The History and Evolution of HB 8's Formula

Technical Assistance Webinars | Session 1 of 4

Updated October 7, 2026

Hosted by the Texas Association of Community Colleges

Analysis and curriculum by Bellwether

Texas Association of Community Colleges

Bellwether

Overview of the Webinar Series

Purpose

In the three years since HB 8 was passed, its formula has evolved from the original proposal.

At the same time, colleges have outperformed expectations, producing more fundable outcomes than the appropriation covered. In 2025, the Texas Legislature closed the resulting gap with an $89.5 million supplemental appropriation.

However, **more systemic changes are needed to ensure that the formula is sustainable while still fully supporting student success.**

Learning Objectives

By the end of this webinar series, members will be able to:

01

Trace the history and evolution of the HB 8 model, including changes made during the 2025 legislative session through both SB 1786 and state appropriations.

02

Dig into the details of the performance-based funding component to understand which factors most affect their institution's budget.

03

Identify potential priorities and policy levers that could lead to more sustainable, transparent implementation of the formula.

Structure of the Webinar Series

Four sessions will cover different aspects of the community college finance formula:

Session 1 — October 6

The History and Evolution of HB 8's Formula

The history and evolution of the HB 8 model, how the formula structure operates, and its impact to date on community colleges' budgets

Session 2 — October 12

A Closer Look at Performance Funding

A detailed overview of the performance funding component, including recent changes to weights and averages, using a web-based simulator

Session 3 — November 11

Forecasting Future Outcomes Funding

Forecasting methodologies and impacts alongside data release timelines within the context of institutional budgeting

Session 4 — December 1

Policy Levers for Sustainability

Discussion of potential policy levers for making HB 8's formula more sustainable

Session 1 Goals and Agenda

Topic	Timing
The Original HB 8: Goals and Formula	20 min
HB 8's Evolution: Legislative and Regulatory Changes, 2023–2026	15 min
HB 8's Impact: Outcome and Funding Trends	5 min
Looking Forward for Sustainability	5 min

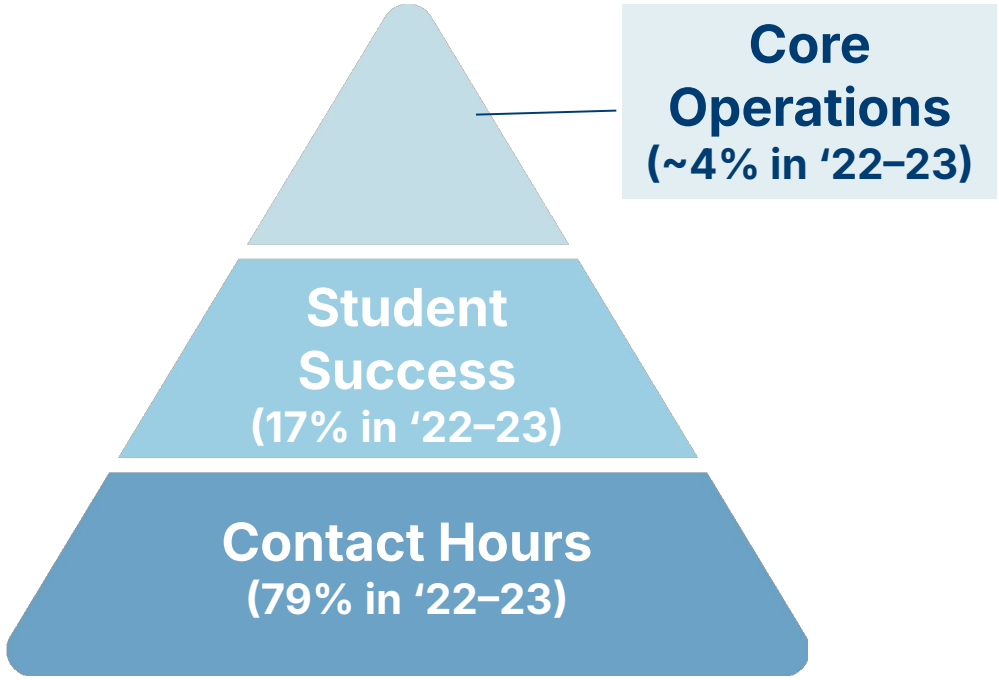
Today's Goals:

1. Trace the history and evolution of the HB 8 model
2. Start to identify potential priorities and policy levers that could lead to more sustainable, transparent implementation of the formula

The Original HB 8: Goals and Formula

Before HB 8, the majority of state formula funding followed contact hours

Legacy Funding Model



Contact Hours

- Instructional volume (roughly, hours × students), weighted by discipline cost
- Calculation dates to 1973 and hinges heavily on enrollment

