving outcomes for specific student populations that typically require additional support. In doing so, they interact cost-based factors (i.e., student needs) with outcome-based factors (i.e., student performance).

Lastly, according to Kelchen et al., (2023), one state (Alaska) in AY 2019-20 did not have any type of funding model in place.[2] Without a funding model, cost considerations may emerge during budget requests. However, without systematic frameworks for evaluating cost differences, funding decisions may reflect political factors, institutional influence, or historical precedent rather than objective assessment of resource needs.

State funding formulas – regardless of model type – typically allow for *adjustments* that steer additional dollars to certain community colleges. But the basis for those adjustments varies widely by states: one state may provide extra funding based on student need or program cost, while another may weight factors like enrollment patterns, institutional characteristics, or regional economic conditions. As a result, which colleges receive additional funding – and how much – can differ substantially across states. However, it is unclear whether and to what extent states incorporate adjustments that offset the real differences in what it costs colleges to provide high-quality instruction, and the supports students need to complete their credentials.

Adjusting for Costs in State Funding for Community Colleges

All states' K-12 funding policies attempt to account for differences in educational costs across school districts, reflecting a broad consensus that equitable school finance requires attention to variation in local context and student need (Brooks et al., 2025). In practice, states recognize that *equal* per-student funding allocations are not necessarily *equitable* because districts face systematically different costs in providing a comparable educational opportunity (Atchison et al., 2023). As a result, K-12 systems commonly include targeted funding adjustments – such as weights for student needs, geographic or labor-market cost differences, and other contextual factors – to better align state aid with the resources required to educate students effectively.

For instance, states commonly incorporate such cost adjustments in their K-12 funding formulas through weighted student funding that directs additional resources to students with greater needs, such as students with limited English proficiency, economically disadvantaged students, and those with disabilities. Many states also account for geographic cost differences – including those associated with wages, transportation, and cost of living – and differences in school size, which can also affect the expense of providing students with a comparable educational opportunity. These approaches reflect a

[1] For example, see University of Hawai'i Community Colleges (https://uhcc.hawaii.edu/ovpcc/resources/policies/uhcc-policy-8-000.php).
[2] In Alaska, two-year institutions are effectively part of the University of Alaska system. Kelchen et al. (2023) did not find evidence of a funding model for two-year or four-year institutions in Alaska.

broad consensus: providing all students with an equitable educational opportunity requires aligning funding with the actual cost of educating diverse student populations across varied local contexts.

These well-established K-12 education finance principles, and resulting state funding policy frameworks, provide a useful lens for thinking about the kinds of adjustments states might incorporate into community college funding formulas – and what those adjustments are intended to accomplish.

In this policy brief, we extend this same logic to state funding for community colleges, where cost adjustments – characteristics of institutions or learners that affect the amount of funding needed to provide students with an equal educational opportunity – play an important role. Cost adjustments recognize that generating student outcomes does not cost the same everywhere for everyone, and that there is a role for states to adjust funding to account for differences in cost that are largely outside institutions' control.

In the community college context, cost adjustments could take several distinct forms, reflecting different sources of variation in the cost of providing all students an equal educational opportunity associated with the following cost factors:

- **Student needs** can vary widely and educating students who require additional academic and non-academic support – such as students with limited English proficiency, adult learners, first-generation college students, and those from economically disadvantaged backgrounds – necessitating more intensive services and resources to support their success.
- The **scale** and **locale** in which a college operates, defined by its enrollment size and degree of rurality can also vary and drive costs. Smaller colleges may face higher per-student costs due to fixed administrative or facility costs that must be spread over fewer students (diseconomies of scale). Colleges might also face differences in operating expenses depending on whether they are located in urban, rural, or suburban settings.
- **Local costs of living and the price of key inputs** – such as faculty salaries, utilities, or transportation – differ across regions, directly affecting operating expenses.
- **Programmatic offerings** also influence costs. For instance, colleges offering technical or health-related related programs may incur higher expenses due to specialized equipment, facilities, or instructor qualifications.

