Near Final Draft of Recommendations, from the forthcoming
Texas Commission on Community College Finance (TXCCCF) Report

September 3, 2022

The Texas Commission on Community College Finance provides the following recommendations for consideration by the 88th Legislature. These proposals have been developed in consultation with leading state and national policy experts, with extensive analyses of college enrollments, outcomes, and costs, and with input from community college leaders, students, workforce entities, and the Texas public.

The Commission recognizes the importance of aligning the state community college finance system with rapidly changing regional and state workforce needs and state goals established in *Building a Talent Strong Texas*. Changes to the community college finance system must also reflect the unique relationship between the state and the 50 locally-governed community college districts, which individually set tax and tuition rates.

The Commission's recommendations would expand the state's investment in community colleges and shift the primary focus of the Texas community college finance system from an inputs-based allocation model to a dynamic, outcomes-based formula directly tied to student completions and transfers. This new system would include additional funding to reflect the higher costs of educating and supporting economically disadvantaged students, academically disadvantaged students, and working-age adults who need to reskill and upskill to remain competitive. The Commission also recognizes the importance of providing targeted state funding to ensure all colleges — especially smaller colleges with lower property-tax valuations — have the foundational funding for instruction and operations necessary to provide educational opportunities for their communities.

These recommendations would establish Texas as a national leader in using outcomes-based funding to support community colleges in addressing rapidly changing needs for a highly skilled workforce.

The Commission recommends increasing access to community colleges for individual Texans through strategic investments in need-based student financial aid. It further recommends supporting shared services and expanded inter-institutional partnerships to increase operational efficiency and quality of services. The Commission also recommends providing startup grants for high-demand workforce programs, administered through the Texas Higher Education Coordinating Board (THECB), to improve efficiency and bolster colleges' offerings, especially for small and rural-serving colleges.

Together, these recommendations would dramatically expand access to educational opportunities offered through Texas community colleges, including a wide range of degrees, certificates, and other credentials of value that increasingly are required for good jobs in the Texas economy.

The Commission's recommendations are outlined below in three broad categories: state funding for outcomes, student affordability, and targeted investments in college capacity.

1. State Funding for Outcomes

Today, the majority of Texas community colleges' operational funding comes from local property taxes and student tuition and fees. State funding constitutes less than 25 percent of community colleges' operational funding. Current formulas allocate state funding among colleges based on their relative share of the total contact hours delivered statewide in a base year (79 percent of formula funding); success points earned over the previous three years (17 percent); and a uniform amount of "core" funding allocated to each college (4 percent).

This funding allocation system is relatively stable but was not designed to address rapidly changing student and employer needs. The current system does not fully recognize non-credit programs that are increasingly important for meeting workforce demands, nor does it recognize the higher costs of educating students who require additional support services. It also does not recognize differences in colleges' capacities to generate funding through local property tax efforts. In particular, the current system creates challenges for smaller and rural-serving colleges, especially in communities with declining populations or lower taxable valuations. Many of these colleges lack the resources needed to ensure students from their service areas will remain competitive in the regional or state workforce.

The Commission recommends the following strategic improvements:

Recommendation 1.1: Develop a modern community college finance model that distributes the majority of state funding based on **measurable outcomes,** aligned with regional and state workforce needs and state goals for *Building a Talent Strong Texas*.

This new outcomes-based formula should be dynamic, with adjustments through an annual settle-up process. Funding levels should be based on individual colleges' current outcomes with specified fixed dollar amounts for:

- *Credentials of value*, including degrees, certificates, and other credentials from credit and non-credit programs that equip Texas students for continued learning and greater earnings in the state economy;
- Credentials of value awarded in *high-demand fields*; and
- Students who *transfer* to four-year universities.

The Commission recommends the outcomes-based formula include robust incentives for completions and transfers of students who are economically or educationally disadvantaged, to support improved outcomes for populations that historically have completed postsecondary credentials at significantly lower rates. The formula should also include evidence-based incentives tied to students' progress to credentials, with an incentive tied to students' completion of dual credit courses that apply towards academic or workforce program requirements. As the state continues to improve data infrastructure and capabilities, additional outcome metrics such as job placement should be considered for inclusion in the new formula.

