JULY 2026

THE TEXAS MODEL

REWIRING COMMUNITY COLLEGE FINANCE

FOR STUDENT SUCCESS

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POSTSECONDARY AND WORKFORCE POLICY ADVISOR

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Executive Summary

For 50 years, Texas funded community colleges based largely on how many students sat in classrooms. By 2021, the system no longer matched the students that colleges served, the workforce Texas needed, or the outcomes policymakers wanted to achieve.

The need for reform reflected the central role community colleges play in Texas' future. The state's 50 community college districts enroll nearly 745,000 students, including working adults, first-generation college students, career changers, and high school students earning early-college credit.[1] For many Texans, community college is the most accessible path to a credential that leads to higher wages and stronger career opportunities.

Recognizing both the importance of these institutions and the limitations of the existing finance system, Texas undertook one of the most significant community college finance reforms in the country. House Bill 8 (HB 8), passed unanimously in 2023 and refined by Senate Bill 1786 (SB 1786) in 2025, shifted the state from an enrollment-driven funding model to one that rewards student success, workforce value, and economic opportunity.[2] Under the new framework, state funding follows outcomes. Colleges earn funding when high school students complete 15 semester credit hours of fundable dual credit or dual enrollment at a single college district that meet requirements for a degree or workforce credential.[3] Additional funding weights support colleges serving economically disadvantaged students, academically disadvantaged students, and adult learners.

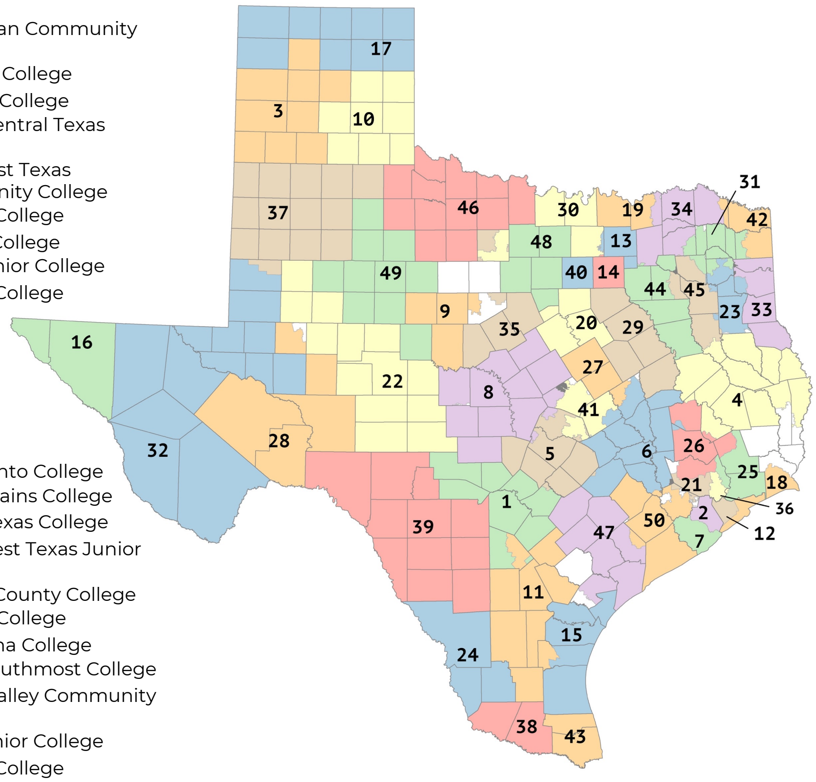
Texas Community College Finance By The Numbers

+22.3%	+26.0%	~282,000
Increase in credential attainment since 2023	Increase in high-demand credentials since 2023	Record dual credit enrollment in 2025

Source: Texas 2036 analysis of THECB credential and dual credit enrollment data, 2023 to 2025.

[1] Texas Higher Education Coordinating Board, "Preliminary Fall 2025 Texas Higher Ed Enrollment Data," *Texas HigherEd Data*, Oct. 24, 2025.
[2] Texas Legislature Online, HB 8 bill history.
[3] Texas Higher Education Coordinating Board, "Formula Funding - Funding Tiers".

Texas Community College Service Areas



1. Alamo Colleges
2. Alvin Community College
3. Amarillo College
4. Angelina College
5. Austin Community College District
6. Blinn College
7. Brazosport College
8. Central Texas College
9. Cisco College
10. Clarendon College
11. Coastal Bend College
12. College of the Mainland
13. Collin College
14. Dallas County Community College District
15. Del Mar College
16. El Paso Community College
17. Frank Phillips College
18. Galveston College
19. Grayson College
20. Hill College
21. Houston Community College
22. Howard College
23. Kilgore College
24. Laredo Community College
25. Lee College
26. Lone Star College System
27. McLennan Community College
28. Midland College
29. Navarro College
30. North Central Texas College
31. Northeast Texas Community College
32. Odessa College
33. Panola College
34. Paris Junior College
35. Ranger College
36. San Jacinto College
37. South Plains College
38. South Texas College
39. Southwest Texas Junior College
40. Tarrant County College
41. Temple College
42. Texarkana College
43. Texas Southmost College
44. Trinity Valley Community College
45. Tyler Junior College
46. Vernon College
47. Victoria College
48. Weatherford College
49. Western Texas College
50. Wharton County Junior College

Source: Texas Legislative Council Junior College Service Areas, 2022-2023

The reform emerged from concentrated statewide collaboration. Policymakers, community college leaders, employers, workforce organizations, and education advocates aligned around a shared goal: **building a funding model that better supports student economic mobility while strengthening the Texas workforce pipeline.**

The early results are clear. In the first two years under HB 8, Texas community colleges increased annual credential attainment by nearly 22%, grew credentials in high-demand fields even faster, and pushed dual credit enrollment to an all-time high.

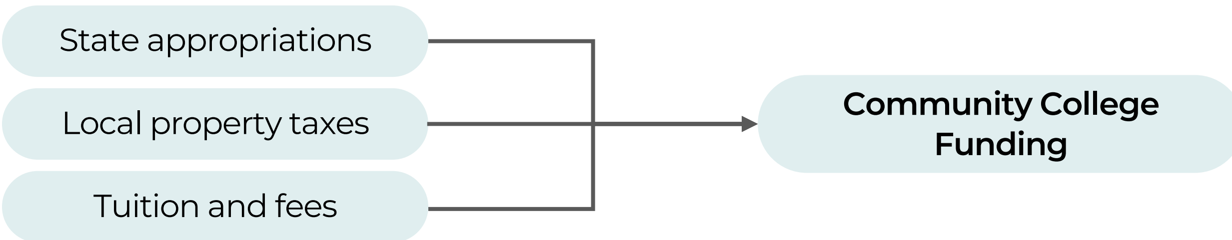
Colleges responded so strongly that outcomes outpaced the state's own funding projections. Texas now leads the country in tying community college funding to whether students actually succeed.

This report examines how the reform was built, what early implementation reveals, and the opportunities ahead as Texas continues strengthening the connection between postsecondary education and workforce success. Texas 2036 analyzed institution-level THECB Higher Education Accountability System data (FY2019–FY2025) to produce the findings in this report.

I. The Pre-Reform Landscape

The Changing Economics of Community College Finance

Texas community colleges rely on three primary revenue streams:



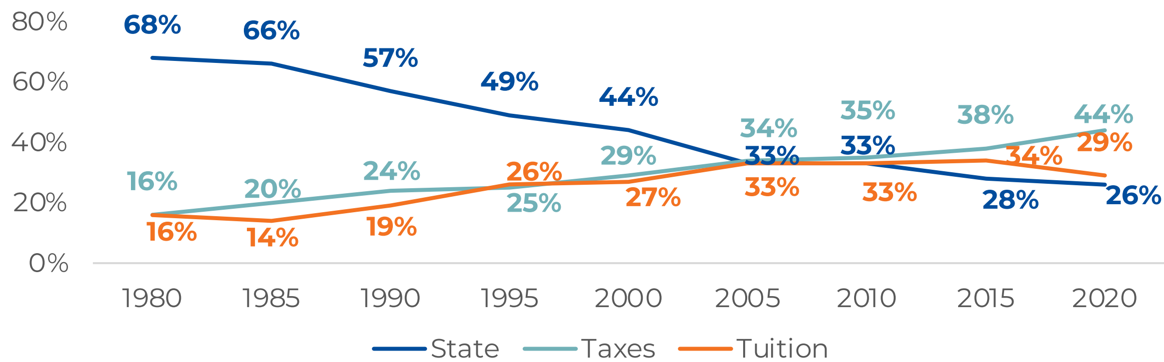
Together, these sources continue to form the financial foundation of the state's community college system, even as HB 8 changed how state appropriations are distributed.

State funding is approved by the Legislature every two years and guided by a formula developed by the Texas Higher Education Coordinating Board. By law, those dollars support instruction, including faculty and administrative salaries, supplies, and materials.[4]

Local property taxes provide another major source of revenue. How much a college can raise depends largely on the taxable property wealth within its district. Colleges use local revenue to support costs the state does not fund, including facilities, maintenance, and campus operations.

Tuition and fees make up the third major funding source. Over time, the balance among those funding streams shifted substantially. In 1986, state appropriations accounted for roughly 66% of community college primary operating revenue. By 2019, that share had fallen to 26%. Tuition revenue and local property taxes increasingly filled the gap.[5]

Texas Community College Revenue by Source (1980-2020)



Source: THECB CARAT – Operating Revenues

[4] Texas Commission on Community College Finance Commission, November 2022. "Report to the 88th Legislature".
[5] Texas Association of Community Colleges, Property Taxes at Texas Community Colleges, FY 2019; Texas 2036, *Leveraging the Potential of Community Colleges*, 2023.

These shifts affected colleges differently across the state. Institutions in property-wealthy regions benefited from rising tax revenues, while those in lower-wealth communities faced tighter financial constraints. As a result, disparities in local wealth played an increasingly important role in shaping institutional resources and financial capacity.

