Texas Higher Education
COORDINATING BOARD

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Memorandum

To: Presidents and Chancellors of Public Community Colleges
Chief Financial Officers of Community Colleges
Chief Reporting Officials of Community Colleges
Community and Technical College Liaisons

From: Harrison Keller, Ph.D.

Date: May 10, 2024

Subject: Draft Funding Formula Models for FY 25

Colleagues,

Last year, when the Texas Legislature passed House Bill 8, it transformed how the state funds our 50 public community colleges to reflect the evolving needs of our workforce and support the important role these institutions play in driving our economy. Working with policymakers and community college leaders, the Texas Higher Education Coordinating Board (THECB) adopted emergency rules for Fiscal Year 2024 (FY24) last summer to begin implementation of the new finance system. Over the last year, our THECB team has been working closely with community college leaders and other stakeholders to update and refine the rules for Fiscal Year 2025 (FY 25).

Today, we are excited to share draft funding formula runs for FY 25 with our community colleges. As you and your teams review your respective funding allotments, I want to provide context around some of the rule changes that informed our calculations.

In January, we distributed a memo summarizing many of the changes to the model for FY 25. Those changes include expanding definitions for credentials of value and high-demand fields as well as methodology and process changes. I encourage you to review the memo for more details. All these updates are designed to foster accountability, efficiency, and responsiveness within the funding model so it can meet the needs of our community colleges and the students they serve.

Please note the formula, funding amounts, and payments will formally remain in draft form until July, when the THECB will consider and adopt forthcoming rules governing the FY 25 implementation of House Bill 8.

A key piece of the community college finance system for FY 25 is the implementation of a dynamic funding mechanism. THECB will calculate payments to each institution based on forecasted outcomes with a settle-up process that will ultimately align final payments to actual achievement of the outcomes at an institution.

THECB will distribute an institution's payments, composed of the base and performance tier funding entitled to each institution for FY 25, over the course of three payments. An institution MAY receive an additional payment, called a dynamic adjustment, during FY 25 if an institution's preliminary FY 24 outcomes exceed forecasts. THECB will not reduce an institution's FY 25 payments unless required as part of the close out of FY 24 formula funding based on corrected data; if applicable, THECB will apply this reduction to an institution's October payment.

Forecasting Outcomes
THECB will use historical data to estimate fundable outcomes for FY 24 and FY 25 based on the following principles:

- **Forecasting Methodology**: THECB will calculate projected outcomes using FY 18 – 23 data, with the exception of Occupational Skills Awards (OSAs) and Institutional Credentials leading to Licensure or Certifications (ICLCs), which will use FY 20 – 23 data.
- **Forecasting Guardrails**: Forecasted year-to-year changes for fundable outcomes are limited to +10% and -5% for each outcome, to ensure forecasts for these outcomes fall within realistic limits and provide funding stability to colleges for the foundation payments provided in FY 25.
- **Funding calculation**: THECB will calculate performance tier funding based on the better of the forecasted FY 25 outcome amount or the three-year average of actual FY 23 outcomes and forecasted FY 24 and FY 25 outcomes.

Dynamic Payments
The performance outcomes described above form the basis of initial funding amounts for FY 25. Later funding adjustments under a new, dynamic payment process will account for the difference between the forecast and the actual outcomes as we collect and certify the data. THECB has worked with community college leaders and other stakeholders to design the new system so that it is responsive to performance changes, especially when outcomes improve more quickly than predicted, while minimizing unpredictability and disruption for the colleges.

To that end, all funding adjustments use the existing Three-Pay schedule. An institution's funding will not decrease mid-year. THECB will apply positive adjustments only to the February payment. October and June payments will be based on the amounts published before the fiscal year begins, ***subject to legislative appropriations***.

Close Out
THECB will only apply downward adjustments to an October payment based upon a full new year of certified data. Please be aware that the October payment for FY 25 may include a positive or negative adjustment for the FY 24 formula close out, depending on any revisions to your formula data for FY 20-22.

A memo will be forthcoming to your Chief Financial Officers, Chief Reporting Officers, Institutional Research Directors, and THECB Liaisons that contains more detailed information about the timing and composition of payments.

Data Reporting Errors
We appreciate your and your staff's support in reviewing the data used to create this model. We have been working to meet institutional budget needs in providing these funding runs to you in advance of the budget planning period. Given that, each community college president shall provide notice of any data errors to the CCFinance@highered.texas.gov mailbox **no later than Tuesday, May 14, 2024**, at the close of business in order to be considered for correction prior to THECB's final calculation of FY 25 funding. As noted above, those amounts will formally remain in draft form until our July 2024 Board meeting.

So that we can stay on schedule for deploying **FY 25** funding, any data reporting error reported by an institution or otherwise discovered after midnight on May 15, 2024, shall be reconciled pursuant to Chapter 13, subchapter R. This means that an institution will not receive any additional funding based on an under-allocation in the three-pay schedule provided for FY 25. ***It is therefore imperative that each institution notify THECB of any potential data reporting errors by the May 14, 2024 deadline***.

For additional details, I encourage you to watch the presentation given by Emily Cormier, Assistant Commissioner for Funding and Resource Planning. You can find the accompanying slide deck here.

Your collaboration and support are deeply appreciated as we continue to work on implementing and strengthening the new funding model. Should you have questions or need additional guidance, please visit our community college finance website for more information and contact information.

Respectfully,

Harrison Keller, Ph.D.