Core Operations

- Flat $1.4 million per district per biennium

Student Success Points

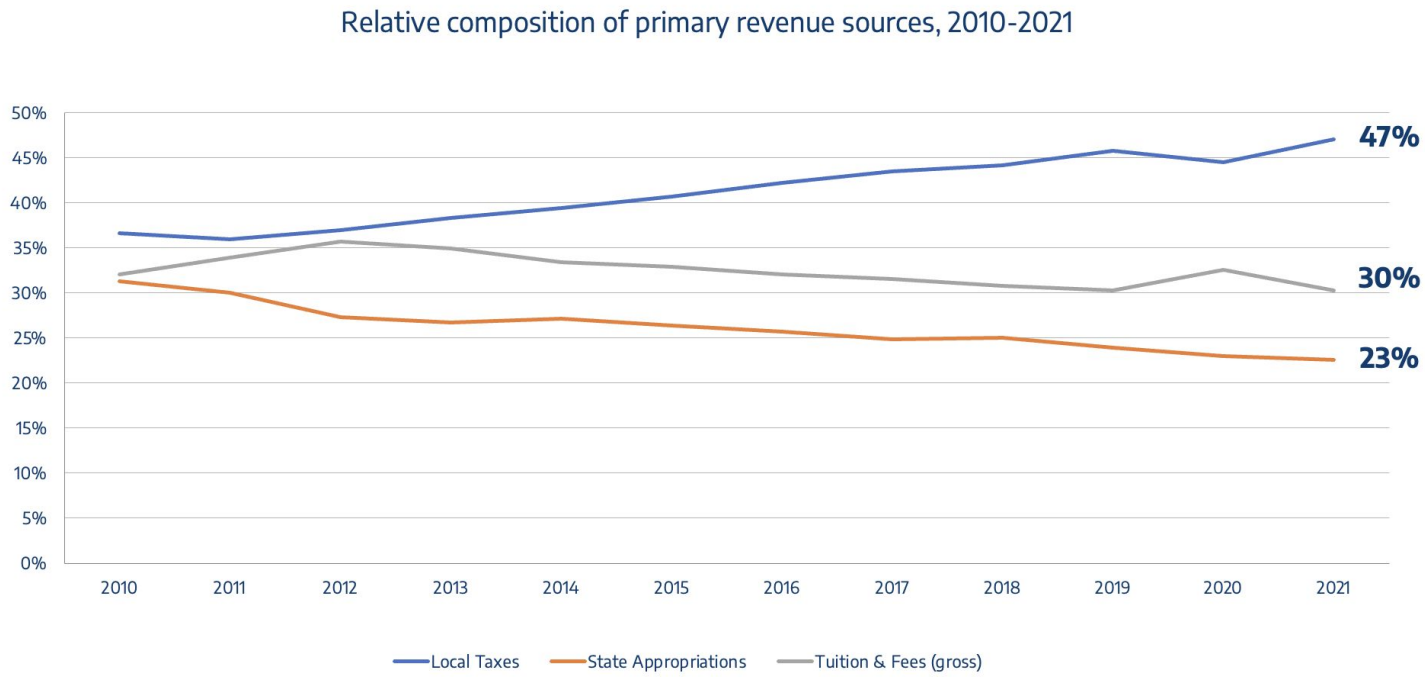
- Early version of performance funding, created in 2013
- Paid for intermediate milestones and certain completed credentials
- Did *not* pay for credentials shorter than a Level 1 certificate

This model was **static**: the pool was fixed in advance, so a district could increase enrollment or completions and still lose share.

Sources: *Texas Legislative Budget Board (LBB), Summary of Budget Recommendations, 2019 and 2023; Texas 2036, "Rewiring Community College Finance," 2026; Vernon College, "Success Points Data Flow," 2012.*

But the previous formula could not adequately achieve the state's education and workforce goals as the funding environment evolved

1) **State share of funding was collapsing**, shifting costs to local taxpayers and students (Figure)
2) **Local property wealth made funding inequitable** across districts
3) The **contact hour formula tied money to seat time** rather than student outcomes
4) **Declining enrollment led to decreased funding**, since the majority of funding came from contact hours



***Source**: Texas Association of Community Colleges (TACC), "House Bill 8: General Overview of Policy and Implementation," 2024.*

HB 8 came out of a legislative commission that worked for two years

The Commission's charge was to create a road map toward community college funding levels that would 1) be sufficient to sustain education and training offerings, 2) improve student outcomes, and 3) align with the state's postsecondary and workforce goals.



May 2021: The Texas Legislature established the Commission on Community College Finance through the passage of SB 1230. Members included leaders from colleges, businesses, and the legislature, creating a broad coalition of stakeholders with the same goal.

November 2021 – October 2022: The Commission held seven public meetings, culminating in a final report with recommendations on reforming the community college funding system.

June 2023: House Bill 8 was signed into law.

Sources: *Texas Legislature, SB 1230 (87R) bill analysis, 2021; TX S.B. 1230, 2021; TACC, Commission on Community College Finance; Texas Higher Education Coordinating Board (THECB), "Texas House Bill 8 becomes law," 2023.*

Anchored in a statewide attainment goal, the Commission's recommendations focused on outcomes