A Formula Built for a Different Era

Over the course of several decades, Texas' economy evolved, workforce demand shifted toward higher-skill occupations, and student demographics changed substantially — yet the state's funding model failed to keep up. As community colleges increasingly served working adults, part-time students, dual credit students, and learners pursuing short-term workforce credentials, **the assumptions underlying the state's funding formula became less aligned with the realities of modern community college education.**

At the center of that model sat the contact hour formula, introduced in 1973, which allocated state dollars primarily on instructional volume. Under this model, **roughly 78% of community college formula funding was tied to student contact hours.**[6] It was a reasonable design for the students that community colleges served at the time. Through the 1970s and 1980s, enrollment skewed toward a relatively homogeneous group: younger, often full time, often using the community college as a bridge to a four-year university or a route into a specific trade. In that world, counting hours of instruction was a serviceable proxy for educational activity.

By the early 2020s, however, the role of community colleges had expanded considerably. Colleges were enrolling more working adults balancing school with jobs and family responsibilities, more high school students earning college credit through dual credit, and more learners seeking shorter-term credentials to quickly enter or advance in the workforce. Those changes were reflected in enrollment trends.

Between 2019 and 2025, dual credit enrollment increased by more than 28% even as overall community college enrollment remained below its pre-pandemic level. Certificate attainment also accelerated, increasing 24.2% from FY2024 to FY2025 as demand for shorter-term workforce credentials grew.

The funding model, however, had not evolved at the same pace. Colleges were delivering education in new ways, enrolling high school students through dual credit, serving large numbers of part-time and working-age adult students and adapting to a widening set of career options as the economy grew more complex. At the same time, the system struggled to sustain strong completion outcomes. Credential attainment fell from 125,871 awards in FY 2019 to 95,216 in FY 2022, a decline of more than 24%, before beginning to recover. **Yet the funding formula continued to reward volume rather than results**, leaving a growing gap between how colleges were funded and what the state expected them to achieve. To address this, Texas began experimenting with ways of addressing that gap long before HB 8.

[6] Texas Senate Higher Education Committee Interim Report, January 2025.

An Early Outcomes Experiment That Fell Short

In 2013, lawmakers created the Student Success Points formula, the first major change to community college finance in decades and the state's first attempt to tie funding to student achievement rather than enrollment alone.

The formula rewarded colleges for a range of student milestones, including completing developmental education, passing first college-level courses, and completing core curriculum requirements. By the early 2020s, Student Success Points accounted for roughly 17% of community college formula funding, while the Contact Hours formula remained the dominant source of state support.

The formula represented an important step toward funding outcomes, but it did not create strong incentives around workforce value. Colleges could earn points for a range of intermediate milestones, meaning funding often flowed based on student progress rather than completion. The model also did not distinguish between credentials with strong labor market returns and those with weaker economic value, nor did it regularly incorporate labor market data to align funding with workforce demand.

Most importantly, the incentives remained relatively small. Nearly four-fifths of formula funding continued to flow through the Contact Hours formula, meaning enrollment and instructional activity remained the primary drivers of state funding. As Texas entered the 2020s, the result was a system that recognized the importance of outcomes but remained largely disconnected from the workforce and economic goals Texas increasingly expected community colleges to help achieve.

The 2013 reforms resulted in a system that recognized the importance of outcomes but ***remained largely disconnected from the workforce and economic goals*** *Texas expected community colleges to help achieve.*

Diseconomies of Scale in Community College Districts

Before HB 8, Texas community college districts differed enormously in size and resources.

Enrollment ranged from 1,417 to 61,811 students in Fall 2020.

Property tax valuations ranged from $173.4 million to $271.2 billion in fiscal year 2021.

Maintenance and operations revenue ranged from $6.2 million to $455.8 million per district.[7]

These differences shaped how each college experienced and responded to the challenges of the pre-HB 8 funding model.

[7] THECB Community College Annual Reporting & Analysis Tool. (n.d.). FY 2021 net assessed valuation figures.

A Zero-Sum Funding Model

In addition to funding instructional activity instead of outcomes, the contact hour and success point formulas **made state funding a zero-sum competition**. Lawmakers appropriated a fixed pool of state funding and distributed those dollars through an allocation methodology that considered how colleges perform in relation to one another. That design pitted colleges against one another for a finite amount of money. As a result, **a college could serve more students, expand access, and still receive less funding per student if enrollment grew faster elsewhere in the state.**[8]

Because each institution's allocation depended in part on the performance of every other college, funding levels were difficult to predict. That uncertainty was especially difficult for small and rural colleges with limited local tax capacity and smaller reserves. A large system may be able to absorb a temporary formula loss while maintaining programs. A smaller college may have to delay program expansion, reduce student support, or postpone investments in high-cost workforce programs that local employers need.

How a Fixed Funding Pool Shifts Resources Across Colleges

When total funding stays the same, enrollment growth at one college can reduce the funding available to others, forcing institutions to compete for a limited pool of dollars.

$1,000 Available Funding

	2019 Enrollment	2019 Funding
College X	100 students	**$500** ($5 per student)
College Y	100 students	**$500** ($5 per student)

	2020 Enrollment	2020 Funding
College X	135 ▲ students	**$540** ▼ ($4 per student)
College Y	115 ▲ students	**$460** ▼ ($4 per student)

This zero-sum design had a deeper consequence. Because lawmakers set the size of the pool in advance, the total amount of state funding did not respond to how much colleges actually accomplished. Colleges across the state could produce more graduates, more transfers, and more workforce credentials, and the pool would stay the same size. The system divided a fixed pie rather than growing it.

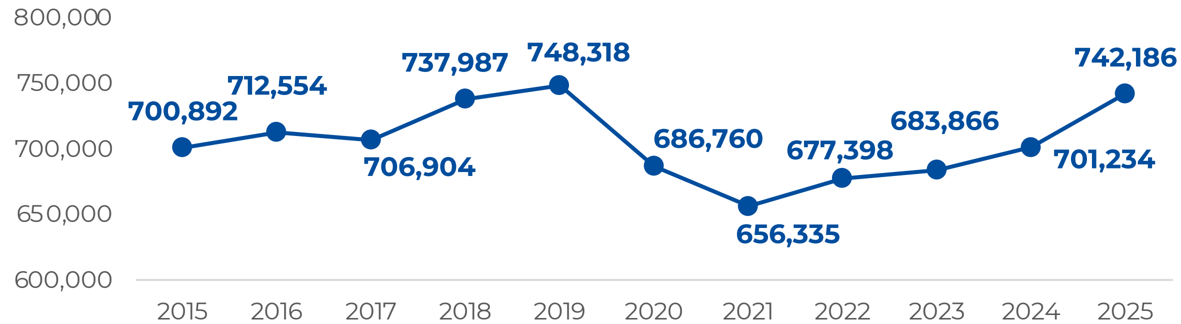
That structure shaped what reform would need to deliver. A funding model built for student success could not simply redistribute a fixed amount of money among competing institutions. It would need to let the pie grow when colleges produced more of the outcomes Texas valued, so that strong performance generated new funding rather than a smaller slice of the same total. This idea, that state support should expand in response to results, became one of the central promises of HB 8 and a defining feature of the model the Commission would go on to design.

[8] Texas Commission on Community College Finance, Report to the 88th Legislature.

The Pandemic Exposed Existing Weaknesses

The weaknesses in the old funding model became impossible to ignore when enrollment began to fall. Community college enrollment had already drifted downward over the 2010s, but the COVID-19 pandemic turned a gradual decline into a sharp one. Between 2019 and 2021, Texas community colleges lost 12.3% of their students, a drop of about 92,000 enrollments statewide.[9]

Community College Fall Enrollment, 2015-2025



Excludes Lamar State College and Texas State Technical Colleges
Source: 2015-2024 THECB Undergraduate Enrollment Dashboard, 2025 THECB Certified Enrollment Counts

For colleges experiencing enrollment declines, the old formula translated fewer students into fewer contact hours and, often, fewer success-point opportunities. Colleges that experienced larger declines lost more ground, while those that maintained enrollment or student outcomes captured a larger share of the same pool of dollars. Colleges in districts with lower taxing capacity, as well as many smaller or rural colleges, were often less able to absorb the shock. The pandemic did not create the weaknesses in the funding model. Rather, it exposed how vulnerable colleges remained to enrollment fluctuations in a system where outcomes were recognized, but not central to the state's overall approach to community college finance.

As these challenges became more visible, policymakers, institutional leaders, employers, and workforce organizations increasingly aligned around the need for reform. By 2021, policymakers faced a growing mismatch between how colleges were funded and what Texas needed from its postsecondary system.

Three Weaknesses in the Pre-HB 8 Funding Model

The old finance system created three core challenges for Texas community colleges:

It rewarded inputs more than outcomes.
Most state funding followed contact hours, not credential completion, transfer, or labor market value.

It made funding zero-sum and unpredictable.
A college could improve outcomes or serve more students and still lose funding if others grew faster.

It amplified differences in local property wealth.
Wealthier property tax districts could invest and grow while smaller and rural colleges had less to absorb shocks or expand programs.

Together, these weaknesses created a growing mismatch between how Texas funded community colleges and what the state increasingly needed them to deliver.

[9] Texas Higher Education Coordinating Board, [Fall 2021 Preliminary Headcount](#).

II. Policy Development – The Commission, the Process, and HB 8

The Commission Built the Foundation for Reform

Texas lawmakers meet for only 140 days every two years. Given the scale and complexity of restructuring the financial model for one of the state's foundational higher education systems, the regular legislative process offered limited opportunity for the extensive analysis and stakeholder input such a reform would require. Lawmakers needed to understand how the existing formula affected every district, model what alternative systems could produce, and build the alignment across community colleges, business, and education advocates that major reform needs. Work of that depth would not fit inside a single regular session.

Recognizing this constraint, the 87th Legislature created the Texas Commission on Community College Finance (TxCCCF) through Senate Bill 1230 in 2021. The commission's statutory charge was to make recommendations for the state funding formula and funding levels for public junior colleges in Texas that would be sufficient to sustain junior college education and training offerings throughout the state and improve student outcomes in alignment with state postsecondary goals.[10] The commission was designed to produce recommendations specific enough to legislate, not a set of abstract principles.

