

Texas Community College Finance Reform Policy Brief

TX 2036

Texas is at a pivotal moment. With workforce demands growing and economic opportunities expanding, the state must strengthen its community colleges to close the skills gap and fuel long-term prosperity. House Bill 8 (HB 8), passed in 2023, introduces a performance-based funding model that rewards student success and aligns education with employer needs—a vital step forward.

Community Colleges Serve Multiple Roles in Meeting Workforce Demands

A key goal in these reforms is to better support community colleges in offering a wide range of education and workforce training services

Academic and career/technical **early college pathways** for high school students



Workforce courses and employer-led education opportunities such as continuing education, apprenticeships, and certification programs

Traditional credential programs leading to postsecondary degrees and certificates

Policy Recommendations

To ensure HB 8 achieves its full potential, the following actions are critical

1

Providing Supplemental Funding

The legislature should allocate an estimated \$40 million in additional funding for 2024-2025 as colleges improve under HB 8.

2

Ensuring Stable and Predictable Formula Funding

Consistent funding ensures colleges can effectively plan and improve programs, maintaining HB 8's incentive structure.

Previous Funding Model

- 1 State funding for colleges was focused on inputs, including student contact hours (78% of previous formula)
- 2 Variation in local taxes and revenue made it difficult for some colleges to fund instruction and operational needs
- 3 Colleges received static allocations of state funding each fiscal year based on a predetermined formula

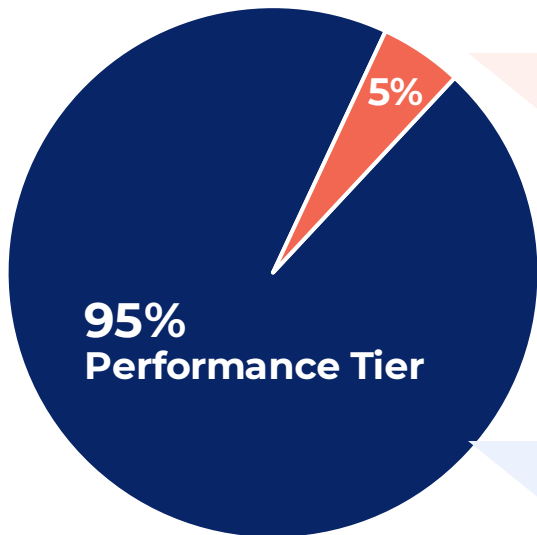
New Funding Model

Performance Outcomes determine the largest tranche of state funding allocated to colleges

Base Tier funding ensures that all colleges have a baseline level of funding for instruction and operational needs

Funding for colleges is based on a **Dynamic Model** that accounts for changes against measurable outcomes

How the Funding Model Works



Base Tier

Colleges that do not generate enough local revenue to meet basic instruction and operations (I&O) needs are eligible for state funding based on students served and courses delivered

Every college is eligible for state funding based on measurable student outcomes

- Fundable credentials of value
- Credential of value premium
- 15 semester credit hours (SCH) of dual credit
- General academic institutions (GAI) transfer/co-enrollment with 15 SCH

Outcome Weights

- Economically disadvantaged students **(+25%)**
- Academically disadvantaged students **(+25%)**
- Adult learners **(+50%)**

By prioritizing results that align with workforce needs, HB 8 incentivizes community colleges to help students achieve credentials that lead to **family-sustaining wages and drive economic competitiveness.**

Why HB 8 Matters

Workforce Alignment

Texas faces an urgent need for a skilled workforce,



54%
of jobs requiring postsecondary
education or training



Only 45%
of Texans meet
these qualifications

Community colleges are uniquely positioned to close this gap. They provide affordable, accessible pathways to credentials that lead to high-demand, well-paying jobs.

Additionally, community colleges are essential for reskilling and upskilling Texans of all ages to meet the evolving needs of our economy.

