



Outcomes Based Funding in Texas: A Policy History

Overview

The state instructional appropriation for Texas community colleges has included an outcomes based funding component since the 2014-15 biennial budget adopted by the 83rd Texas Legislature (2013). This funding mechanism, known as Student Success Points, rewards community colleges for completions of certain academic progression milestones achieved by students. The Student Success Points model has been adopted by subsequent legislatures and remains in place for the 2018-19 budget adopted by the 85th Texas Legislature (2017).

The adoption of outcomes based funding for community colleges in 2013 followed a progression of research and policy recommendations over the course of the past decade advanced by the Texas Legislature, the Texas Higher Education Coordinating Board (THECB), and higher education advocates and stakeholders in Texas and nationwide.

Early Initiatives

The 77th Texas Legislature (2001) directed the THECB to initiate a statewide masterplan for higher education known as *Closing the Gaps*. The plan was directed at closing educational gaps within Texas, as well as between Texas and other states. In the years following the adoption of *Closing the Gaps*, the Texas Legislature and the THECB began investigating policy proposals and funding mechanisms designed to help Texas meet the goals of *Closing the Gaps*.

2005 Interim Study

One of the earliest discussions on outcomes based funding occurred after the 79th Regular Session (2005) when the Texas House Committee on Higher Education was given the following interim study charge:

Consider formula funding models for institutions of higher education and evaluate whether current formulas most effectively promote excellence and support the goals set forth in *Closing the Gaps*.

In its report, the committee found “it was indisputable that the [funding] matrix rewards the quantity of students and encourages enrollment numbers without encouraging completions rates.” Furthermore, the committee found that a “cost based methodology” (the traditional contact hour based system) for formula funding should serve as the cornerstone of an objective formula funding matrix designed to achieve a growth in enrollment while “promoting productivity and quality in higher education.”

The committee noted that the traditional contact hour based formula fell short in “addressing productivity for specific programs and specific shortages” and did not address “specific disciplines tied to graduation rates in workforce areas of math, science and engineering.”

The committee issued policy recommendations that began to move the state closer to an outcomes based funding model. The first recommendation was as follows:

The legislature should require the Texas Higher Education Coordinating Board to research formula funding incentive programs that directly target Closing the Gaps. Further research should be conducted to formulate a best means approach to promote improved operational productivity.

Notably, the committee specifically addressed community colleges in a policy recommendation:

The legislature should evaluate a better formula funding system for community colleges in order to Close the Gaps. *Community Colleges will absorb 50 percent of the new students from "Closing the Gaps."* The legislature must address a formula which encourages state aid and evaluates other methods of funding community colleges so that the quality of education is not sacrificed. [Emphasis added]

Higher Education Performance Incentive Initiative: 2009-2011

The first attempt at a state policy on outcome based funding occurred during the 80th Regular Session (2007) with the creation of the Higher Education Performance Incentive Initiative. The General Appropriations Act (GAA) included the following rider within the THECB appropriation which established the initiative:

Higher Education Performance Incentive Initiative. In addition to amounts appropriated elsewhere in this Act, \$100,000,000 in General Revenue funds are appropriated for fiscal year 2009 for the Higher Education Performance Incentive Initiative at the Higher Education Coordinating Board.

The Higher Education Coordinating Board in conjunction with the Governor's Office shall develop an incentive program for the improvement in teaching and educational excellence at Texas public general academic teaching institution. These funds may also be used to provide scholarships for undergraduate students who have graduated with a grade point average in the top 10 percent of the student's high school graduating class from an accredited Texas High School.

The Higher Education Coordinating Board shall submit an initial proposal to the Legislative Budget Board and the Governor's Office for the Higher Education Performance Incentive Initiative program by January 1, 2008

Once the initiative was developed, funds were awarded to general academic institutions (public universities) on the basis of the number of degrees awarded. Supplemental funding was awarded based on whether the degree was awarded in a critical field and whether the graduate was an "at-risk" student. In the 2010-2011 biennium, funding was provided through the federal American Recovery and Reinvestment Act (ARRA). The program was discontinued during the 82nd Regular Session (2011).