Twelve members appointed by the Governor, Lieutenant Governor, and Speaker of the House included legislators, community college presidents, business leaders, and education advocates. Over two years, the commission convened statewide hearings, technical working groups, employer conversations, public engagement efforts, and independent research on institutional costs and student outcomes.

The Aim Hire Coalition

AIM HIRE TEXAS

The reforms in HB 8 advanced with broad public support, organized in large part through **Aim Hire Texas**, a workforce and education initiative led jointly by Texas 2036 and the Commit Partnership. Aim Hire Texas built and coordinated the external coalition that made the case for aligning the state's education and workforce systems around economic mobility.

Through its policy coalition, Aim Hire Texas mobilized more than **70 business, civic, and education organizations from across the state**, including founding partners such as the Dallas Regional Chamber, the Greater Houston Partnership, the Texas Association of Community Colleges, Texas Rural Funders, and the United Ways of Texas. That coalition helped turn the Commission on Community College Finance's recommendations into the public momentum behind HB 8.

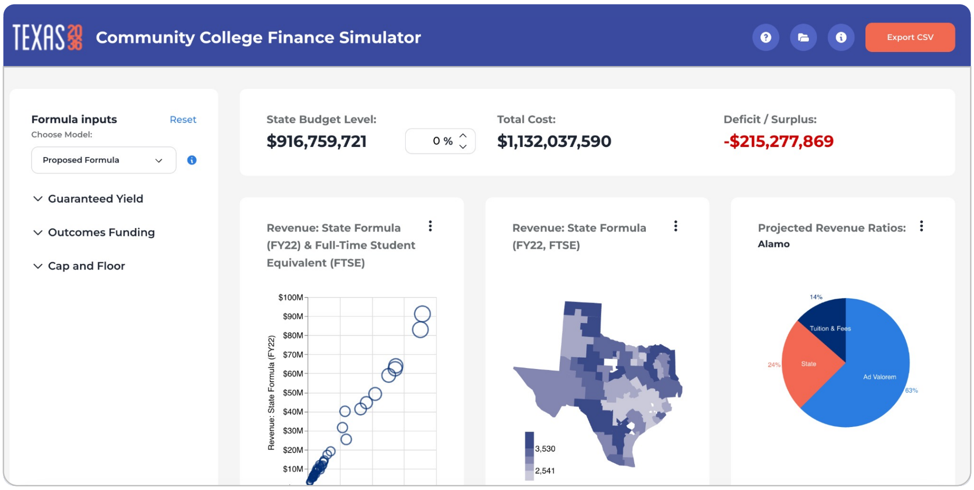
[10] Texas Legislature, Senate Bill 1230, 87 Regular Session, 2021.

Texas 2036 supported that work by building an interactive Community College Finance Simulator.[11] Throughout the commission's deliberations, the simulator served as a testing ground for potential formula concepts, allowing commissioners and stakeholders to explore how different funding approaches would affect individual colleges and districts before recommendations were finalized. Users could adjust key design elements, from the guaranteed yield calculation to the outcomes-based weights for credentials, transfer, and disadvantaged students, and immediately see how those choices changed funding allocations across the state.

As the commission's work progressed, the simulator evolved alongside it, incorporating emerging proposals and helping stakeholders understand the tradeoffs associated with different policy options. By the time the commission released its recommendations, many of the core formula concepts had already been modeled and vetted through the simulator. The tool then provided a way to compare the existing formula with the proposed system and visualize the impact of the reforms that ultimately became HB 8. What might otherwise have remained an abstract debate about formula design became something concrete: a district leader or legislator could see the effect of a policy choice on their own institution in real time.

The simulator, along with the commission's broader research and stakeholder engagement process, helped build confidence that reform could be both ambitious and financially viable. **By the time the commission completed its work, members had moved beyond diagnosing the shortcomings of the existing model and developed a detailed blueprint for what should replace it.**

Texas 2036's Community Colleges Finance Simulator



[11] [Texas 2036 Community College Finance Simulator](#).

The Commission's Recommendations

The commission's October 2022 report outlined a new vision for community college finance built around three priorities: outcomes-based funding, student affordability, and institutional capacity. Together, these proposals sought to move the state's finance system beyond enrollment and contact hours and better align public investment with student success and workforce needs.

Collectively, these recommendations reflected a fundamental shift in philosophy. Rather than primarily fund enrollment and instructional activity, the Commission proposed a model that would reward student success, strengthen workforce alignment, improve affordability, and ensure colleges had the capacity to meet regional economic needs.

By the time the 88th Legislature convened in 2023, much of the underlying policy work had already been done. HB 8 reflected both the commission's technical recommendations and the broad coalition that formed around the reform effort.

State Funding for Outcomes

The commission recommended shifting the majority of state funding toward measurable outcomes, including credentials of value attainment, transfer to four-year institutions, and dual credit success, while providing additional support for economically disadvantaged students, adult learners, and colleges with limited local tax capacity.

Improving Affordability for Students

Recognizing that financial barriers remain one of the greatest obstacles to postsecondary completion, the commission recommended targeted financial assistance for economically disadvantaged students enrolled in dual credit coursework and greater support for paid work-based learning opportunities such as apprenticeships, internships, and work-study experiences developed in partnership with employers.

Expanding Community College Capacity

The commission recommended strategic investments to help colleges meet regional workforce needs, including funding to expand high-demand programs, support for shared services and institutional partnerships, and stronger pathways connecting non-credit and credit-bearing credentials.

How HB 8 Delivered on the Commission's Recommendations

Commission Recommendation	Subsequent HB 8 Provision
Shift state funding away from contact hours and toward student outcomes.	Created the Performance Tier, which distributes the majority of state funding based on student outcomes rather than instructional volume.
Reward colleges for producing credentials with labor market value.	Established funding for Credentials of Value (COVs) tied to earnings outcomes and workforce demand.
Incentivize successful transfer to four-year institutions.	Created transfer outcomes funding for students who successfully transfer and complete milestones at a university.
Expand and reward meaningful dual credit pathways.	Established dual credit outcomes funding for students who complete a sequence of dual credit courses that count toward academic or workforce programs.
Provide additional support for students facing greater barriers to success.	Added specialty population weights for economically disadvantaged, academically disadvantaged, and/or adult students in outcomes-funding calculations.
Protect colleges with limited local tax capacity and support small and rural institutions.	Created the Base Tier and guaranteed-yield provisions to ensure foundational funding and greater stability for colleges with lower property wealth.
Increase affordability and reduce financial barriers.	Funded the Financial Aid for Swift Transfer (FAST) program to help more high school students take dual credit; and increased state investment in student affordability.

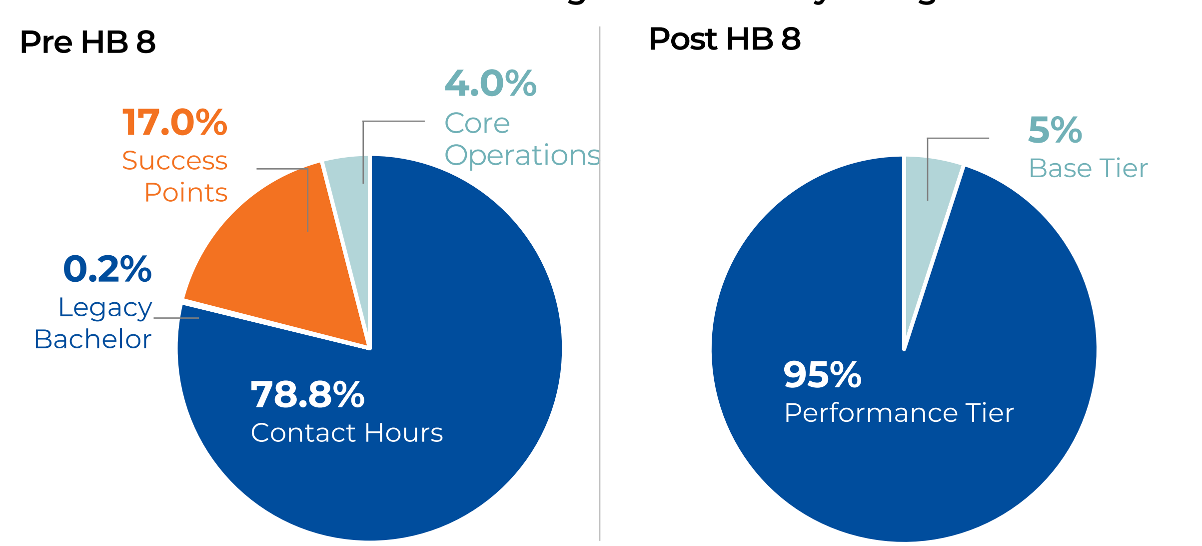
Every core commission recommendation is reflected in HB 8.

[12] Program allows eligible grade 9-12 students to enroll at no cost in dual credit courses, with eligibility tied to educational disadvantage criteria and expanded by SB 1786.

HB 8 Rebuilt the Funding Model Around Student Outcomes

HB 8 replaced the contact hour formula with a two-tier funding structure designed to align state investment more closely with student outcomes and institutional needs.

The new framework organized the formula into two components working in tandem: **a Base Tier focused on foundational funding for colleges with limited local tax revenue, and a much larger Performance Tier that pays colleges for discrete student outcomes.**



The Base Tier accounts for nearly 5% of state appropriations for community colleges and helps ensure that a college's funding is not determined solely by the wealth of the community it serves. Colleges in property-rich areas can generate substantially more revenue from local taxes than colleges in smaller, rural, or less affluent regions. In practice, this means that two colleges can serve students with similar educational needs but have very different local resources available to support instruction, advising, workforce programs, and other core functions. Without a state mechanism to account for those differences, students' access to educational opportunity would depend in part on the property wealth of the community in which they live.

To address that challenge, the Base Tier directs additional state funding only to colleges whose local taxing capacity is insufficient to cover their instruction and operations costs. In fiscal year 2025, 22 community colleges received Base Tier funding, reflecting the continued importance of state support for institutions with lower local tax capacity.[13]

By helping offset differences in local wealth, the model creates a more level playing field for colleges across the state and helps ensure that students have access to educational opportunities regardless of where they live.

