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: January 26, 2024

Subject: Proposed FY 25 Changes to Community College Finance Rules

Colleagues,

As you know, last summer we announced new community college formula funding models and rules for Fiscal Year 2024 (FY 24). Since then, we have been working with stakeholders and college districts across the state to develop and update rules for Fiscal Year 2025 (FY 25).

Based on extensive analysis and refinement, the FY 25 rules will include changes compared to FY 24 rules in four major areas, which were discussed by the Texas Higher Education Coordinating Board (THECB) earlier this week:

Credentials of Value

Starting in FY 25, community colleges will be eligible for performance funding for two tiers of credentials of value:

- *Credentials of Value Baseline*: As in FY 24, institutions will be funded for all conferred certificates and associate and bachelor's degrees that meet the "credential of value" threshold. The general threshold for each program is met statewide when the typical graduate earns cumulative wages greater than median cumulative earnings of a typical high school graduate and recoups the net cost of attendance within 10 years of earning the credential. Institutions will continue to be funded for occupational skills awards, certain institutional credentials leading to licensure and certification, and other fundable credentials, as detailed below.
- *Credentials of Value Premium*: Institutions will receive additional premium funding for each student earning a credential of value who is projected to achieve a positive return on investment at or before a target year when most students in comparable programs are projected to reach a positive return on investment (ROI).

Fundable credentials

In addition to continued funding for degrees, certificates, and occupational skills awards, the following adjustments, and additions for FY 25 include:

- *Institutional Credential Leading to Licensure or Certification (ICLC)*: Funding will continue to be awarded for students who successfully complete an ICLC program and earn an institutional credential, as long as the 80 and 144 contact hour thresholds are met for credentials in high-demand and other fields, respectively. Note that funding will no longer be awarded for achievement of the licensure/certification if the student does not earn a credential from the institution. _While we understand that contact hour thresholds are not a precise method for evaluating an ICLC, we are still working with institutions on a methodology to move beyond this requirement. For FY 26, we anticipate replacing the contact hour thresholds with a ROI assessment based on new data from institutions.
- *Texas Opportunity High School Diploma Program*: HB 8 established this program allowing adult students to earn a competency-based high school diploma while concurrently enrolled in a short-term career and technical education program. The leader colleges working with our team on development of this new credential are Alamo Colleges District, Austin Community College, Dallas College, El Paso Community College, and San Jacinto College. Other colleges may also participate in partnership with these leader colleges.
- *Third-Party Credentials*: These include certificates listed in the American Council on Education's (ACE) National Guide that are conferred by third-party providers. For FY 25, we will use the 80/144 contact hour rule to determine which credentials will be eligible for funding.

High-demand fields

A new list of high-demand fields will be based on a transparent method using publicly available occupation growth projection data with added inputs from colleges, the Texas Workforce Commission, the Governor's Office, and the Legislative Budget Board and in consultation with the Standing Advisory Committee for Public Junior Colleges and other stakeholders. This list will be re-evaluated every two years across the following categories:

- *Statewide high-demand fields*: Based on top 10 growing occupational groups across the state.
- *Regional high-demand fields*: Based on top 5 growing occupational groups in each college's region that are not on the statewide list, using the Texas Comptroller regions that align with commonly used data structures and economically meaningful geographies.
- *Essential and emerging fields*: Colleges and state leaders will be able to recommend additional fields to ensure colleges meet rapidly evolving economic needs and labor shortages in critical occupations.

When an occupation is identified as "high-demand," all academic fields in the Department of Education/Bureau of Labor Statistics crosswalk linked to that occupation become high-demand fields.

To promote transparency, stability, and predictability, the re-evaluation process will require that a high-demand field retain the high-demand funding weight for two fiscal years after being identified for removal.

Methodology and process changes

Aligning incentives with outcomes is the heart of the new funding model, and the FY 25 rules will provide updated definitions and guidelines for:

- *Adult learners*: Students who are 25+ years old for a period (specific to program type) *prior to* earning a credential or transferring.
- *Dual credit*: Removing double counting of semester credit hours that previously contributed to both dual credit and transfer outcomes. We anticipate this change will require a change in the rate for the dual credit outcome.
- *Transfer*: Ensuring that only one college is credited for each transfer and that a college can earn the transfer outcome only once per student.
- *Data sources*: Changing the data source for average tuition and fees from the Integrated Postsecondary Education Data System (IPEDS) data to THECB data for increased transparency and accuracy.

The board of the THECB will vote to adopt these proposed rules for FY 25 during its quarterly board meeting in April. I encourage you to watch the presentation given by Emily Cormier, Assistant Commissioner for Funding and Resource Planning, for more context on these changes. You can find the accompanying slide deck here.

Additionally, a key piece of the community college finance system for FY 25 is the implementation of a dynamic funding mechanism. Payments to institutions will be calculated based on forecasted outcomes, and a settle-up process will align final payments to actual achievement of the outcomes at an institution. This new methodology for FY 25 will still fund outcomes at the better of the current year or three-year average. Rules related to this dynamic methodology will be posted later this spring and brought to the board of the THECB in July.

The THECB will continue to develop and refine FY 25 rules over the next several months based on additional analyses and input from the public and other stakeholders before its April and July board meetings.

Your partnership and support are deeply appreciated as we continue to work on implementing 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.