Together, these potential variations in cost can significantly influence the true cost to community colleges to provide comparable educational opportunity. Yet despite the importance of these cost differences for equitable community college finance, we know relatively little about whether – and how - states build cost adjustments into their community college funding formulas to account for them when allocating resources across institutions.[3]

[3] The empirical research identifying and quantifying factors that differentiate community college costs is scant with only two state-level studies completed to date in Texas and California (Levin et al., 2022; Levin et al., 2025).

State Policy Scan

To understand how states account for cost differences in funding their community colleges, we conducted a national scan of state-level funding models in place as of December 2023, across all 48 mainland states, as well as Alaska, Hawaii, and the District of Columbia.[4] In some states, legislatures allocate funds directly to individual colleges or districts; in others, funds are appropriated to a governing board or system office, which then distributes state funding to institutions. Our review included all state-level models used to determine how funding is allocated to community colleges. We also included adjustments regardless of whether they were written in statute or not.[5]

We used a multi-step data collection process to identify cost adjustments incorporated in each state's funding approach. This included systematic online searches using state-specific keywords, legislative document reviews, and analyzing materials from higher education agencies and college system offices. Given the complexity and variation in state funding systems – and the fact that higher education funding approaches are not always clearly documented – we also consulted national databases, multi-state policy studies, and engaged in email communications with state budget or finance professionals, to triangulate and confirm our findings.

The central focus of this scan was to identify the range of cost adjustments that states apply in their community college funding policies and practices. Specifically, we looked for whether states incorporated three general types of cost adjustments in their community college funding:

1) **Student needs,** including student economic disadvantage, underrepresented minorities, adult students, first-generation students, and academically disadvantaged students.
2) **Institutional context**, including scale and size and locale (urban, rural, and suburban).
3) **Economic context,** including cost of living and price levels of key resources.

These categories mirror the types of adjustments commonly used in K-12 funding systems and provide a practical starting point for organizing the types of cost adjustments states include in their community college funding formula.

Funding Adjustments Included in State Funding Policies

In this section we present findings from our national scan of community college funding policies and practices, focusing on the specific types of cost adjustments states use to provide institutions with additional funding. We organize the findings according to the three general types of cost adjustments –

[4] For consistency, the state policy scan included cost adjustments in place as of December 2023. That said, states periodically revise their funding models. For example, Oregon approved a formula in 2023 that weights funding for colleges based on both enrollment and success of low-income, adult, and minority students. As a result, the scan represents a point-in-time profile of state policies, for the purposes of understanding the types of cost adjustments included in state community college funding policies.

[5] States vary in how explicitly state law governs higher education funding formulas. Some statutes codify specific formula components (or the formula itself), while others provide general direction and delegate formula design to a state higher education agency or governing board. Where formulas are not set in statute or treated as advisory, legislative appropriations may depart from formula-determined amounts, meaning adjustments shown in the model are not always implemented in the enacted budget.

student needs, institutional contexts, and economic contexts. In addition, we discuss how another type of state funding adjustment may be used to account for differences in the capacity of localities to support the community college costs with local revenues.

Student Needs

States may differentiate community college funding based on student characteristics that are believed to be proxies for differences in student need – and, by extension, the differences in the cost of supporting student success. Cost adjustments for differences in student characteristics may be based on enrollment or outcomes. When based on enrollment, community colleges may receive additional state funding when they enroll larger numbers or higher shares of students from specific groups, reflecting the assumption that these students may require more intensive academic and nonacademic supports to succeed. Alternatively, states may provide additional funding to community colleges when students from specific groups reach defined performance milestones, such as completing a set number of credits or graduating. Although both approaches – enrollment-based and outcome-based funding adjustments – aim to account for differences in educational costs across student populations, they function differently: outcome-based adjustments link funding to results, whereas enrollment-based adjustments provide upfront resources to support students. Outcomes-based student-need adjustments can function as incentives by encouraging institutions not only to enroll students with higher levels of need but also to ensure they meet defined performance benchmarks. However, when need-related funds are earned only after outcomes are achieved, institutions that incur higher costs to serve higher-need students may face a resource trap: making funding conditional on the success of groups with higher levels of need risks depriving institutions of the resources required to support these very students. In practice, this can financially penalize lower-resourced institutions and further limit their capacity to make the investments needed to meet performance targets and support the success of all students (Finney et al., 2017; Hagood, 2019).

