

## The Return-Value Funding Method

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#### TSTC's MISSION

"TSTC shall contribute to the educational and economic development of the State..."

## EDUCATION CODE TITLE 3. HIGHER EDUCATION SUBTITLE G. NON-BACCALAUREATE SYSTEM CHAPTER 135. TEXAS STATE TECHNICAL COLLEGE SYSTEM SUBCHAPTER A. GENERAL PROVISIONS

Sec. 135.01. TEXAS STATE TECHNICAL COLLEGE SYSTEM

ROLE AND MISSION. (a) Texas State Technical College System is a coeducational two-year institution of higher education offering courses of study in technical-vocational education for which there is demand within the State of Texas.

(b) Texas State Technical College System shall contribute to the educational and economic development of the State of Texas by offering occupationally oriented programs with supporting academic course work, emphasizing highly specialized advanced and emerging technical and vocational areas for certificates or associate degrees. The Texas State Technical College System is authorized to serve the State of Texas through excellence in instruction, public service, faculty and manpower research, and economic development. The system's economic development efforts to improve the competitiveness of Texas business and industry include exemplary centers of excellence in technical program clusters on the system's campuses and support of educational research commercialization initiatives. Through close collaboration with business, industry, governmental agencies, and communities, including public and private secondary and postsecondary educational institutions, the system shall facilitate and deliver an articulated and responsive technical education system.

(c) In developing and offering highly specialized technical programs with related supportive coursework, primary consideration shall be placed on industrial and technological manpower needs of the state. The emphasis of each Texas State Technical College System campus shall be on advanced or emerging technical programs not commonly offered by public junior colleges. "...primary
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# Outcomes funding fits TSTC because TSTC's mission is defined by outcomes



#### **Education Formulas**

a measure of college activity

times

a funding rate

equals

formula funding amount



## TSTC's old formula funding method

total contact hours

times

the current funding rate

equaled

formula funding amount

### TSTC's Return-Value formula method

job earnings of TSTC students

times

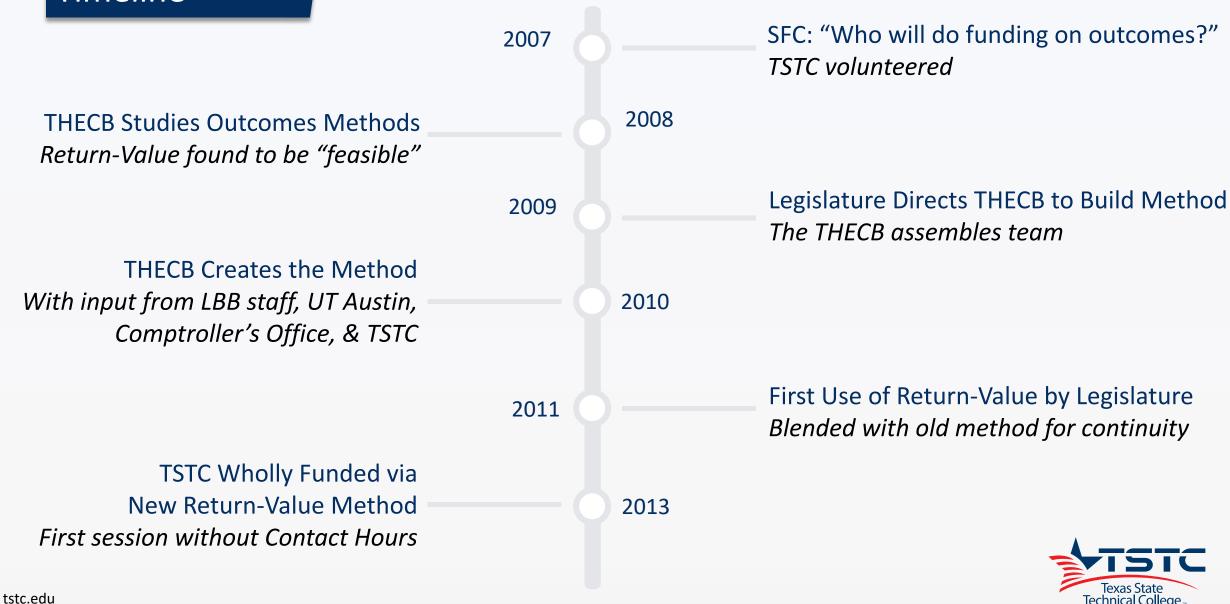
a "commission" rate

equals

formula funding amount



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## TSTC on Contact Hours

- Rewarded educational activity
- Focused on an "input" variable
- Cost-recovery, progress payment
- State assumes performance risk
- Driven by consumer demand

