

FORMULA FUNDING RECOMMENDATIONS FOR THE 86TH TEXAS LEGISLATURE



Increasing global competitiveness by improving student success and strengthening higher education

Under the 60x30TX strategic plan for higher education, the state is committed to the goal that 60% of our youngest cohort of workers will have a certificate or degree by 2030. Meeting this goal will require policy makers to make a sustained investment in public higher education. The trend over time has been a relative decline in state appropriations for public institutions. Since 2003, state appropriations for public universities (on a per-student, inflation-adjusted basis) have declined by 23%. Community colleges have seen a 13% decline since 2005.

The decisions that policy makers make during the 86th Texas Legislature regarding funding for higher education will be critical for putting Texas on a solid path to meet 60x30TX goals. Public two-year colleges, universities and medical schools must have the adequate resources to provide a high-quality education to students. And funding must be structured to create strong incentives for institutions to focus on certificate and degree completion.

THECB FORMULA FUNDING RECOMMENDATIONS FOR FY2020-21

The Coordinating Board adopted funding recommendations for the 86th Legislature based on three principles:

- Increase funding to account for **inflation**, in recognition that all institutions face rising costs.
- Increase funding to account for **growth in enrollments**, so that funding at least keeps up with the cost of educating new students.
- Increase funding for **performance-based funding** formulas including the community college Student Success Formula and the Texas State Technical College (TSTC) Value-Added Formula, and create a public university Graduation Supplement.

Sector	FY18-19 (millions)	FY20-21 (millions)	Difference (millions)	Difference (%)
Community Colleges	\$1,767.4	\$1,864.1	\$96.7	5.5
State Colleges	44.1	45.1	1.0	2.3
Technical Colleges	143.2	179.2	36.0	25.1
Universities	4,751.7	5,077.1	325.5	6.8
Health-Related	1,927.9	2,036.7	108.8	5.6
TOTAL	\$8.634.3	\$9,202.2	\$567.9	6.6

Funding Inflation and Growth

While the state’s investment in formula funding has varied biennium-to-biennium, the long-term trend of shrinking state appropriations for higher education is concerning. Reduced state funding means that institutions have turned to alternate sources of funds, primarily increased tuition and fees, to meet their funding needs. Institutions can and must embrace practices to contain costs and ensure that resources are being utilized

effectively. But the state must also provide adequate resources to ensure that public higher education is high-quality and affordable to students of all backgrounds.

Therefore, the Coordinating Board recommends that FY20-21 formula funding for all sectors include increases for inflation and growth in enrollments. These are costs over which institutions either have no control (in the case of inflation) or costs associated with behavior the state wants to encourage (helping more students attend college). Meeting these costs, at a minimum, also sets a helpful baseline for what institutions should expect in formula funding in their financial planning.

Structuring Funding to Increase Student Success

As importantly, the Coordinating Board is recommending that the state invest additional resources in funding formulas designed to help students efficiently achieve a degree or certificate and obtain a high-quality job.

The Coordinating Board is recommending that the Legislature increase funding for **Community College Student Success Points** from \$171.56 to \$215 per point, about a \$53.8 million increase over current biennial funding. Student Success points award funding to community colleges based on their students' achievement of certain milestones, including completion of a developmental education course, completion of 15 or 30 semester credit hours, obtaining a certificate or degree, or transfer to a university. Since being instituted in FY14, degrees and certificates awarded at community colleges have increased 17% despite relatively flat or declining enrollments.

The Coordinating Board also recommends that the **Returned Value Model** at TSTC be increased 28%, or \$35.7 million, to bolster this formula's success in helping TSTC students earn high-paying jobs. The Returned Value Formula funds instruction and administration at TSTCs based entirely on the increased earnings their students realize when they enter the workforce, and the TSTCs have seen a 24% increase in this "value-add" since the creation of the model.

Finally, the Coordinating Board recommends that the Legislature adopt a **Graduation Supplement** for public universities to create a strong incentive for these institutions to invest in academic and student support services to help students complete their degrees. The Graduation Supplement measures universities' performance on two metrics: the average number of "at-risk" and not "at-risk" students completing undergraduate degrees during the previous three years. An "at-risk" student is defined as either being Pell grant eligible or below national averages on the SAT or ACT. Universities would receive \$500 per not "at-risk" graduate, and \$1,000 for each "at-risk" graduate.

These two metrics were chosen because they are the outcomes that most directly impact the *60x30TX* completion goal: producing more graduates. The extra funding provided for graduating "at-risk" students will both compensate institutions for the greater support needed to help these students to complete their program and encourage institutions to focus on assisting this underrepresented population, which must complete at higher rates to achieve the *60x30TX* goals.

The Coordinating Board recommends that \$165 million of Operations Support funding in FY20-21 be dedicated to the Graduation Supplement. Although the agency has recommended that overall funding be increased by this amount, the agency strongly believes that the Graduation Supplement should be instituted regardless of whether additional funding is created. Implementing performance-based funding as a fundamental component of university formula funding will incent institutions to make long-term changes, such as enhanced advising, tutoring and academic support, that will help more students achieve their degree.