To date, this short-lived incentive program is the only form of outcomes based funding for public universities adopted by the Texas Legislature. This program is an example of incentive funding above base funding, or "outside the formula."

Genesis of Student Success Point Model

In advance of the 82nd Regular Session (2011), the THECB issued charges to its Formula Advisory Committees to study outcomes based funding formulas. The Texas Public Community and Technical Colleges Advisory Committee (CTCFAC) was given the following charge:

Study and make recommendations on the best method of moving towards a more outcomes based funding formula that supports student success and identifies measurements that recognize progression to success.

The CTCFAC noted the state of Washington's momentum points model as promising but at that time still relatively new, having been implemented in 2006. The CTCFAC stated the Washington model as one that could be used in Texas but called for the same deliberative and intentional process used in Washington. Recommendations from the CTCFAC included:

- A one-year intensive study of the Washington state model is conducted during the FY 2010-11 with Texas momentum points being identified and communicated. The study committee will be composed of representation from the Texas Higher Education Coordinating Board, Texas Association of Community Colleges, and Texas Community College Teachers Association. Based on the results of FY 2010-11 study year, the Committee will make a recommendation for methodology implementation.
- Texas momentum points model to be measured and vetted in FY 2011-12 as the baseline year.
- Funding for student achievement momentum points should be viewed as an incentive model over and above the current formula based system.
- The momentum points methodology should incorporate recognition of student achievement or progress from the least prepared student to the most college ready student.
- The model should identify metrics for the following categories:
 1. Basic Skills - significant gain in Adult Basic Education, GED, or high school graduation
 2. English as a Second Language – momentum as measured from a pre-test to completion of ESL sequence
 3. Developmental Education – completion of development course sequence in math, reading, and writing based on a college readiness pre-test
 4. Gateway Courses – completion of first college level math course and college level English course
 5. Course Completion – establish a threshold percentage for students registered for courses on census date compared to those completing the course
 6. College Credit Hour Attainment:
 - Student earns first 15 college credits
 - Student earns first 30 college credits
 - Completion of core curriculum
 7. Degrees/Certifications Awarded – students completing an associate degree, certificate, or apprenticeship. For those community colleges offering bachelor's degrees, momentum points would be earned for completion.

The Texas Public General Academic Institutions Advisory Committee was given a similar charge to examine moving towards an outcomes based funding formula. That committee recommended against outcomes based funding, instead advising the state to “avoid the instability in the funding models associated with introducing a new funding method in this volatile economic period.”

Ultimately, the Commissioner recommended dedicating a percentage of the total available for the formula for community colleges to outcomes based funding approach centered on the momentum points model. The initial recommendation was to allocate 10 percent of the total formula to outcomes based funding. For universities, the Commissioner recommended funding the Instruction & Operations (I&O) formula on completed semester credit hours with a phase-on over a four year period.

Following on its formula funding recommendations, the THECB advocated for outcomes based funding for both community colleges and universities during the 82nd Regular Session (2011). Its recommendation

for community colleges, then called Momentum Points, would form the basis of what would eventually be adopted at the Student Success Point model in 2013.

To support the outcomes based funding model, the THECB cited multiple possible results, including:

- better and more productive balance between student access and success
- better return on the state's investment by helping more students navigate the education pipeline at community and technical colleges
- incentives for Texas community and technical colleges to focus more intently on the success of at-risk students, a critical goal for Closing the Gaps

The Higher Education Outcomes-Based Funding Act (House Bill 9)

In 2011, the 82nd Texas Legislature passed HB 9 by Representative Dan Branch, Chair of the House Committee on Higher Education. The bill required the THECB, in devising its base formula funding recommendations for public institutions of higher education, to incorporate the consideration of undergraduate student success measures achieved during the preceding state fiscal biennium by each of the institutions of higher education to which base funds are appropriated.