In our national policy scan, we found that 21 states differentiate funding based on student needs characteristics, using either enrollment- or outcome-based approaches, or both. Characteristics ranged from student economic disadvantage, race and/or ethnicity, academic disadvantage (primarily based on testing into or enrolling in remedial or developmental education courses),[6] age or adult learner status, first generation college students, in-state resident student status, English language proficiency, veterans, justice-involved students, dislocated workers, and students with disabilities (Exhibit 1).

[6] In Tennessee, academically underprepared students are also defined as those who do not achieve certain ACT thresholds. In Washington, the performance-funding model adjusts for Basic Skills students, which are those who are enrolled in programs intended to build foundational skills, rather than college-level coursework.

Broadly, states were most likely to differentiate funding among community colleges based on the following student characteristics:

- **Student economic disadvantage.** Because students from low-income backgrounds often face greater financial and non-academic barriers – and may benefit from additional advising, tutoring, basic-needs supports, and wraparound services to persist and complete – states may direct additional funding to community colleges based on the number of students enrolled or completing certain performance milestones who experience economic disadvantage (Dynarski et al., 2023; Muraskin et al., 2004; Vargas & Dancy, 2023).

  We identified 10 states that use enrollment-based funding adjustments for the number of students enrolled at a community college who experience economic disadvantage, and 13 states that tie funding to these students' performance. Most states operationalize student economic disadvantage in their formula as a student who receives or is eligible for a federal Pell Grant;[7] California and New Jersey also consider student eligibility for state financial aid programs. California and Massachusetts adjust based on both enrollment and performance of students experiencing economic disadvantage, whereas other states (e.g., Colorado, Hawaii, Indiana, New Jersey, and Wisconsin) only make enrollment-based funding adjustments for these students.

- **Student race and/or ethnicity.** Students from historically underrepresented and minoritized racial and ethnic groups continue to face systemic barriers to college persistence and completion (Dynarski et al., 2023; Vargas & Dancy, 2023). In response, 4 states make enrollment-based funding adjustments and 10 states make outcomes-based funding adjustments based on student race and ethnicity when allocating state aid – although the racial and ethnic groups considered differ among states. For instance, Massachusetts counts Black and Hispanic students in its "equity allocation," which is enrollment-based, while Colorado counts Black, Hispanic, and Native American students in its adjustments, which are both enrollment and outcomes-based. New Jersey expands the group to include Native Hawaiian and Other Pacific Islander students in its adjustments, which are tied to both the enrollment and outcomes of these students. Wisconsin provides additional funding for the enrollment of "students of color."[8]

- **Older adults or returning students.** Older students often balance college enrollment with work, family, and caregiving responsibilities, which can increase the need for flexibility in scheduling, advising, and other targeted supports (Rose et al., 2023). Three states' community college funding formulas consider student age in their enrollment-based funding adjustments, and five states include student age in their outcomes-based funding. Regardless of whether the adjustment was enrollment-based or outcome-based, an age cut-off was used (i.e., whether a

[7] A federal Pell Grant is a U.S. Department of Education grant for undergraduate students with exceptional financial need, providing funds for college that do no need to be repaid.
[8] Wisconsin's definition of "students of color" was unavailable in public documents.

student was aged 25 and older, either at the time of enrollment or for some outcomes-based funding models, when the outcome was achieved).

Exhibit 1: Adjustments for Student Needs in State Community College Funding Models (FY2023)

Group	States with Enrollment-Based Adjustments	States with Outcomes-Based Adjustments
Economically disadvantaged students	CA, CO, HI, IN, MA, MN, NJ, TN (CC)[1], TX (CC)[2], WI	AR, CA, IL, KY, LA, MA, NM, NC, OH, OK, TN (CC), TX (CC), VA
Students from certain racial or ethnic groups	CO, MA, NJ, WI	AR, CO, HI, KY, LA, NJ, OH, TN (CC)[1], VA, WA
Academic disadvantaged students	TX (CC)[2]	AR, IL, KY, OH, TN (CC), TX (CC), WA
Older adults or returning students	IN, NJ, TX (CC)[2]	AR, LA, OH, TN (CC), TX (CC)
First generation college students	CO, MN	TN (CC)[1], VA
In-state Resident Tuition Status	CA	
Students with limited English proficiency	MD	
Veteran students	WI	TN (CC)[1]
Justice-involved students	WI	
Dislocated workers	WI	
Students with a disability	WI	