## TSTC on Return-Value

- Rewards final results
- Focuses on "output" variable
- Payment for completed service
- Puts performance risk on TSTC
- Driven by both employer and consumer demand



After conversion to the new funding formula, virtually everything at TSTC began to change because an organization will inherently focus on its revenue sources.



#### Impact of the New Formula



Programs are curated to ensure alignment with employers' needs



Programs that produce poor job outcomes are closed



Employers define the key skills taught so alignment is maximized



Applicants get help selecting the right program for their goals



Many programs offer a money-back guarantee to students



Student loan default rates are very low due to well-paying employment



Methods of delivery are constantly reviewed for efficiency



The length of a program is defined by job needs, not academic tradition



### Change is Hard



Waiting on outcomes means the formula has an multi-year lag



Well-paid employment is the primary driver of funding, not enrollment



Staying aligned with a changing workforce requires constant retooling



Suddenly, every program had new imperatives for quality and ROI



Some faculty didn't like the new priorities, so turnover increased



Teacher pay systems must be updated to align with funding



Legacy college activities required rethinking to fit new priorities



Low-value credentials become a drain on college resources



The primary benefit of the Return-Value method is that it requires TSTC to accurately align its efforts with the manpower needs of Texas.



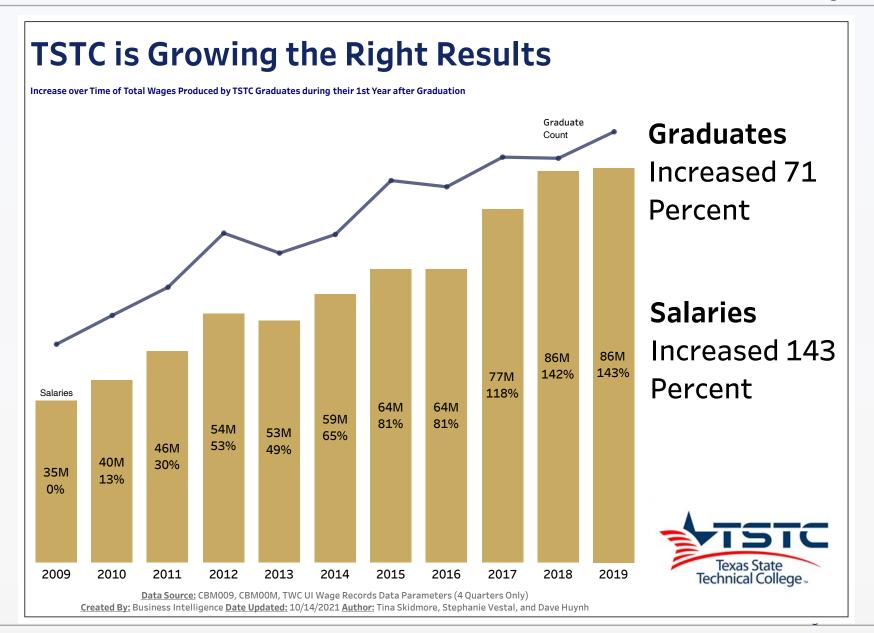
Another benefit of the Return-Value method is that the best-interests of the student, the college, the state, and the taxpayers are now aligned.



## Outcomes-based funding is not merely about money, it's a compelling driver for changing institutional culture.



## All the many changes have led to far better outcomes



## Closing Key Take-Aways

- Funding drivers provide a strong incentive
- So, align funding to organizational mission
- Cultural changes will surely follow; be ready
- Not all stakeholders will embrace the change
- Some Operations can struggle as they retool
- Board & leadership commitment is essential

The legislature selected the ideal approach for funding TSTC because the *Return-Value method is* perfectly aligned with the mission of the college.