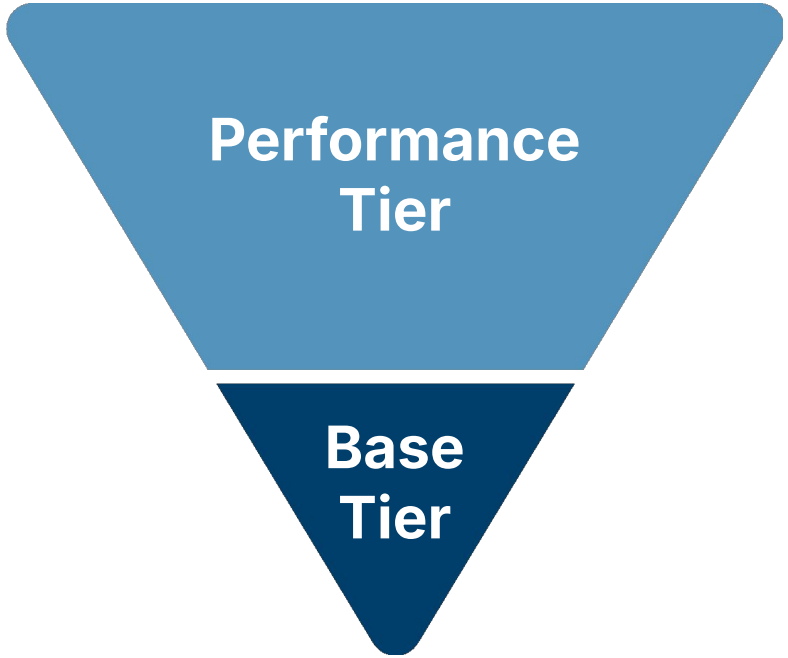
Goal of *Building a Talent Strong Texas*:

60% of Texans aged 25–64 holding a credential of value by 2030, and 550,000 graduating with credentials of value annually.

Commission's Recommendation: State Funding for Outcomes

- Funding model that distributes **the majority of state funding based on measurable outcomes**
- **Incentives to improve outcomes** for populations that historically had lower completion rates
- **Dynamic model**, with adjustments made through an annual settle-up process

The recommendations ultimately became HB 8's 2-tier system:

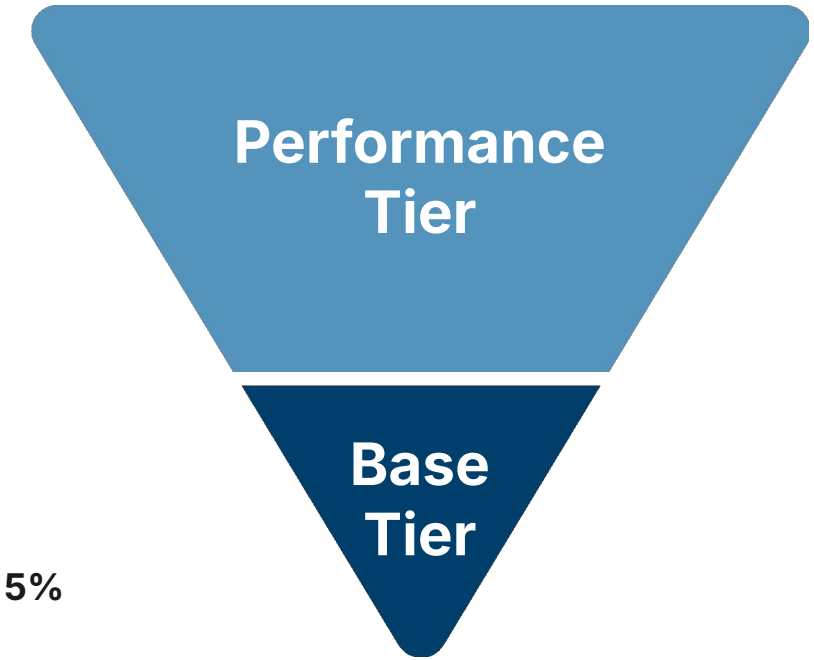


Sources: *THECB, "Building a Talent Strong Texas"; TACC, Commission on Community College Finance; THECB, "THECB approves rules implementing community college funding system"; Tex. Ed. Code §130A.004(2).*

The two-tier structure is now set in statute, although the exact percentages can vary slightly after the dynamic adjustment

Performance tier — ~95%
Funding per credential of value, transfer, and dual credit completion

Base tier — ~5%
Guaranteed payment for eligible districts



- Texas Education Code §130A.002 provides that the performance tier "constitutes the majority of state funding." **It specifies no percentage.**
- In rule, THECB specifies that, statewide, base tier funding should be one-nineteenth of the performance tier foundation payment, making it **5% of the overall foundation payments.**
    - The midyear dynamic adjustments do not change base tier funding — only performance funding — but as a result can change the overall share of base versus performance funding. For example, in fiscal year (FY) 2025 the base tier share after adjustments was 4.8%.

Sources: *Tex. Ed. Ch. 130A.004(2); Texas 2036, "Rewiring Community College Finance," July 2026.*

The base tier pays the gap between a college's estimated operating need and the local resources it is assumed to have — *if* such a gap exists

21 of 50
Districts will receive base tier funding in FY27

Base tier payment
Greater of:

I&O need – local share

OR

$0 (floor)
(i.e., local share ≥ I&O need)

I&O need
Instruction & operations
= Basic allotment
+ contact hour funding

Local share
Assumed local resources
= Tax revenue
+ tuition & fees revenue

Basic allotment funding
Weighted FTSEs × basic allotment rate

- **Full-time student equivalents (FTSEs)**
  Enrollment converted to full-time equivalents
- **Student need weights**
  Pell recipients, academically disadvantaged students, and adult learners
- **Small college adjustment**
  Under 5,000 FTSEs: add (5,000 − FTSE) × 0.4 to weighted FTSEs
- **Basic allotment rate**
  Statewide $ per weighted FTSE, set by THECB with GAA authority and limits