Note: CC denotes only community colleges (not the technical college system).
[1] Tennessee allowed institutions to select this special population within its performance-based Quality Assurance Funding model. The "students of color" option was removed after 2023 (Tennessee Higher Education Commission, 2025).
[2] Texas considers enrollment of academically disadvantaged, economically disadvantaged, and older adult students for a subset of colleges with low taxable property values.

- **First generation college students.** First-generation college students may have less access to information about college processes and expectations and may benefit from additional advising, mentoring, and navigation supports to persist and complete (Davis, 2023). Two states make funding adjustments based on a college's enrollment of first-generation students, and another two states consider first generation college student enrollment in their outcomes-based funding calculations. In Colorado, first generation is defined according to the Higher

Education Act of 1965.[9] In Tennessee, which makes outcomes-based adjustments for this population within its Quality Assurance Funding framework, first generation is defined as graduates that report known parent(s) as not completing college.[10]

States consider other student characteristics – albeit less frequently – when differentiating state funding for community colleges, including in-state resident tuition eligibility; academic disadvantage (failure to pass a college readiness standardized exam in any subject area), and students with limited English proficiency (for students from a different country or an environment where English is not the dominant language). One state (Wisconsin) also allocates additional funding for students in the following categories: veterans, justice-involved, dislocated workers, and students with disabilities.

Institutional Context

States also recognize that institutional characteristics affect the cost of delivering education and producing student outcomes. Colleges vary in size, structure, and scope – and states may direct resources to institutions that a) struggle to attain economies of scale due to small enrollments or geographic isolation, and b) operate more resource intensive programs or credentials (Exhibit 2). Specifically:

- **Institution size or location.** Some states recognize that colleges with smaller enrollments, including those in rural areas, may face higher per-student costs due to limited economies of scale or higher operating costs because they are in geographically remote or sparsely populated areas.

  Twelve states provide additional funding to community colleges with comparatively smaller student enrollments. For example, Arkansas allocates additional funding for colleges with smaller enrollments, and Maryland provides additional funding to community college districts where enrollments are less than or equal to 80% of the statewide median. Illinois distributes a flat sum (approximately $50,000) to districts with 2,500 or fewer full-time equivalent students, and Nevada directs additional state appropriations to two historically small community colleges.[11] South Carolina incorporates an economies-of-scale factor in its funding calculations, assigning lower weighted funding to colleges with larger enrollments to reflect efficiency gains.[12]

  Two states – Georgia and Kentucky – adjust funding based on colleges' physical footprint, acknowledging that facility-related costs may not scale proportionally with enrollment. For instance, Kentucky's distributes some state aid based on a college's "square feet, net of research, non-class laboratory, and open laboratory space," recognizing that maintaining a

[9] See: https://www.ed.gov/media/document/trio-hea-36584.pdf
[10] In Minnesota and Virginia, the other states with this adjustment, first generation is not defined in publicly available documentation.
[11] For example, Nevada's funding model explicitly acknowledges that "All institutions have certain fixed administrative costs, and these fixed costs are generally a greater percentage of variable (enrollment-based) revenues at smaller institutions than at larger institutions due to economies of scale." (https://nshe.nevada.edu/wp-content/uploads/file/HEF/resources/Funding%20Formula%20Summary.pdf)
[12] https://www.sctechsystem.edu/faculty-and-staff/policies-and-procedures/procedures/7-1-201.2.pdf

larger physical campus may incur higher fixed costs even when serving a similar number of students.[13]

In addition to enrollment-based size adjustments, two states – Arizona and Minnesota – allocate additional aid to community colleges located in rural areas.

- **Program, field, or credential.** States also direct additional funding to community colleges based on the programs, fields of study, or credentials they offer. These adjustments reflect two common policy rationales: acknowledging that some programs (e.g., nursing, engineering, advanced technical training) are more expensive to deliver, and incentivizing colleges to offer credentials aligned with state and local workforce needs.