[13] Namely, statewide FY2025 Base Tier of $58,740,965 and total FY2025 payment of $1,227,097,830, which is 4.8%. Texas Higher Education Coordinating Board, "Community College Formula Funding - Fiscal Year 2025 with Dynamic Adjustment“ and FY2025 section.

Key Changes Under the HB 8 Funding Model

1 State funding for colleges was **focused on inputs**, including student contact hours (78% of previous formula)	**Performance Outcomes** will now determine the largest portion of state funding allocated to colleges
2 **Variation in local taxes and revenue** made it difficult for some colleges to fund instruction and operational needs	**Base Tier** funding ensures that all colleges have a baseline level of funding for instruction and operational needs
3 Colleges received **static allocations** of state funding each fiscal year based on a predetermined formula	Funding for colleges will be based on a **Dynamic Model** that accounts for changes against measurable outcomes

The Performance Tier, which represents roughly 95% of formula-driven appropriations, pays colleges fixed amounts per outcome across several categories of student achievement. [14] Colleges earn funding for students who complete a Credential of Value (with additional funding for Credentials of Value in High Demand Fields), transfer to a four-year institution after earning at least 15 semester credit hours, or complete at least 15 hours of dual credit coursework that apply to a specific academic degree or workforce credential.

Dual credit is one of the clearest examples of the model's focus on meaningful outcomes. Rather than rewarding enrollment alone, HB 8 pays colleges when students complete at least 15 semester credit hours that apply toward a degree or workforce credential. Research indicates that students who complete 15 or more dual credit hours, including coursework in math or English language arts, are 61% more likely to earn a degree or certificate within six years of graduating high school than students who take no dual credit courses. They also outperform students who complete smaller amounts of dual credit. This milestone is additionally associated with stronger rates of college enrollment and persistence.[15]

Performance Tier
95% of formula-driven appropriations
Fixed payments per student outcome

Credential of Value
+ Bonus for high-demand fields

Transfer Success
15+ SCH earned before transfer to 4-year

Dual Credit Milestone
15+ Semester Credit Hours applying to degree or workforce credential

[14] Texas Higher Education Coordinating Board, "Community College Formula Funding - Fiscal Year 2025 with Dynamic Adjustment".
[15] Freeman, Jennifer A., J. Jacob Kirksey, Wesley Edwards, Brian Holzman, and Han Bum Lee. 2026. Beyond the Threshold: What Dual Credit Benchmarks Signal About College Readiness in Texas. Policy Brief No. 2. Lubbock, TX: Center for Innovative Research in Change, Leadership, and Education, Texas Tech University.

Unlike the prior formula, Performance Tier payments are designed not to be zero-sum when appropriations keep pace with earned outcomes. A college's funding depends solely on the outcomes it produces rather than how other institutions perform. The structure was designed to create clearer incentives for colleges to invest in completion, transfer, and workforce alignment.

Of the outcomes funded through HB 8, the Credential of Value framework represented the most significant policy innovation. Rather than rewarding colleges simply for awarding credentials, the framework ties funding to credentials that are associated with strong labor market outcomes and economic value for students.

Spotlight: Dallas Transfer Collaborative

A unique feature of HB 8 is that performance funding is unrestricted. Colleges earn funding for outcomes, but they have flexibility in how they achieve them. Some have expanded dual credit partnerships, while others have invested in advising, student supports, and completion initiatives.

That flexibility is also encouraging new regional partnerships. In 2024, Dallas College joined with Texas A&M University-Commerce, Texas Woman's University, and the University of North Texas at Dallas to launch the Dallas Transfer Collaborative, an effort to simplify transfer pathways and reduce credit loss.[16]

The effort was built around a simple premise: students often do not fail to transfer because of a lack of interest, but because the transfer process is complicated and credits do not always apply toward a bachelor's degree.

The collaborative introduced Meta Majors that align associate degrees with high-demand bachelor's programs and launched Transfer Central, an online tool that helps students see how their credits apply toward degrees at participating universities. The initiative demonstrates how colleges are using the flexibility of HB 8 to develop local solutions that improve student outcomes.

The Performance Tier also incorporates specialty population weights that increase funding when an outcome is achieved by an economically disadvantaged student, an academically disadvantaged student, or an adult learner. Those weights stack for students who fall into multiple categories. An adult learner who is both economically and academically disadvantaged generates substantially more performance funding than a student without those weights completing the same outcome. The design intent is straightforward: create financial incentives for colleges to invest in students who have historically faced the greatest barriers to completion.

[16] Dallas Transfer Collaborative

HB 8 Provided Additional Funding Weights for Certain Student Populations

HB 8 includes additional performance funding for outcomes earned by the following student populations. These weights are stackable, allowing colleges to earn additional funding when a student qualifies under multiple categories.

- **Academically Disadvantaged:** Students who did not meet the college readiness benchmark on one or more Texas Success Initiative (TSI) tests and who do not qualify for a TSI waiver or exemption
- **Economically Disadvantaged:** Students who received the federal Pell Grant
- **Adult Learner:** A student aged 25 or older

HB 8 also created the Financial Aid for Swift Transfer (FAST) program, a financial aid program focused on dual credit participation. FAST covers tuition costs for dual credit courses for high school students who qualify for the federal free and reduced-price lunch program. This reduces a financial barrier that had previously limited access to dual credit courses for many lower-income students.

Together, these changes represented a fundamental redesign of Texas community college finance. **The state moved from a model centered primarily on instructional volume to one designed to reward student outcomes, workforce value, and institutional investment in higher-need student populations.**

Financial Aid For Swift Transfer (FAST) in Action

Imagine a student named Clara. She is a high school junior in a rural Texas community, an hour from the nearest university. Her family qualifies for free and reduced-price lunch, and a few years ago the cost of dual credit tuition might have put early college opportunities out of reach. Under FAST, those courses are now free. She enrolls in a dual credit nursing pathway, one of the high-demand fields Texas needs most, and graduates from high school with an associate degree already in hand.

For her, the reform is not a funding formula or a legislative bill. It is a shorter path to a career, less student debt, and a stronger chance of building a future in the community she calls home. The incentives embedded in HB 8 are designed to create more stories like hers by rewarding colleges for helping students earn meaningful credentials in fields that lead to opportunity. When the system works as intended, students, colleges, employers, and communities all benefit.

Clara's completion pathway **generates an estimated $10,216 for her community college through FAST and HB 8 outcomes funding** (Dual Credit Completion and Associates Degree Completion).[17]

[17] The estimated amount was calculated using Texas 2036's forthcoming Classroom to Career Finance Simulator by combining the dual credit outcomes bonus, the associate degree outcomes bonus and FAST tuition funding at the FY 2025–26 rate of $58.52 per semester credit hour.

III. Early Implementation, Rulemaking, and Legislative Refinement

State Rollout Moved Quickly

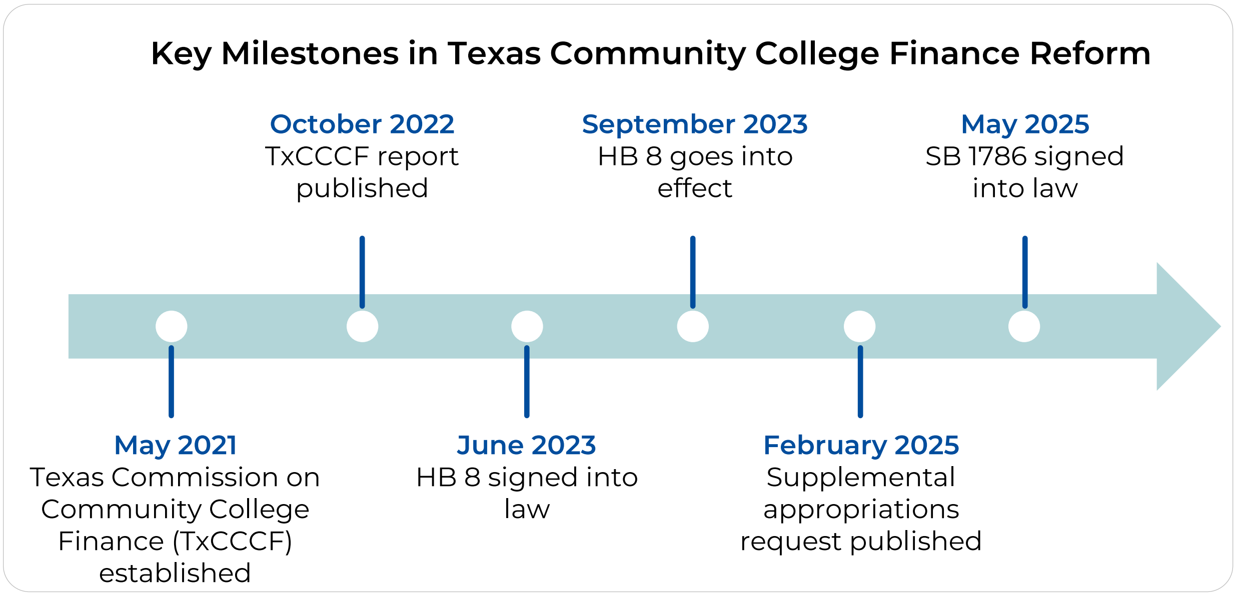
HB 8 moved from legislation to implementation on an unusually fast timeline.

Gov. Greg Abbott signed the bill in June 2023. Within weeks, the THECB had drafted emergency rules. By August, formula payments were already flowing to colleges.

That pace reflected the substantial groundwork completed before passage. The commission process, technical modeling, and sustained engagement among the THECB, the Texas Association of Community Colleges (TACC), and policy partners meant the broad framework of the reform was largely established by the time HB 8 was formally signed into law. However, many of the most consequential implementation decisions, including how COVs would be defined operationally and how performance metrics would be calculated, still had to be resolved through rulemaking after the bill became law.