Contact hour funding
Weighted contact hours × statewide funding %

- **Contact hours**
  Hours of instruction delivered, weighted by discipline
- **Discipline cost weights**
  Differentiated weights by discipline, based on prior statewide costs
- **Statewide funding percentage**
  Share of costs the state funds

Tax revenue
Est. tax collections × assumed $0.05 rate

- **M&O tax collections**
  The portion of local tax collected for M&O from two fiscal years prior
- **Assumed $0.05 M&O tax rate**
  Statutory rate, regardless of the district's actual rate or collections

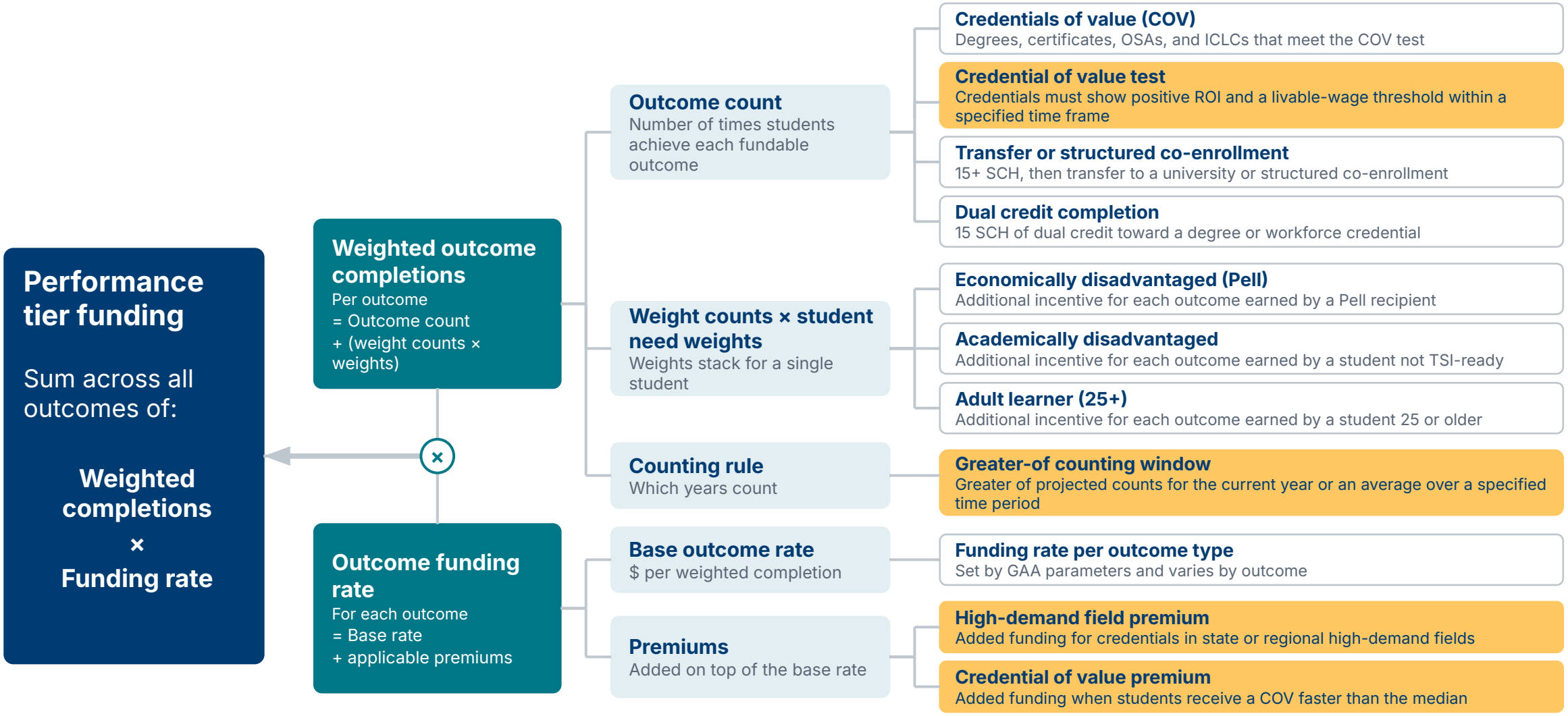
Tuition & fees revenue
Assumed revenue based on enrollment

- **Non-dual credit FTSEs × average tuition and fees**
  Statewide average in-district tuition and required fees
- **Dual credit SCH × FAST rate**
  FAST-related reimbursements for dual credit tuition are separate from formula funding, so are counted as tuition revenue here

Does not apply to all colleges

Sources: *Tex. Ed. Code Ch. 130A; THECB, FY 2027 Final Funding Model, 2026.*

The performance tier pays for each student outcome, with added weight for harder-to-serve students and premiums for certain credentials



Sources: *Tex. Ed. Code Ch. 130A; THECB, FY 2027 Final Funding Model, 2026; 19 TAC pt. 1, ch. 13, subch. V, §§ 13.640–13.651, 2025.*

The performance tier funds three outcome categories at rates set by the biennial appropriations process

Credentials of Value completions

with a bonus for credentials in high-demand fields (determined by THECB). Fundable credentials include associate and bachelor's degrees; Level 1, Level 2, and advanced technical certificates; occupational skills awards; and institutional credentials leading to licensure or certification.