Recommendation 1.2: Ensure community colleges across Texas can access foundational levels of funding for **instruction and operations** through a state-funded guaranteed yield for colleges with low taxable valuations.

Since the inception of the Texas community college funding formula, the relative shares of funding from state and local revenue sources have shifted over time. As community colleges are locally governed institutions, providing foundational funding for instruction and operations should primarily be a local responsibility, supported through a combination of tuition and local property taxes, with state funding focused primarily on rewarding outcomes aligned with regional and state workforce needs. However, some colleges are unable to generate sufficient local funding for instruction and operations due to low taxable property values. This lack of resources puts these colleges' students at a disadvantage in the state workforce, while also negatively impacting local communities' abilities to grow their regional economies.

To ensure community colleges across the state can access funding for instruction and operations, a foundational amount of funding should be established for each college, based on student enrollments and the types of contact hours taught in different fields of study across non-credit and credit bearing programs. This calculation should include adjustments to recognize higher costs of educating students who need additional support services, such as students who are low-income, academically underprepared students, and adult students who are making efforts to reskill and upskill. The calculation should also include adjustments to recognize higher costs of operating small colleges.

The Commission recommends that colleges unable to generate foundational levels of funding through tuition and local property taxes due to the colleges' available tax bases or student enrollments should be leveled up via a state-funded guaranteed yield on an initial portion of these colleges' property tax effort. Colleges receiving this additional state funding would be expected to participate in shared services or other inter-institutional partnerships to improve their operational efficiency. Colleges whose revenue from tuition and local property taxes exceed the foundational level would not be subject to recapture.

2. Affordability for Students

Historically, low-income students have been less likely to participate in and complete postsecondary credentials. Disruptions caused by the COVID-19 pandemic exacerbated this challenge by causing many low-income students to delay or forego college enrollment, even as rapidly increasing numbers of good jobs require education beyond high school.

Students who live within the service area but outside of the taxing district of their local community colleges often pay significantly greater tuition and fee rates. These increased costs for out-of-district students create additional barriers for many low-income students to enroll in college.

Need-based financial aid is a proven strategy to ensure low-income students can access and complete college. This year, the state's principal need-based aid program for students at community colleges, Texas Educational Opportunity Grants (TEOG), is projected to serve approximately 28 percent of eligible students. As a result, many students eligible for state financial aid are less likely to enroll and complete programs leading to postsecondary credentials of value, and more likely to take on higher levels of debt.

The Commission recommends the State of Texas ensure community colleges are affordable for all students and families and reduce student debt by investing in need-based financial aid. These increases in need-based financial aid would also partially offset the impact of higher out-of-district rates for low-income students.

Recommendation 2.1: Increase funding for **Texas Educational Opportunity Grants** (TEOG) and link state performance measures for eligible students served through TEOG at two-year institutions and TEXAS Grants at universities, to establish a state goal of supporting at least 70 percent of qualified low-income college students in pursuing postsecondary credentials of value at public two- and four-year institutions. The TEOG program should also be restructured to provide colleges greater flexibility in meeting the needs of non-traditional students pursuing a wide variety of credentials of value, including non-credit and short-term programs.

Recommendation 2.2: Provide financial aid through colleges to cover tuition and required fees in dual credit courses for economically disadvantaged students. This new targeted **financial aid for dual credit** should be administered by THECB, with support from the Texas Education Agency (TEA), for dual credit courses that apply towards academic or workforce program requirements. It should also incorporate a uniform tuition rate for dual credit courses set annually by THECB, to help ensure equitable access for high school students across the state to dual credit courses.

Recommendation 2.3: Expand partnerships among colleges and private employers for **paid work-based learning** opportunities, including work-study, apprenticeships, and internships related to students' programs of study, utilizing the work-based learning strategic framework developed by the Governor's Tri-Agency Workforce Initiative. Work-based learning is a proven strategy to provide financial support while giving students opportunities to apply and develop skills through real work experiences in industry settings. The state should leverage existing federal funding and provide targeted state support for programs developed in partnership with employers and offered through colleges to expand paid work-based learning.

3. Investments in College Capacity

Community colleges represent more than 40 percent of higher education enrollments across the State of Texas. However, over the past decade, community college enrollments have not kept pace with the state's rapidly growing population or accelerating changes in regional and state workforce needs. Enrollment in academic and continuing education workforce programs declined by 113,180 from a peak in Fall 2010 to Fall 2021. Only 17,000 community college students were enrolled in workforce-focused dual credit courses in Fall 2021, slightly more than 10 percent of all community college dual credit enrollments.