Key Features of HB 8

HB 8 shifts Texas' funding model to one based on measurable student outcomes rather than just enrollment. This transition ensures that funding is directed toward results that matter to students, employers, and the state economy. The model distributes the majority of state funding based on the following outcomes aligned with regional and state workforce needs:

1 Credential of Value
Funding is tied to degrees, certificates, and credentials earned by students.

2 High-Demand Fields
Additional funding is awarded for credentials in industries with job growth and high wages.

3 Successful Transfers
Colleges receive funding when students transfer to four-year universities with at least 15 credit hours.

4 Dual Credit Completion
Rewards for high school students completing 15+ credit hours in academic or workforce programs.

From Enrollment to Outcomes

Previous funding tied to enrollment was unstable, particularly with declining enrollment in rural colleges.

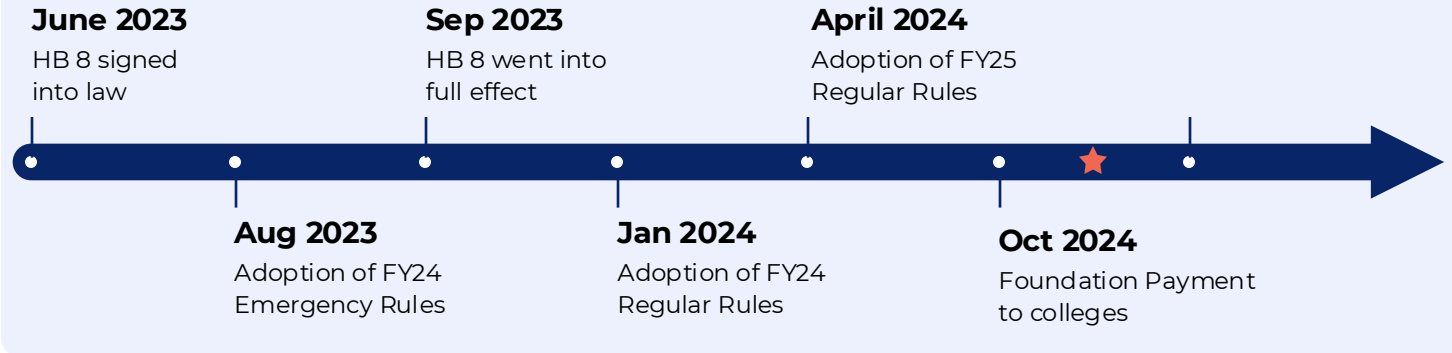
HB 8's outcomes-based model incentivizes credentials that lead to competitive wages and economic growth.

Implementation Update

Passing HB 8 was only the beginning. Ensuring its effective implementation is critical for long-term success. Here's what has been accomplished so far:

This ongoing process ensures the model evolves to address challenges and maximize impact.

THECB Rulemaking Timeline



What to Watch for Going Forward

While the reforms in HB 8 have the potential to be generationally-impactful, further cementing Texas as the economic engine of our nation, implementation quality and funding commitments will be necessary for the reform to reach its full potential.

1 Will Funding Commitments Sustain the Behavioral Impacts?

The initial success of HB 8 has created a positive problem: more funding will be needed to sustain the reforms, especially as outcomes continue to improve. Sustained funding commitments will be necessary to ensure that the long-term organizational and behavioral shifts occur that will lead to more workforce-aligned programmatic offerings and better long-term economic outcomes.

2 What Will Be Defined as a Credential of Value?

In the initial THECB rules, the “credential of value” term was defined so broadly that every credential awarded in Texas by a community college is eligible for the outcomes bonus, even if the average wage level for a graduate may leave students eligible for public welfare benefits like SNAP or Free and Reduced Price Lunch. The agency has the opportunity to address this risk by refining the definition of credential of value via rulemaking, but future legislative action may be needed to ensure fidelity to the economic mobility vision of HB 8.

Conclusion

HB 8 represents a significant opportunity for Texas to set a new standard in community college finance. As we move forward, the success of HB 8 will depend on careful implementation, adequate funding, and a continued commitment to its core principles.

By continuing to invest in community colleges, Texas can build a more skilled workforce, empower students to achieve their career goals, and enhance the state’s economic resilience. The next steps lie in ensuring this vision becomes a reality through collaboration and sustained legislative support.