Transfers

At least 15 semester credit hours earned at the college, followed by enrollment at a general academic institution or structured co-enrollment. SB 1786 added private and independent four-year institutions in 2025.

Dual credit completions

Completion of a 15-semester-credit-hour sequence in an academic or workforce program by a high school student.

Counting Outcomes:

- COV completions and transfers have the student need weights applied to them
- Funding is based on the greater of projected current-year counts or a two-year average.

Funding Rates

- Funding rates for credentials vary by type, with higher rates for high-demand fields
- In the 2024–25 biennium, the appropriations act delegated authority to set the funding rates to THECB, but for 2026–27, the GAA specified the rates

Note: The FY27 rules replaced the prior three-year averaging with two-year averaging. ***Sources:*** *19 TAC pt. 1, ch. 13, subch. W, §§ 13.665, 2026; Tex. Ed. Code Ch. 130A; Tex. Legislature, S.B. 1786 (89R), enrolled bill analysis, 2025; LBB, Summary of Budget Recommendations, 2025; LBB, General Appropriations Act for the 2026-27 biennium, Art. III-270, 2025.*

HB 8 also expanded access to dual credit enrollment through the FAST program, accelerating colleges' performance outcomes

- FAST expands dual credit access to educationally disadvantaged students by having the state pay their tuition at a set rate.
  - The rate also caps dual credit tuition for all students, although colleges receive funding only for eligible students.
  - FAST is a voluntary program; participating colleges receive the tuition funding from the state through a transfer from the Foundation School Program — **separate from formula funding**.
  - Starting fall 2026, THECB provides initial funding based on current fall enrollment and the prior fall's percentage eligible, then conducts a settle-up later with actual eligibility data.
  - Texas Education Code §28.0095 covers student eligibility, including those who were educationally disadvantaged in any of the prior four school years. Amendments extended eligibility to *currently* educationally disadvantaged students, Windham School District students, and P-TECH and R-PEP participants.

+33%

Potentially due to the FAST program, dual credit completions grew approximately 33% between FY23 and FY25 and are among the **fastest-growing components of the performance tier.**

Sources: *Tex. Ed. Code §28.0095; Tex. Leg. H.B. 120 and S.B. 1786, 2025; Bellwether Analysis of TTHECB, FY 2027 Final Funding Model, 2026.*

Across both the base and performance tiers, student need *categories* are statutory, but eligibility and weight sizes are set by rulemaking

- The three categories appear in statute (Chapter 130A), but the exact weight percentages appear in 19 TAC Chapter 13 and were reduced through FY27 rulemaking.
- **Weights are additive and stack**, so a single student can generate all three, across both the base and performance tiers.

Population Category	Eligibility Rule	HB 8 Launch	FY27 Rules	Change
Economically disadvantaged	Pell recipients	+25%	+20%	−5 points
Academically disadvantaged	Students who are not "college ready," as determined by the TSI test	+25%	+20%	−5 points
Adult learner	Students age 25 or older	+50%	+40%	−10 points

Sources: *Tex. Ed. Code Ch. 130A; THECB, Mastering Community College Finance, 2024; 19 TAC pt. 1, ch. 13, subch. W, §§ 13.665.*

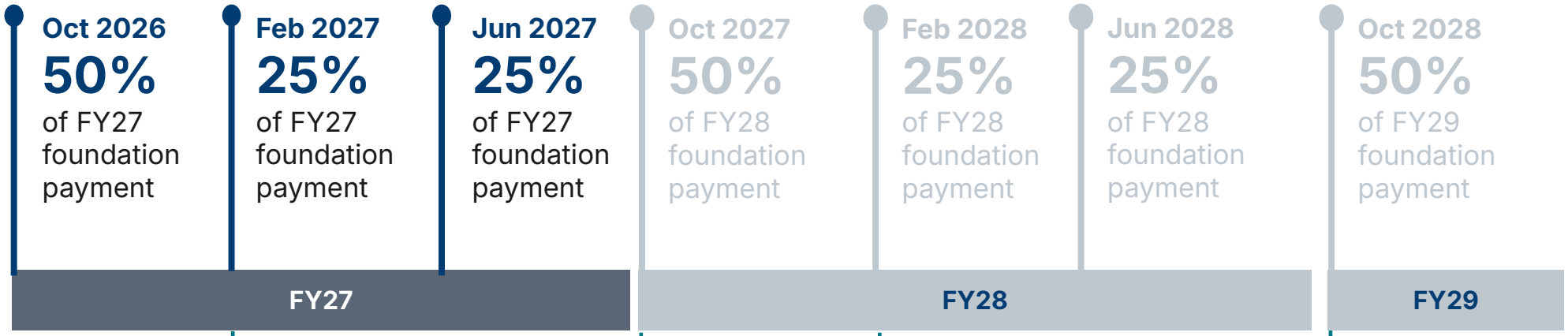
The timeline of formula funding payments includes adjustments that make the formula more dynamic than its predecessor

Foundation Payment:

All formula funding for the year, calculated using projected outcomes data.

Dynamic Adjustments:

Changes to performance tier funding as actual outcomes data replace the projected outcomes.



Feb 2027
FY27 Dynamic adjustment (+)
The formula is rerun with *preliminary* FY26 outcomes data. Colleges that outperformed projections receive the difference in funding.