For the State of Texas to maintain and advance its competitive position as the world's ninth largest economy, the state must strengthen community colleges' capabilities to provide additional academic and workforce education opportunities aligned with current and emerging workforce needs.

In addition to aligning incentives in state finance formulas to better support community colleges in meeting regional and state workforce needs and advancing state goals, the Commission recommends targeted investments to help colleges rapidly develop new capacity, especially in high-demand fields. Seed funding for new programs will be especially important for smaller colleges and colleges with smaller property tax bases.

Recommendation 3.1: Provide one-time **seed grants for programs in high-demand fields** to support community colleges in rapidly standing up or expanding programs to meet regional and state workforce needs. These grants would be administered through THECB, in consultation with the Texas Workforce Commission. Drawing on insights from initial implementation of the Texas Reskilling and Upskilling through Education (TRUE) program, the state should give priority to short-term workforce programs developed in partnership with employers.

Recommendation 3.2: Support and facilitate **shared services** and stronger inter-institutional partnerships. THECB should facilitate shared services to enable individual colleges to improve operational efficiency and expand the range of academic and workforce programs they offer. These shared services might include support for inter-institutional partnerships, master service agreements, and state technology infrastructure, along with related feasibility studies. For example, institutions across the state should be able to leverage other institutions' online courses so students can stack courses, credits, and credentials to earn degrees, certificates, and short-term workforce credentials that smaller colleges would be unable to offer on their own.

Recommendation 3.3: Update state policies, and build upon the recent work by individual colleges, to help community colleges across the state provide high quality non-credit credential programs that are **convertible and stackable** with credit-bearing programs. A state crosswalk of non-credit to credit courses and programs will improve transferability of workforce education courses across institutions and throughout students' pathways, from high school dual credit programs through pathways for adult learners to support ongoing reskilling, upskilling, and career advancement. This state crosswalk could also facilitate and improve the mobility of credit awarded for students' prior work experience. Projects already underway through the Governor's Tri-agency Workforce Initiative to clarify and streamline career pathways should be considered in these specifications of stackable credentials.

Conclusion

These recommendations of the Texas Commission on Community College Finance are both aspirational and achievable. Once implemented, they will expand Texans' access to two-year colleges and create far greater opportunities for students to earn credentials of value that prepare them for well-paying, high-demand jobs in our changing economy.

The Commission's recommendations will require a significant state commitment of new funding for formulas, student financial aid, and targeted investments in community college's capacity. These proposals are squarely focused on meeting the individual needs of hundreds of thousands of Texas students and employers. At the same time, they are designed to support a broad range of state and local policies that will serve a diverse range of communities and student populations.

To enact these recommendations, the Texas Legislature must invest resources in the proposed dynamic, outcomes-based funding formulas, especially as colleges respond to new incentives. Colleges will need time to adjust to the new system, with temporary hold harmless funding provided by the state. State funding will be also essential to ensure all colleges have funding for instruction and operations that recognizes cost differences due to student needs and college size. Additional funding for need-based student financial aid will expand opportunities through community colleges to students across Texas.

To implement the Commission's recommendations, the Texas Higher Education Coordinating Board will need to provide broader support services for community colleges, including facilitating shared services and stronger inter-institutional partnerships. Full implementation of these changes will take time, and THECB will need to work in close consultation with colleges to specify and implement the new formulas. THECB will also be called upon to provide timely and actionable data about community college student enrollments and outcomes, changing regional and state labor markets, demand for credentials, and graduates' earnings.

The Commission recognizes the primary responsibility for implementing this new funding system rests with Texas community colleges. The new state investments and major policy changes recommended by the Commission are designed to better support community colleges across Texas in serving their students and local communities and addressing rapidly changing regional and state workforce needs.

Ultimately, every additional dollar Texas invests in our community colleges can translate into greater opportunities across the state and a higher-performing state workforce who will draw new investment and jobs. Strategic investments in community college outcomes, affordability, and capacity will secure our state's leadership in higher education and workforce development – and elevate Texas families and employers for decades to come.