  Twenty-six states provide additional funding to community colleges based on their programming. Most often, the additional funding was determined by applying different weights in the funding formula to student enrollments or credit hours that reflect the varying costs of delivering instruction in different fields or credential levels. For example, (FTE) Florida distinguishes between fulltime equivalent enrollments in Advanced and Professional/Developmental Education (AA General) that are funded at a lower rate than Upper Division/Workforce/Adult Ed (Workforce) fields. Illinois assigns differential funding according to credit hours taken across six instructional categories: baccalaureate, business, technical, health, remedial, and adult basic education.[14] By contrast, Montana differentiates funding using weights across career technical education (CTE), general education, dual credit or early college. Arizona has separate STEM and Workforce Aid program line items to provide districts with additional funds to account for the differential costs associated with delivering these programs.

Exhibit 2: Adjustments for Institutional Context in State Community College Funding Models

Institutional Factors	States with Cost Adjustments
Economies of scale (including rural and small college aid and facility size)	AR, AZ[1], FL, GA[2], IL, KY[2], MD, MN[1], NV, OR, SC, TX[3]
Program, field, or credential	AL, AZ, FL, GA, IL, KS, KY, LA, MA, MN, MT, NE, NV, NM, NC, ND, OH, OK, OR, SC, SD, TX[3], VA, WA, WI, WY

[1] These states also provide additional funding to community colleges located in rural areas.
[2] These states also adjust funding based on facility size.
[3] Funding adjustments in Texas apply only to the community college system, not technical colleges.

[13] https://apps.legislature.ky.gov/law/statutes/statute.aspx?id=54625
[14] Kentucky's model also weights funding according to credit hours by discipline, but the specific methodology is not clearly described in available documentation.

Economic Context

The costs of operating a community college and supporting student success do not only depend on the needs of the students served, its size or locale, or what programs it offers—they are also shaped by the economic realities of the communities colleges serve. Specifically, the economic context in which a community college operates will influence its costs of generating student outcomes through the price levels it faces for the personnel and non-personnel resources necessary to deliver instructional and other support services. To the extent that resource prices (especially those associated with securing staff) vary across the regions in which community colleges are located, so too will the costs of producing student outcomes. Recent research in California has shown that regional staffing price levels (faculty salaries) can significantly affect community college costs (Levin et al., 2025). However, our scan did not identify any examples of states using community college funding adjustments to account for cost differences associated with labor costs. It is possible that states account for these differences indirectly, such as through regionally differentiated salary schedules, even when such adjustments are not explicitly embedded in funding formulas.

Community Context

While not a factor that affects the cost of producing community college outcomes, the extent to which funding to support college operations through local property taxes or other sources is also an important consideration for state funding for community colleges. This matters because, like K-12 school districts, many community colleges rely heavily on local revenue sources. Without adjustments for these disparities, colleges in less wealthy areas may have less non-tuition revenue to draw upon, leaving them at a disadvantage. State funding adjustments are intended to level the playing field by offsetting differences in local revenue capacity so colleges can provide their students a comparable educational opportunity.

Our scan found six states that adjust for differences in local revenue capacity in their community college funding formula by providing equalization aid to colleges in lower-wealth communities and those in areas with limited tax bases or limiting the amount of local revenues that can be used through recapture. For instance, Texas recently adopted a new funding model that includes a "base tier" funding component designed to address local revenue disparities. Under this approach, each college's instructional funding need is compared to its projected revenue, calculated using a uniform local property tax rate and actual tuition revenue. If projected revenue falls short, the state fills the gap.[15]

[15] https://www.highered.texas.gov/community-college-finance/formula-funding/#funding-tiers

Exhibit 3: Adjustments for Community Context in State Community College Funding Models

Community Factor	States with Adjustments
Adjustments for Local Revenue Disparities	AZ, IL, OR, TX, WI, WY

Conclusions

This policy scan highlights several key takeaways for state policymakers seeking to design fair and effective funding systems for community colleges.