Oct 2027
FY27 Projected settle-up (+/-)
The formula is rerun with *certified* FY26 data. Colleges that outperformed prior estimates receive additional funding; colleges that underperformed see a corresponding decrease in their FY28 foundation payment.

Feb 2028
FY27 Settle-up (+)
The formula is rerun with *preliminary FY27* data. Colleges that outperformed projections receive the difference in funding.

Oct 2028
FY27 Close-out (+/-)
Final formula run, using *certified FY27* data. Adjustments are made to the FY29 foundation payment.

Source: *TACC and THECB, House Bill 8: Community College Finance Dynamic Structure, May 24, 2024.*



HB 8's Evolution: Legislative and Regulatory Changes, 2023–2026

Three policy instruments govern different aspects of the formula, each on its own timeline with different governing bodies

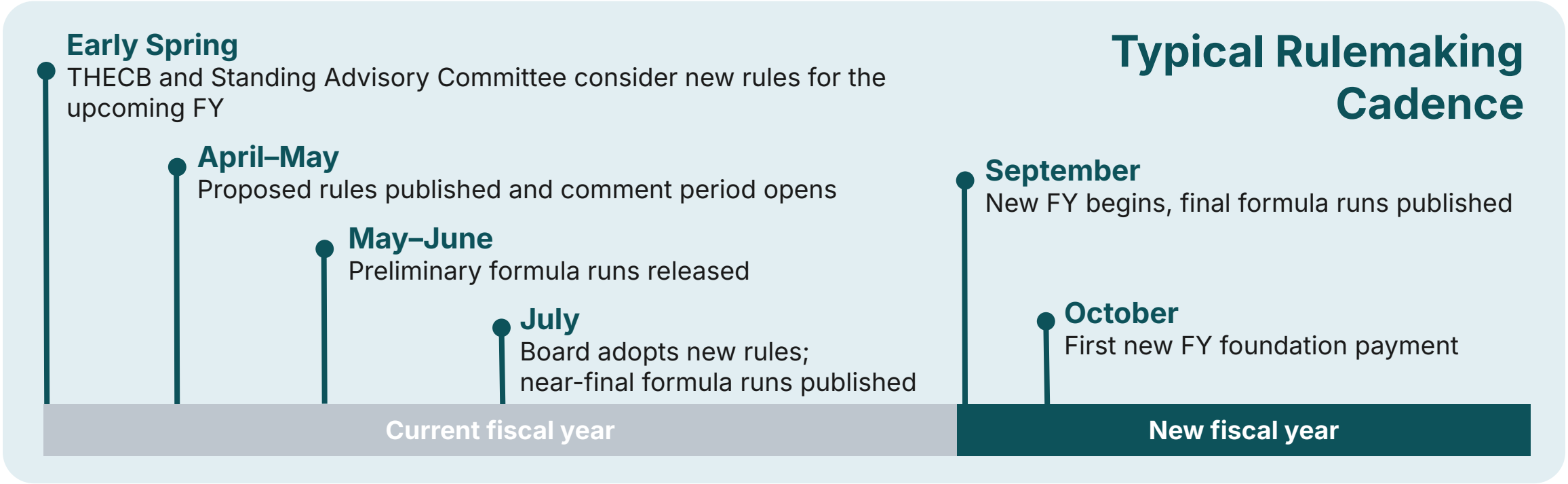
Instrument	Statute	Appropriations	Rules
Controlled by	Legislature	Legislature	THECB
What it sets	• Two-tier architecture, with the majority being performance funding • The three outcome categories • 15-SCH thresholds • Definition of local share • Student need categories • Small college adjustment • COV test elements • Eligible transfer destinations	**Rates (dollar amounts):** Basic allotment rate, contact hour rate, and paid outcome rates are set by legislative appropriation, although available appropriations determine what colleges actually receive. **If rates lead to amounts that exceed appropriations, THECB/colleges can seek supplemental funding, but the state is not obligated to pay what the formula calculates.*	• Size of the student need weights • Definitions of student need categories • COV methodology • High-demand field methodology and lists • Outcomes calculation method (e.g., averaging windows) • Settle-up and payment schedules • FAST tuition rate

One other (emergency) route: the commissioner may adjust for data errors or unanticipated loss or gain, subject to LBB and governor approval, which is deemed granted unless disapproved within 60 business days.

Sources: *Tex. Ed. Code Ch. 130A; LBB, General Appropriations Act for the 2026-27 biennium, Art. III-270, 2025; 19 TAC pt. 1, ch. 13.*

The formula rules change the most often: THECB considers new ones annually in the months leading up to the new fiscal year

- HB 8 exempted the funding rules from formal drafting committees; proposals only need to be published in the Texas Register with a 30-day comment period.
- Colleges weigh in through the Standing Advisory Committee and the 30-day comment window; THECB can then adopt the rule at a quarterly meeting.



Sources: *Tex. Gov. Code Ch. 2001.023; Tex. Legislature, H.B. 8, 2023; Tex. Legislature S.B. 1786, 2025; THECB board meeting calendar and Texas Register filings, 2023–2026.*

From 2023 to 2026, new rules have been adopted each year

September 2023

Because HB 8 was signed in June, THECB adopted emergency rules at a special called board meeting. These rules held districts harmless at their FY23 appropriation for FY24 and specified that the formula for FY24 would use FY20-22 data.