State and community college leaders celebrate the signing of House Bill 8

Even with those questions unresolved, colleges and state agencies moved quickly to implement the new framework.



Rulemaking Determined the Details of the Reform

Much of HB 8's practical meaning has ultimately been determined through rulemaking.

The Legislature established the broad framework, identifying the outcomes colleges should be rewarded for and setting the overall direction of the reform. The THECB was responsible for translating statutory language into operational definitions, payment methodologies, wage thresholds, and reporting standards.

Those decisions have significant consequences for how funding flows through the system and have drawn sustained engagement from community colleges, employers, policy organizations — including Texas 2036 — and other stakeholders. The rulemaking process has become an important venue for refining how the framework operates in practice and ensuring it remains aligned with both workforce needs and legislative intent.

The ongoing rulemaking process reflects a broader reality about outcomes-based finance reform: passage of legislation is only the beginning. The long-term success of the framework depends not only on legislative design but also on the technical decisions that determine how those policies operate in practice over time.

Early Implementation Revealed Opportunities for Improvement

When THECB first translated HB 8 into rules, it had to turn a broad statutory concept into a working standard. The first Credential of Value rules, adopted in April 2024, were designed to get the new funding system operational quickly.[18] But the initial standard set a low threshold for what counted as valuable.

Under those rules, a credential generally qualified if students earned more than the cumulative earnings a median Texas high school graduate would be expected to earn over the same period. The credential also had to allow graduates to recover its opportunity cost (total student investment and foregone wages) within 10 years.[19] That approach created two problems. First, the earnings threshold was low enough that credentials could qualify even if they produced only marginal wage gains. Second, the same 10 year payback window applied to all credentials, regardless of whether a program took a few months or several years to complete.[20]

As a result, the standard did not do enough to distinguish credentials with strong labor market value from those with weaker returns. A framework designed to reward high-value credentials ended up qualifying nearly all credentials.

That outcome reflected the speed of implementation more than a failure of design. HB 8 moved from passage to formula payments within weeks, and the state had limited workforce data available to support a more precise standard. The first rules in 2023 helped launch the system while the April 2024 Credential of Value (COV) rules operationalized the credential standard.[21]

The next step was to make the standard more rigorous, which became a central focus of SB 1786 and subsequent THECB rulemaking.

[18] 19 Texas Administrative Code §13.556, THECB COV threshold-year resource.
[19] Texas Higher Education Coordinating Board, Credentials of Value Methodology, Board Agenda Item VI, Major Policy Discussion, Jan. 23, 2025.
[20] 19 Texas Administrative Code §13.556.
[21] 19 TAC §13.556.

The 89th Legislature: Refining and Reinforcing HB 8

One of the lessons from the first two years of HB 8 is that implementation is not static. The rapid implementation of HB 8 produced early evidence of increased performance outcomes while also revealing areas where the framework could be strengthened. During the 2025 legislative session, lawmakers responded both by providing additional funding to support higher-than-anticipated performance and by refining the model through targeted policy changes.

Performance Exceeded Expectations

The strongest early proof that HB 8 was working showed up in the appropriations process. Colleges generated more qualifying outcomes than lawmakers anticipated when they funded the new formula in 2023, requiring approximately $89.5 million in supplemental appropriations for fiscal year 2025.[22] Rather than exposing a flaw in the model, the additional funding reflected colleges responding to the incentives embedded in HB 8 and producing outcomes at a scale that exceeded expectations.

+$89.5 Million

Supplemental FY25 performance funding required after colleges generated more qualifying outcomes than projected.

SB 1786 Refined the Framework

Through similar collaboration among stakeholders, legislators, and state agencies, SB 1786 made several targeted adjustments that not only preserved the foundational aspects of outcomes-based funding, but improved them. Those reforms included:

I. Increasing the Credential of Value Rigor

One of the most significant refinements made by SB 1786 involved the Credential of Value framework. Building on lessons from early implementation, lawmakers strengthened the standards used to determine which credentials qualify for outcomes funding. Lawmaker efforts ensured the framework more effectively rewards credentials associated with meaningful workforce value and economic mobility.

First, it replaced the one-size-fits-all 10 year payback window with variable timeframes calibrated to how long each type of credential actually takes to earn. Second, it added a self-sufficient wage floor tied to the Texas Workforce Commission's (TWC) self-sufficient wage standard. THECB set that floor at $30,000 a year in its August 2025 rulemaking.

[22] Texas Higher Education Coordinating Board, "Updated FY25 Supplemental Request, FY25 Funding Formula Model and District Runs, and Dynamic Adjustment Notification," Feb. 13, 2025.

Credential of Value Refinement

SB 1786 made the Credential of Value test more rigorous by aligning the payback period with credential length and requiring graduates to earn at least a self-sufficient wage.

Initial Framework (April 2024)

1. **Subtract the cost of the credential from cumulative earnings**

Cumulative earnings
Total earnings over **10 years**

−

COST OF THE CREDENTIAL
Opportunity cost (forgone wages) + total student investment

=

Wages
Net earnings over **10 years**

2. **Apply the COV test**

Wages greater than or equal to what a high school graduate earns over 10 years → **It is a COV**

SB 1786 Framework

1. **Subtract the cost of the credential from cumulative earnings**

Cumulative earnings
Total earnings over **5 years**

−

COST OF THE CREDENTIAL
Opportunity cost + total student investment

=

Wages
Net earnings over **5 years**

2. **Apply the COV test, now two conditions**

Wages greater than or equal to what a high school graduate earns over 10 years

NEW IN SB 1786
AND wages greater than or equal to the self-sufficient wage

→ **It is a COV**

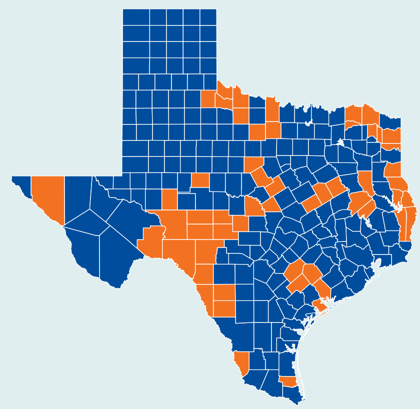
A Closer Look at the Self-Sufficient Wage Standard

In August 2025, THECB set the individual self-sufficient wage threshold at $30,000 per year using Texas Workforce Commission data. The figure reflected the simple median of the self-sufficient wage calculated for each of Texas' 254 counties, with every county weighted equally regardless of population.

A population-weighted approach would produce a higher threshold, approximately $36,800 per year, reflecting the fact that most Texans live in larger metropolitan counties with higher costs of living. As of July 2025, roughly 89% of Texans lived in counties where the local self-sufficient wage exceeded the $30,000 benchmark. The methodology used to establish the wage floor illustrates a broader implementation question that remains active: how should statewide standards account for significant regional differences in labor markets and living costs?

Texas Counties by Self – Sufficiency Wage Threshold, 2026

Annual wage for a single adult, above vs. below $30,000



Below $30,000 (56 counties)

At or above $30,000 (198 counties)

The bill also created a pathway for critical-field credentials in healthcare and education to qualify below the standard earnings threshold, a recognition that the state's acute talent needs in those fields are themselves a form of value.

Finally, the Legislature phased in the updated methodology for short-term credentials. Under SB 1786, the revised COV standard applies to associate degrees beginning with the 2025-2026 academic year, while other degrees and certificates apply beginning with the 2027-2028 academic year. The longer timeline for certificates gives THECB time to develop program-level rules and allows additional data collection and data-quality work needed for return-on-investment analysis. THECB must adopt rules implementing the COV standard for each public junior college certificate program by Aug. 1, 2027.

II. Expanding Workforce Data Collection

The second change strengthened the data the whole framework depends on. SB 1786 requires the TWC to provide community colleges with regionally tailored labor market projections, helping institutions align programs with local employer demand.[23] This capability is particularly valuable for smaller and rural colleges that often lack the analytical resources of larger urban systems.

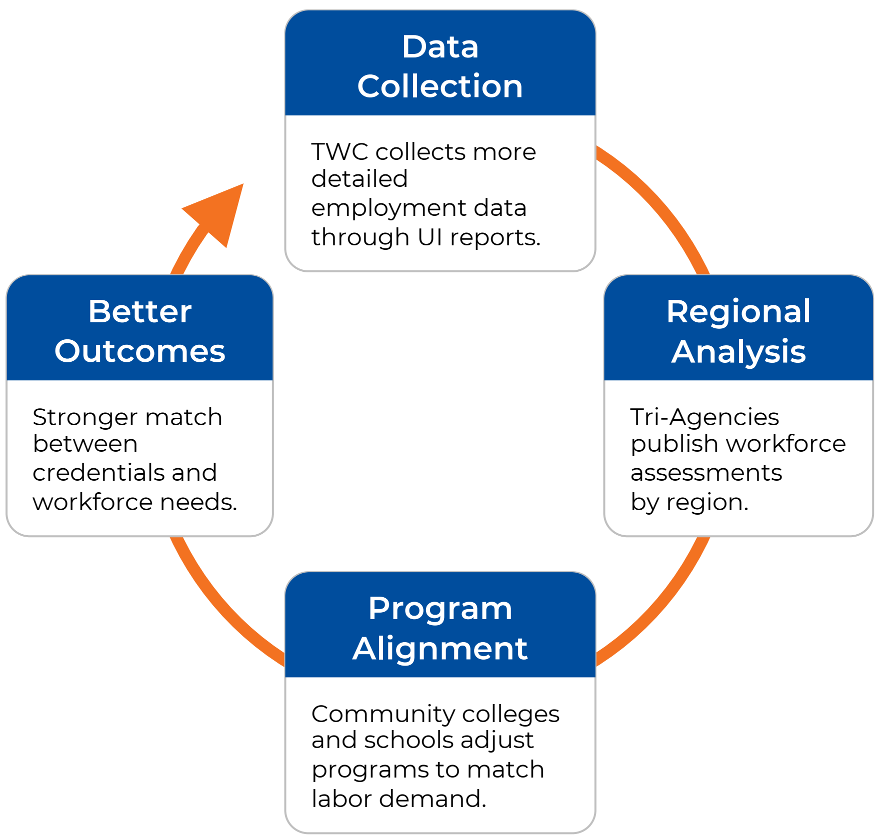
[23] Texas Legislature, S.B. 1786, 89th Regular Session, 2025.