First, the conceptual framework drawn from K-12 education finance underscores a widely accepted principle: equitable funding requires aligning resources with the real costs of providing comparable educational opportunity among community colleges. In K-12 systems, this principle is operationalized through explicit funding adjustments tied to cost factors associated with student needs, institutional context, and economic context, as well as community conditions. Our analysis suggests that many state funding models for community colleges acknowledge the same sources of variation in cost and revenue capacity as found in K-12 education, even if these adjustments are less well documented or understood.

Second, while there appears to be growing recognition among states that community college funding should be differentiated to reflect variation in costs, there is far less agreement – within and across states – about *which* adjustments should be included in state formulas and how they should be designed. Our scan underscores this point: states use wide-ranging criteria to direct additional funds, meaning that which colleges benefit from funding adjustments and on what basis, differs considerably across the country.

Third, the lack of documentation describing how magnitudes of the funding adjustments associated with cost factors were determined suggests that they may not be "cost based" (i.e., that the adjustments accurately reflect the true differential costs of providing an equal opportunity to students with different needs learning in different contexts). In most cases, states rely on proxies (e.g., student needs or programmatic characteristics of colleges) and policy judgments rather than empirical estimates of the magnitude of the actual cost differences corresponding to these proxies. This creates a risk that adjustments are too small to meaningfully offset higher costs, inconsistently targeted to the most consequential cost adjustments, or structured in ways that produce unintended outcomes or reinforce existing inequities.

Finally, the increased use of outcomes-based funding cost adjustments raises a distinct concern for equity and effectiveness. In many states, additional funding for colleges serving higher-need students is contingent on performance rather than being provided upfront. While such designs can function as

incentives, they also leave institutions that incur higher costs with fewer resources to make the investments needed to achieve the outcomes required to earn the additional funding – potentially reinforcing, rather than reducing, disparities in capacity and student opportunity.

Together, these findings suggest that states are actively differentiating funding across community colleges, but often without a shared framework – or an evidence base – for determining which adjustments are most appropriate and how large they should be. This gap has important implications for the fairness and effectiveness of state funding systems and points to several considerations for policy development and future research.

Policy Considerations

The findings from this scan suggest several considerations for state policymakers as they revisit or refine community college funding systems.

1. **Move from implicit to explicit cost-based frameworks.** States already make funding adjustments that reflect assumptions about cost differences among community colleges. Making those assumptions explicitly – by grounding adjustments in evidence about the actual costs of serving different students, operating in different contexts, and offering different programs – could improve transparency, coherence, and fairness in funding systems.
2. **Identify the types of cost adjustments that are needed.** While many current adjustments mirror K-12 funding practices, it remains unclear whether they capture the most meaningful sources of cost variation in the community college sector. Policymakers should consider whether commonly used proxies – such as Pell receipt or programmatic characteristics – adequately reflect the supports and investments required to promote student success, or whether other cost adjustments warrant attention.
3. **Examine the size and structure of the funding adjustments.** In contrast to K-12 systems, where funding weights are more often informed by cost studies and periodically reviewed, there is little evidence that community college funding adjustments are tied to empirical estimates of cost. Without guidance on magnitude, adjustments may be too small to matter – or large enough to create unintended distortions. Developing an evidence base on the scale of cost differences is critical for ensuring cost adjustments in state funding formulas are meaningful and appropriate.
4. **Reconsider outcomes-based cost adjustments.** Tying additional funding for higher-cost students or institutions to outcomes may undermine the very goals such policies are intended to achieve. When additional funding to offset cost differences is provided only after outcomes are realized, colleges with higher costs – which are due to factors outside their control (e.g., student needs) – may lack the upfront capacity needed to support students effectively. Policymakers should weigh how to balance the a priori funding needs for colleges that face

higher costs in educating students with the shared goal for incentive-based approaches intended to reward higher student performance.

5. **Invest in research on community college costs.** Ultimately, designing fair and effective community college funding systems will require a clearer understanding of what it costs community colleges to provide students with a comparable opportunity to succeed, and how these costs vary by student need, and institutional, economic, and community characteristics. Targeted research on cost structures – like studies that inform K-12 – would provide a stronger foundation for future policy decisions.

By building on established K-12 finance principles while investing in evidence specific to community colleges, states have an opportunity to strengthen funding systems in ways that better align resources with student needs, institutional realities, and public goals for postsecondary attainment.

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