April-July 2024

FY25 was the first year the full formula came into effect, including the outcome projection methodology. Rules defined many of the core building blocks, including the initial COV test, high-demand field lists, and student need weights.

August 2025

New rules for FY26 included expanded FAST eligibility, limits on the number of fundable awards one student can earn within a year, and a stricter COV test with a $30,000 wage threshold, as directed by SB 1786.

July 2026

New rules for FY27 reduced all three student need weights (economically and academically disadvantaged from 25% to 20%; adult learners from 50% to 40%), shortened the averaging window from three years to two, and capped fundable credentials per student within a five-year window.

This annual cadence of rule changes gives the state flexibility, which has been used mostly **to respond to implementation challenges.** At the same time, it has created difficulties planning for college budgets.

Sources: *THECB, Special Called Board Meeting, 2023; THECB, Community College Finance Rule-Making, 2024; 19 TAC pt. 1, ch. 13, subch. V and W.*

The formula has seen only one legislative change so far: SB 1786 added more statutory parameters to the credential of value test

SB 1786 began as a response to two years of HB 8 implementation feedback — FAST and transfer fixes — and grew into a broader workforce-alignment bill, with the biggest formula change being a stricter credential of value test.

Credential of Value Test			
Test		**Before SB 1786**	**After SB 1786**
Earnings bar	Minimum amount a graduate has to cumulatively earn within the breakeven window	Out-earn a typical Texas high school graduate, after costs	Same, **plus** reach a self-sufficient wage (THECB set it at $30,000)
Breakeven window	The length of time it takes a graduate to cumulatively earn the equivalent of the net and opportunity costs of a credential	10 years, the same for every credential	A breakeven period THECB sets for each credential level (e.g., 5 years for an associate degree)

- Under the new test, several associate program areas no longer qualify as COVs, including biology, psychology, and the arts; however, SB 1786 allows THECB to still designate healthcare and education credentials as credentials of value to meet workforce needs.
- The new rules apply to associate degrees beginning in FY26 and all other credentials beginning FY28.

Other changes from SB 1786:

- Expanded eligible transfer institutions to include private and independent four-year institutions
- Expanded FAST eligibility to include students who are educationally disadvantaged in the year they enroll
- Required the Texas Workforce Commission to conduct a biennial assessment of regional labor demand and collect enhanced wage data

Sources: *Tex. Ed. Code Ch. 130A.102; LBB, Fiscal note In Re: SB 1786, 2025; Texas 2036, "Rewiring Community College Finance," 2026; THECB, THECB Updates, 2025.*

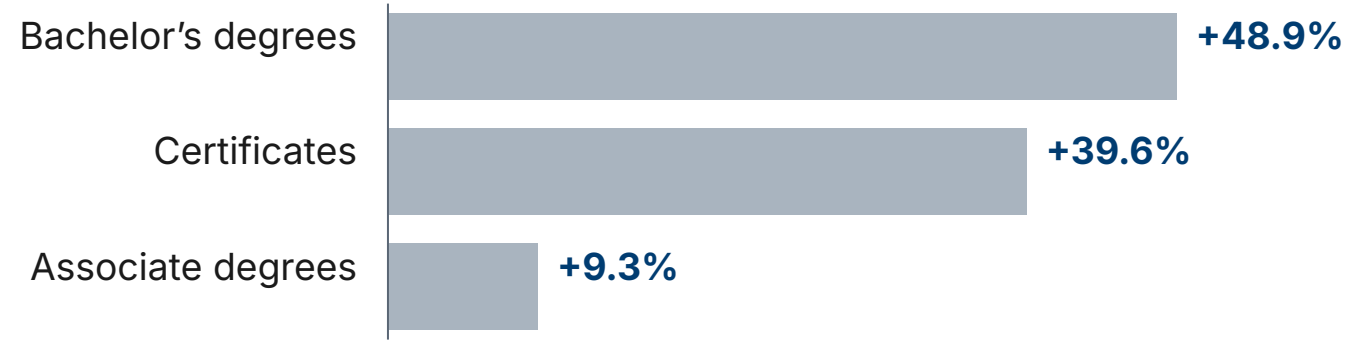
HB 8's Impact:
Outcome and Funding Trends

Credential production rose about 22% between FY23 and FY25

Growth in credentials awarded, FY23 to FY25



High-demand fields, by credential type



Note: THECB used a transition methodology for FY23 high-demand designations, so high-demand comparisons are directional.