III. Aligning Programs to Workforce Demand

The bill also addressed a longstanding limitation in the state's workforce data. Texas relies on unemployment insurance (UI) wage records to track employment outcomes, but those records were originally designed to administer benefits rather than evaluate educational programs. As a result, they lack occupation codes and precise worksite locations, making it difficult to determine whether graduates were working in the fields they trained for or where those jobs were located. SB 1786 requires TWC to expand UI data collection to include this information, giving the state a much clearer picture of graduates' workforce outcomes. Those improvements strengthen the evidence base used to evaluate Credentials of Value and provide policymakers with better information about which programs are producing the workers Texas employers need most.

How Better Workforce Data Improves Program Alignment

As colleges adjust programs and student outcomes improve, those results feed back into the data. Over time, this gives institutions and policymakers a clearer picture of which credentials are meeting regional workforce needs and where further changes are needed.



HB 3767 and the Tri-Agency Workforce Initiative

Gov. Greg Abbott established the Tri-Agency Workforce Initiative in 2016, directing the state's three core education and workforce agencies to coordinate their efforts.[24] In 2021, Texas formalized this work through HB 3767, which established the Tri-Agency Initiative in statute. The law requires the Texas Education Agency (TEA), the THECB, and the TWC to set shared goals for postsecondary readiness, credential attainment, and workforce outcomes, creating a consistent statewide framework for strengthening education-to-employment pathways.

Among those goals, HB 3767 directs the agencies to orient career education and training programs around a single measure of success: employment that pays a self-sufficient wage, defined as the regionally adjusted earnings a family needs to meet its basic needs without public or private assistance.

IV. Strengthening Workforce System Alignment

SB 1786 also expanded the role of the state's Tri-Agency Workforce Initiative. Historically, the grant programs that fund work-based learning ran on separate tracks, each administered by a different agency under its own rules.

SB 1786 tasked the Tri-Agency with coordinating these grants, including JET Grants, P-TECH Grants, TRUE Initiative funding, and federal CTE funds such as Perkins, allowing the state to braid otherwise siloed streams into a more coherent whole. The law also allows school districts and public junior colleges to jointly apply for and manage those funds, reducing the administrative burden that once fell on individual institutions and making it easier to sustain apprenticeships and other earn-and-learn programs.

Braided Funding Allows for More Efficient Funding

Texas 2036's report, Improving Funding Efficiencies for Classroom to Career Programs in Texas, helped provide critical policy research to inform braided funding legislation.

Recommendations to integrate funding across community colleges and high schools were included in SB 1786 (89-R), including efforts to ensure the Tri-Agencies align grants toward unified state goals.

[24] Office of the Texas Governor. "Governor Abbott Establishes Tri-Agency Workforce Initiative." March 10, 2016.

With this coordination, the Tri-Agency will be able to more effectively transition the strategies into action, steering the state’s $100-plus billion per year investments in education and workforce funding toward the greatest possible impact. By aligning investments across agencies and programs, lawmakers sought to ensure that education and workforce dollars are working toward common objectives and supporting the state's long-term talent needs.

V. Expanding FAST Eligibility and Transfer Outcomes

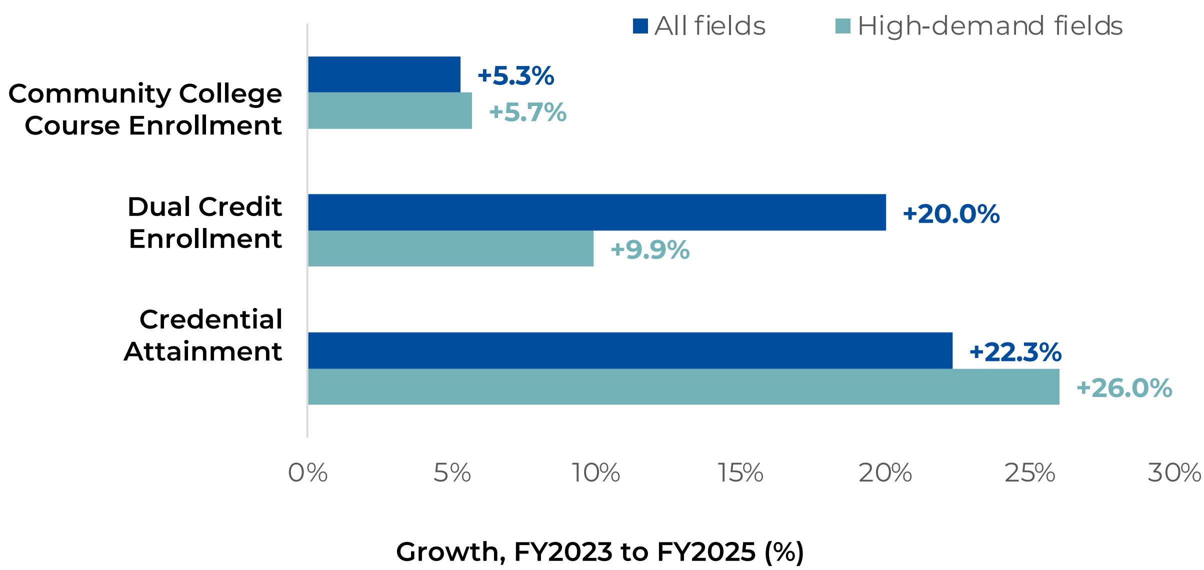
SB 1786 also made targeted changes to ensure HB 8's incentives better reflect the students that colleges actually serve. The bill expanded FAST eligibility to include students enrolled in the Windham School District, allowing incarcerated students in the custody of the Texas Department of Criminal Justice to earn dual credit at no cost while completing high school.

Lastly, the bill broadened the transfer outcome bonus, which under HB 8 applied only when students transferred to Texas public universities. By extending the bonus to transfers to any Texas university, public or private, SB 1786 removed a sector-based distinction and aligned the incentive more closely with students' postsecondary pathways.

IV. Early Results and Emerging Trends

Early implementation data suggest colleges are responding to the incentives embedded in HB 8. Because formula payments began flowing in August 2023, fiscal years 2024 and 2025 provide the first opportunity to evaluate how institutions are adapting to the new funding model. Across the outcomes the formula rewards most directly — credential attainment, workforce-aligned credentials, and dual credit participation — early trends are moving in the intended direction.

Early Results: Outcomes That HB 8 Rewards Are Rising



Source: Texas 2036 analysis of THECB data, FY2023 to FY2025

Credential Attainment Is Rising, Led by High-Demand Fields

Colleges are producing more of the credentials HB 8 was designed to encourage, and the growth is strongest in the fields most closely tied to Texas' workforce needs. In this analysis, credentials include short-term certificates, longer certificate programs, associate degrees, and bachelor's degrees, with certificates generally referring to awards below the associate degree level that are often designed to prepare students for direct entry into the workforce.

Across associate degrees, bachelor's degrees, and certificates, credential attainment grew about 22% over the first two years of implementation, rising from roughly 98,400 awards in 2023 to about 121,700 in 2025.

The gains were especially pronounced in high-demand fields. One of HB 8's central goals is to push colleges not just to graduate more students, but to graduate more students into careers employers need most. To reinforce that goal, the funding formula provides additional funding when students earn credentials in designated high-demand fields. Under HB 8, credentials in high-demand fields grew 26%, outpacing the 22.3% rise in overall credential attainment. As a result, high-demand field credentials now make up 37.7% of all credentials awarded by Texas community colleges, the highest share on record.

What Counts as a High-Demand Field?

High-demand fields are academic fields that lead to occupations the state projects will grow the most. THECB identifies them by ranking occupations by projected 10 year employment growth, statewide and within each of Texas' 12 economic regions. It then maps those occupations to the academic programs that lead to them. A college earns additional performance funding when a student completes a credential of value in a field on either the statewide or its regional list.[25]

Fastest Growing institutional High-Demand Field Credential Completion, FY2023 to FY2025

Rank	Institution	Rate
1	Hill College (Hillsboro)	99.3%
2	Collin County CCD	57.5%
3	Laredo College	56.4%
4	Kilgore College	55.8%
5	Frank Phillips College (Borger)	52.3%
6	Southwest Texas College (Uvalde)	46.0%
7	Alamo Colleges District	43.7%
8	Temple College	42.7%
9	Tyler Junior College	42.7%
10	Weatherford College	41.4%

Source: Texas 2036 analysis of THECB credential data, 2019 to 2025.

The growth was not limited to a handful of colleges. Between FY2023 and FY2025, 43 of Texas' 50 community college districts increased total credential attainment, and 45 districts increased credential production in high-demand fields. The breadth of those gains suggests that colleges across the state are responding to the incentives embedded in HB 8, not just a small number of fast-growing institutions.

[25] Texas Higher Education Coordinating Board, "High-Demand Fields," High-demand fields are academic programs mapped, via a SOC-CIP crosswalk, to occupations THECB identifies as high demand statewide or within one of Texas' 12 economic regions, based on projected job growth and training criteria. THECB used a transition methodology for FY2023 designations, so FY2023 to FY2025 comparisons are directional rather than exact.

Short-Term Certificates

Certificates are short-term credentials, shorter than an associate degree, that are tiered mostly by required hours: Level 1 (15 to 42 SCH), Level 2 (30 to 51 SCH), Advanced Technical Certificate (16 to 50 hours, built on a prior degree), and shorter certificates like Enhanced Skills and Occupational Skills certificates (generally 9 to 15 hours).

Growth occurred across credential types, but certificates accounted for much of the increase. Between FY24 and FY25, certificates rose 24.2% and surpassed their pre-pandemic peak for the first time. Associate degrees increased 12.2%. Bachelor's degrees, which a growing number of Texas community colleges now offer, grew 32.3% from a smaller base.

Percent growth in HDF credentials, FY2023 to FY2025

Growth rate by credentials type

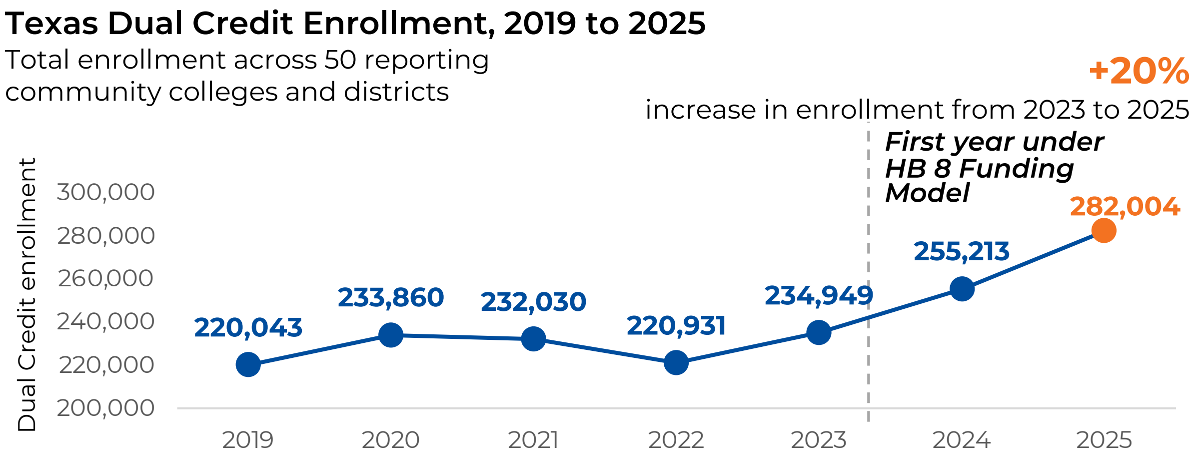
Source: Texas 2036 analysis of THECB credential data, 2023 to 2025.

Certificates also drove much of the growth in high-demand fields. Certificates accounted for roughly 53% of all credential growth and nearly 74% of growth in high-demand fields from FY23 to FY25.

That pattern suggests shorter-term, workforce-aligned credentials are playing a central role in the early response to HB 8.

Dual Credit Enrollment Has Reached an All-Time High

Dual credit enrollment has grown rapidly during the first two years of HB 8. Across Texas community colleges, participation increased from roughly 234,000 students in 2023 to more than 282,000 in 2025, a 20% increase and the highest level on record. Compared to 2019, dual credit enrollment is up 28%. This means more Texas students are graduating from high school with college credits already completed, giving them a head start on a credential and reducing the time and cost required to earn one.



Source: Texas 2036 analysis of THECB dual credit enrollment data, 2019 to 2025. 2025 figures are preliminary.

Growth occurred across colleges of all sizes and regions. Large systems such as Dallas College, Lone Star College, Tarrant County College, Alamo Colleges, Houston Community College, and Collin College added thousands of dual credit students, while a number of smaller and mid-sized colleges posted some of the fastest rates of growth. Kilgore College more than doubled its dual credit enrollment between 2023 and 2025, and several other colleges increased participation by more than 40% during the same period.

The broad-based nature of the growth is significant. Under HB 8, colleges earn funding when students complete meaningful amounts of dual credit coursework that apply toward a degree or workforce credential. Combined with the FAST program's expansion of tuition-free dual credit opportunities for economically disadvantaged students, the incentives embedded in the new framework appear to be encouraging greater participation in early college pathways across the state.

Fastest-Growing Texas Community Colleges in Dual Credit Enrollment, FY2023 to FY2025

Institution	2023	2025	Growth, 2023 - 2025
Kilgore College	2,246	4,848	+116%
South Plains College (Lubbock)	3,051	4,911	+61%
Galveston College	551	869	+58%
College of the Mainland (Texas City)	1,421	2,134	+50%
Cisco College (Abilene)	1,212	1,731	+43%
Texas Southmost College	5,782	8,234	+42%
Victoria College	765	1,083	+42%
Temple College	1,242	1,752	+41%
Panola College	1,095	1,540	+41%
Wharton County Junior College	873	1,175	+35%

Source: Texas 2036 analysis of THECB dual credit enrollment data, 2023 to 2025.

Outcomes Funding Rewards Improvement, Not Size

Early results suggest the new formula is rewarding outcomes across institutions of all sizes, rather than concentrating gains among the largest colleges. **From FY24 to FY25, outcomes funding grew fastest at small colleges (6.6%), followed by medium-sized colleges (4.9%), large colleges (4.0%), and the largest districts (2.6%).**[26]

Some of that difference reflects simple math: a smaller college can generate a larger percentage increase from a smaller funding base. But the pattern also reflects one of HB 8's core design features.

Under the previous funding model, state dollars largely followed enrollment. ***Under HB 8, colleges earn funding for the outcomes they produce, including credentials, transfers, and dual credit completion.*** *As a result, smaller colleges have a greater opportunity to benefit from strong performance.*

Performance Continues to Exceed Projections

As discussed in Section III, the first sign that colleges were responding to the incentives of HB 8 came through the budget itself: colleges earned so many qualifying outcomes that the state added roughly $89.5 million in supplemental funding for FY25.

Early evidence suggests that trend has continued. In February 2026, THECB temporarily delayed community college formula payments after reported FY25 performance outcomes significantly exceeded the projections used to develop FY26 appropriations. After reviewing the updated data, the agency released the delayed payments and announced that colleges would receive approximately $106 million in additional performance funding to cover earned outcomes beyond the amounts originally appropriated.

For the second consecutive year, colleges generated more qualifying outcomes than the state expected to fund. While lawmakers designed HB 8 to reward student success, the scale of the response has exceeded initial projections, providing further evidence that institutions are responding to the incentives embedded in the new funding model.

While this suggests strong institutional response, it also highlights the challenge of forecasting outcomes-based appropriations.

[26] College size categories are based on Fall 2023 headcount enrollment: Small (<3,000 students), Medium (3,000-5,999), Large (6,000-19,999), and Very Large (20,000+). THECB, *Community College Peer Groups*, FY 2026.

Trends to Watch

While dual credit and credential completion outcomes have increased, transfer outcomes have not. Funding associated with university transfer and co-enrollment fell from approximately $332 million in FY24 to $263 million in FY25, a decline of about 21%. [27]

Transfer patterns are influenced by a broad set of factors, including enrollment trends, student persistence, and university capacity. Given the longer time horizon required for students to transfer successfully, it may take additional years before the effects of the new funding model are fully reflected in transfer outcomes.

Two years of data cannot settle every question about a reform this large. The direction, though, is consistent. The state is paying for outcomes, colleges are producing them, and the gains reach the highest-value credentials and the smallest colleges alike. The next phase of implementation, including how short-term credentials enter the Credential of Value framework, will determine how far that progress extends.

[27] Texas 2036 analysis of THECB FY 2025 Close-Out Funding Model.

V. Future Considerations and Lessons Learned

The Short-Term Credentials Will Shape the Next Phase of HB 8

HB 8 and SB 1786 established the core structure of Texas' new community college finance model. The next phase of implementation will determine how broadly and effectively that framework extends across the full range of community college programs.

The most consequential pending decision is how short-term credentials enter the COV framework. Under SB 1786, those credentials must be incorporated by August 2027.

Short-term credentials occupy an increasingly important place in Texas' workforce pipeline. Level 1 certificates and other programs shorter than an associate degree serve working adults seeking targeted upskilling, career changers entering new industries, and incumbent workers pursuing employer-recognized training. They also represent one of the fastest-growing segments of community college education.

They are also among the most difficult credentials to evaluate consistently. Earnings outcomes for short-term programs vary substantially across industries, regions, and program types. A methodology calibrated too loosely risks weakening the meaning of a Credential of Value by qualifying programs with limited labor market return. A methodology calibrated too narrowly risks excluding programs that meaningfully improve students' economic mobility and meet regional workforce demand.

The Texas Association of Community Colleges is leading the task force developing recommendations for the short-term credential methodology, with participation from community colleges, workforce organizations, and policy partners, including Texas 2036. The objective is to extend the core principles underlying the existing COV framework to short-term programs: measurable earnings gains, reasonable cost recovery for students, and standards calibrated to actual labor market outcomes.

Additional implementation questions remain active as well. Policymakers and stakeholders will soon have the opportunity to evaluate whether the self-sufficient wage threshold should evolve toward a more regionally calibrated standard that better reflects differences in cost of living across Texas labor markets. As the state's workforce data infrastructure matures, those decisions will continue shaping how the framework operates in practice.

This work will have national stakes. The new federal Workforce Pell Grant extends Pell eligibility to short-term workforce programs, but only where states can show those programs meet earnings and completion standards. That determination rests on exactly the data and methodology Texas is now developing for short-term credentials through outcomes-based funding and expanding workforce data collection.

States that have invested in outcomes data can implement Workforce Pell with confidence. States without that foundation will have to build these measures under federal deadlines, without the deliberate, stakeholder-driven process now underway in Texas.

The Promise of Dynamic Funding Depends on Appropriations Keeping Pace

A second implementation issue is whether the state can sustain the dynamic funding structure at the center of HB 8.

HB 8 was designed to move community college finance away from a fixed pool of funding and toward a model that responds to the outcomes colleges produce. When colleges increase credentials of value, successful transfers, and dual credit completions, **state funding is intended to grow accordingly**.

That promise depends on appropriations keeping pace with performance. When colleges produce more qualifying outcomes than the state anticipated, the formula can indicate higher payouts than are available within the enacted budget. In those cases, THECB must prorate payments to remain within the appropriation or seek supplemental appropriations from the Legislature.

In 2025, during the first legislative session following HB 8's passage and initial implementation, lawmakers provided a supplemental appropriation to make colleges whole for earned outcomes that exceeded initial appropriations. Going into the 2027 legislative session, another supplemental appropriation will likely be needed to make colleges whole for outcomes earned during the FY 2026-27 biennium.