37.7%
of credentials were in high-demand fields in FY25, a record share

43 of 50
districts increased total credentials

~53%
of credential growth came from certificates

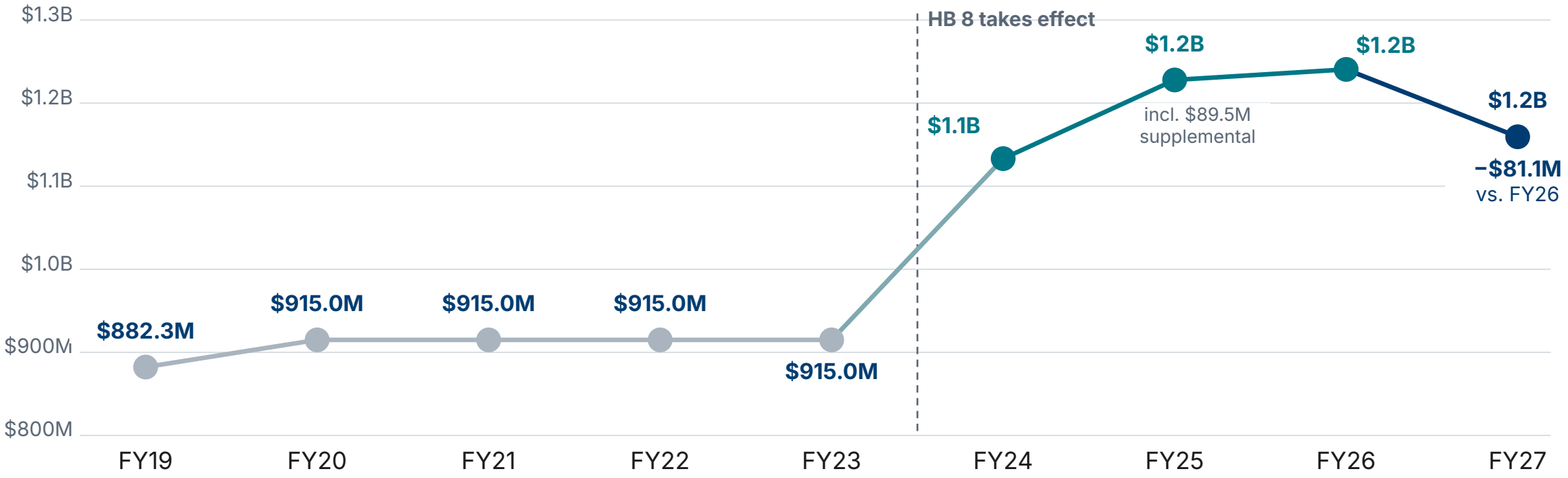
+20%
dual credit enrollment, 2023 to 2025, to a record of more than 282,000 students

Early data suggests that the funding formula is on track toward its goal of increasing statewide attainment

Source: *Texas 2036, "Rewiring Community College Finance," July 2026*

Formula funding rose significantly with the state's investment in HB 8

Annual state funding for community colleges, FY19 to FY27



FY19–23: Formula appropriations in the General Appropriations Act, split evenly across the biennium; FY24–27: Total payments for FY24–26 + FY27 foundation payment

Sources: *LBB, Summary of Budget Recommendations, 2019, 2021, 2023, 2025; THECB, FY 2027 Final Funding Model, 2026.*

Looking Forward for Sustainability

The formula is dynamic, but the initial appropriation is fixed

- The General Appropriations Act sets a fixed amount based on forecasts prepared roughly 18 months in advance, while the formula calculates and adjusts for the actual outcomes colleges produce.
- There is no contingency plan for what happens when colleges outperform projections and the formula calculates more funding than is appropriated.
- So far, the system has responded in two ways:
    - In 2025 the Legislature passed a supplemental appropriation covering the gap.
    - In 2026 THECB used administrative levers (proration, reduced student need weights, and shorter averaging windows) to stay within FY27 appropriations.
- While neither of these options is off the table for the future, they may not continue to be sufficient and would require continuous adjustments that could make colleges' budget planning more difficult.

$1,240.6M

FY26 formula appropriation

$1,159.5M

FY27 formula appropriation

−$81.1M

Step-down within the biennium

Sources: *Texas Leg. H.B. 500, 2025; 19 TAC pt. 1, ch. 13, subch. W; THECB, Memorandum, June 2026.*

In 2026 THECB used different levers to stay within the appropriation amounts for both FY26 and FY27

- **For FY26:**
  - The February 2026 foundation payment was delayed and reduced after FY25 outcomes significantly exceeded projections. The dynamic adjustments for FY25 and FY26 were not applied to this payment.
- **For FY27:**
  - THECB's formula runs for FY27 are **prorated** based on each college's share of total funding to fit within appropriation levels for both the base tier and the performance tier.
  - The board adopted new rules **reducing all three student need weights**, **shortening the averaging window** from three years to two, and **limiting the number of fundable credentials** per student within a five-year window.

As a result, most districts are set to receive less state funding in FY27 than in FY26

42 of 50
Districts to lose funding

10
Districts to lose 15% or more

2
Districts to lose 20% or more

Sources: *19 TAC pt. 1, ch. 13, subch. W; THECB, Memorandum, June 2026; THECB, FY 2027 Final Funding Model, 2026*

HB 8's formula still needs further adjustments

Outcomes have exceeded appropriations in both years of full HB 8 implementation:

- FY25: colleges produced more fundable outcomes than the appropriation covered. The Legislature closed the gap with an $89.5 million supplemental in HB 500.
- FY26: THECB delayed the February payment after FY25 outcomes exceeded the projections underlying the appropriation.
- Each FY27 adjustment — proration, reduced student need weights, and shorter averaging — was made through THECB rule rather than legislation.

Questions to consider for the upcoming legislative session:

1. Which lever matters most for your institution?
2. What would you need to be able to model internally to plan through FY29?
3. Where might the sector want to concentrate its efforts and speak with one voice?

Thank you + Q&A

Next session: A Closer Look at Performance Funding

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