If earned funding is repeatedly reduced to fit a predetermined appropriation, and those reductions are not later made whole, **the model risks losing the outcomes alignment that distinguishes it from the prior system.** Preserving the promise of HB 8 will depend on whether lawmakers treat above-projection outcomes as evidence of success that should be funded, rather than pressure to be absorbed within a capped appropriation.

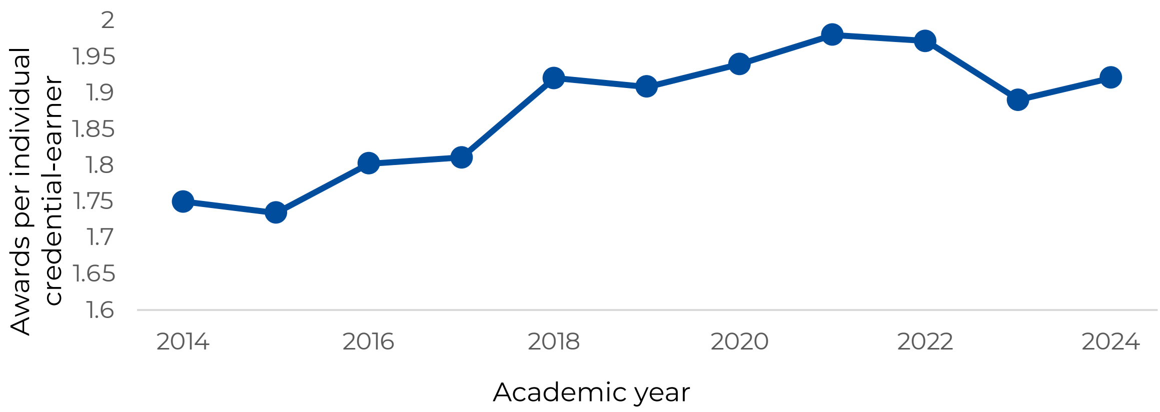
Credential Growth Should Reach More Students

As discussed, HB 8 rewards colleges for each qualifying COV they award. That structure is central to the reform. It gives colleges a clear financial incentive to increase credential attainment in programs tied to workforce value.

But higher credential counts alone do not tell the full story of the reform. The goal of HB 8 is not simply for colleges to award more credentials. **The goal is for more Texans to complete credentials that help them get better jobs and meet the state's workforce needs.** To understand whether that is happening, the state will need to look not only at how many credentials colleges award, but also at how many students are earning them.

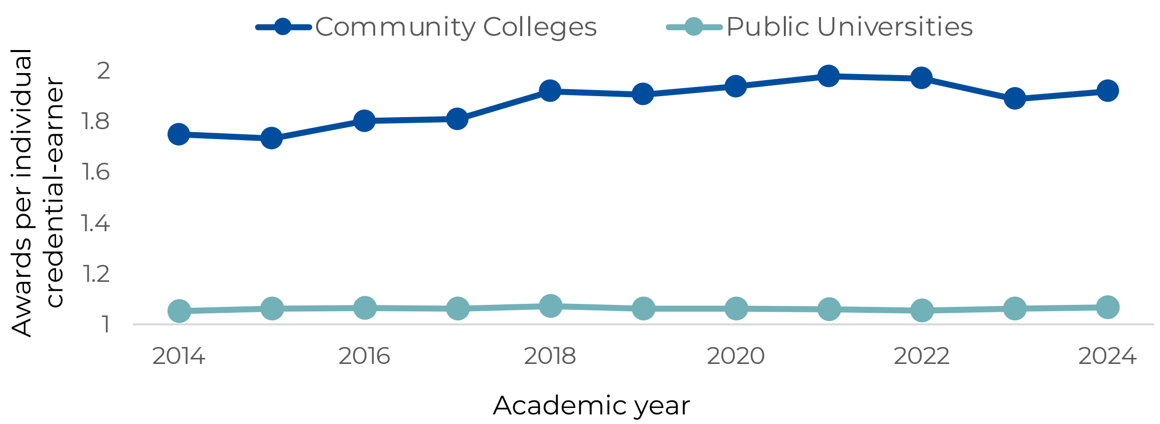
That distinction matters because many workforce pathways are designed to be stackable. A student may earn a short-term credential that builds toward an associate degree, and when those awards lead to stronger labor market outcomes, stackability is a strength. In 2024, Texas community colleges awarded roughly 1.9 credentials per student who completed a credential, which suggests many students are earning more than one award. That can be valuable, but it also means credential counts can rise without necessarily expanding the number of Texans earning valuable workforce credentials.

Community College awards per distinct credential-earner, FY 2014-2024[28]



Community college graduates now earn nearly two awards each, up from 1.75 in 2014, reflecting the strength of stackable workforce pathways. University graduates earn about one. As a result, understanding increases in total awards requires looking at both how many Texans are earning credentials and how many credentials each student earns as they move through a pathway.

Awards per distinct credential-earner: Community Colleges vs Public Universities, FY 2014-2024



As the data matures, credentials per student should become a metric to watch alongside total credential production. Tracking both the number of COVs awarded and the number of students who earn them will give policymakers a clearer view of whether the COV framework is increasing opportunity broadly or mainly increasing the number of awards earned by students already close to completion.

[28] Texas Higher Education Coordinating Board (THECB) Accountability System. Distinct credential-earners for each institution × fiscal year are computed as the row-sum of the four post-award outcome cells (Working Only, Working + Enrolled, Enrolled Only, Not Found) in THECB's "Working or Enrolled within One Year after Award" reports (FY2013-2024). Individuals are deduplicated within institutions but may appear in credential award counts as separate individuals at multiple institutions in the same fiscal year (which could slightly downward-impact credentials per individual calculations).

Dual Credit Expansion Should Strengthen Completion Pathways

Dual credit enrollment has reached record highs under HB 8. That growth is one of the clearest early signs that colleges and school districts are responding to the incentives created by the Performance Tier and the FAST program.

As participation grows, **Texas must ensure those courses are helping students make real progress toward a credential or transfer pathway**. HB 8 rewards dual credit when students complete coursework that applies toward an academic degree or workforce credential. The risk is that some students may accumulate college credits that count on paper, but do not clearly move them toward completion, transfer, or employment.

This matters because dual credit is most valuable when it gives students a structured head start after high school. Well-aligned dual credit can shorten time to completion, reduce student cost, and help students enter a degree or workforce pathway with momentum. Course-taking alone does not guarantee those outcomes. **Program alignment is what turns early college access into a stronger completion strategy.**

As dual credit expands, the state should look beyond enrollment growth and track whether students are completing courses that apply to a program of study, credential pathway, or transfer goal. That will show whether HB 8 is increasing meaningful early college progress, not just the number of college courses students take before high school graduation.

Iterative Standard Setting Offers Lessons Beyond Texas

One of the clearest lessons from the first two years of HB 8 is that outcomes-based finance reform requires standards to evolve over time. Texas launched HB 8 on an ambitious timeline, which allowed performance funding to begin quickly while technical questions continued to be refined through rulemaking and later legislation.

The COV framework illustrates this process. The initial rules allowed the state to operationalize the reform, and SB 1786 later strengthened the framework with more rigorous earnings and payback requirements. That sequence improved the standard to ensure the state is funding programs with true workforce value. It also showed why states should be clear from the beginning that eligibility rules may become more specific as data matures. Without that expectation, later refinements can be perceived as penalizing institutions or changing the terms of the reform, even when the policy is moving closer to its original goal.

For other states pursuing similar reforms, the lesson is to pair early implementation with clear expectations for future refinement. Standards should be grounded in the best available data, developed with the institutions affected, and updated as the evidence base grows. The same lesson applies to the next phase of HB 8, particularly when considering the pending questions discussed above.

Other States Are Watching

Texas' reforms are drawing national attention.

Several states have adopted outcomes-based funding models for higher education.[29] Few have attempted a redesign with the scope, technical rigor, and sustained implementation process behind HB 8. The combination of outcomes-based funding, workforce value metrics, and specialty population weights has positioned Texas as a leading national example of community college finance reform.

Other states are watching not only what Texas built, but how the state continues to strengthen it. The next phase of implementation will answer important questions about short-term credentials, dual credit alignment, dynamic funding, and the continued evolution of the COV framework. Those decisions will shape whether HB 8 remains a model for tying public investment to student success and workforce value.

The larger significance of HB 8 is that Texas has created a new model for aligning public investment with opportunity. State funding is tied to whether students complete meaningful credentials, move into stronger career pathways, and help meet the workforce needs of a growing state. If Texas sustains that focus, HB 8 can become more than a community college finance reform. It can become a national example of how higher education funding can advance economic mobility, workforce competitiveness, and long-term prosperity.

[29] Erin Whinnery and Tom Keily, Paying for College: The Latest Trends in Performance-Based Funding (Denver, CO: Education Commission of the States, February 20, 2024), https://www.ecs.org/paying-for-college-the-latest-trends-in-performance-based-funding/.

Data Sources and Methodology

Texas 2036 analyzed institution-level Texas Higher Education Accountability System data (FY2019-FY2025) to produce the findings in this report.

Enrollment and credential data come from the Texas Higher Education Accountability System (txhigheredaccountability.org), covering enrollment in and credentials awarded by Texas community colleges from 2019 through 2025, with each credential identified by its 4-digit CIP code and credential type. Field of Study and Core Curriculum Completer are excluded from all credential counts as their completion is not incentivized by community college finance reforms.

The High-Demand Fields list comes from the THECB's Community College Finance Program FY24-25 biennium HDF workbook, which assigns each community college to one of 12 regions and identifies HDF-qualifying 4-digit CIP codes for each region plus a statewide list. A credential or enrollment record is flagged as High-Demand if its 4-digit CIP appears on the FY24-25 statewide HDF list OR on the regional HDF list for the college's region. The FY24-25 list is applied retroactively to all years 2019 through 2025 to enable consistent comparison over time.

Throughout this analysis, year labels refer to Texas fiscal years, which run from Sept. 1 through Aug. 31 of the following calendar year (e.g., FY2025 covers Sept. 1, 2024 through Aug. 31, 2025).