The bill created a new section in the Education Code (Sec. 61.0593) titled "Student Success-Based Funding Recommendations" which includes the following statement of intent:

The legislature finds that it is in the state's highest public interest to evaluate student achievement at institutions of higher education and to develop higher education funding policy based on that evaluation. Funding policies that promote postsecondary educational success based on objective indicators of relative performance, such as degree completion rates, are critical to maintaining the state's competitiveness in the national and global economy and supporting the general welfare of this state. Therefore, the purpose of this section is to ensure that institutions of higher education produce student outcomes that are directly aligned with the state's education goals and economic development needs.

While the bill did not direct the 82nd Texas Legislature, or future legislatures, to fund higher education through a student success-based model, it did direct the THECB to include student success-based funding in all future recommendations to the legislature.

Under HB 9, the THECB is directed to include performance measures in its recommendations for formula funding of community colleges. The measures contemplated by HB 9 include:

- successful completion of:
 - developmental education in mathematics
 - developmental education in English
 - the first college-level mathematics course with a grade of "C" or higher
 - the first college-level English course with a grade of "C" or higher
 - the first 30 semester credit hours at the institution
- transfer to a four-year college or university after successful completion of at least 15 semester credit hours at the institution
- the total number of the following awarded by the institution:
 - Associate degrees;
 - BAT degrees
 - certificates identified by the THECB as effective measures of student success.

During consideration of HB 9 in the House Committee on Higher Education, Texas community colleges opposed the bill. Representatives from the Texas Association of Community College (TACC), the Community College Association of Texas Trustees (CCATT), and the Texas Community College Teachers Association (TCCTA) provided testimony in support of momentum points as a measure of accountability but cautioned against unintended consequences. Consistent with the recommendations of the CTCFAC (see above), the witnesses agreed with the proposed metrics within HB 9, but urged for a longer period to review. Witnesses also recommended student success funding as a supplement outside the formula, similar to the Washington model of a 1% add-on incentive above the base-line.

The bill ultimately passed into law; however, state appropriators declined to include outcomes based funding in the GAA for FY2012-13.

Outcomes Based Funding Adopted

The current model of Student Success Points was developed by the THECB in conjunction with Texas community colleges. In advance of the 83rd Regular Session (2013), TACC convened a Metrics Task Force to work with the THECB to develop a system to account for the unique mission of community colleges and to encourage colleges to support students as they progress toward a workforce certificate, degree, or transfer to a university.

The 83rd Texas Legislature adopted Student Success Point funding for community colleges for the 2014-2015 biennium. The new model of funding included \$1 million for core operations prior to allocating 90% of remaining funds based on enrollments and 10% of remaining funds based on student success points. The resulting rate per success point was \$185. The 90/10 split remained in place for the 2016-2017 biennium but due to declines in state support, the rate fell to \$173.

Also adopted by the 83rd Legislature was a Returned Value Formula, which ties funding for the Texas State Technical College System to success in job placement and earnings.

Expansion Attempted: HB 25 (83R)

Rep. Dan Branch filed HB 25 in the 83rd Regular Session (2013) which sought to increase the share of outcomes based funding in state appropriations to public institutions of higher education. Under HB 9 (82R), the percentage of outcomes based funding included in the THECB funding recommendations could not exceed 10 percent of the total appropriation. The introduced version of HB 25 sought to increase that cap to 25 percent.

A committee substitute of HB 25 sought to require the Legislative Budget Board (LBB), when drafting the general appropriations bill for introduction to the legislature, to base at least 25 percent of the total amount of general revenue appropriations for undergraduate education for all general academic teaching institutions (public universities) to be based on student success measures. The substitute bill passed out of the House Committee on Higher Education but failed to be considered by the full House for a vote. No similar legislation was considered in the Texas Senate.

Recent Developments

At the urging of community colleges, the 85th Texas Legislature (2017) removed the 10% ceiling for success funding for the 2018-2019 biennium, allowing for the success point rate to be set independent of the percentage split, rather than being “backed into” by calculating 10% of available funds. As a result, the portion of instructional funding (less core operations) for the 2018-2019 biennium is 10.6%. The point rate held nearly flat at \$172.

For to the 85th Regular Session, the THECB recommended a Graduation Bonus program to reward universities for completions. The program called for providing \$150 million for the biennium, rewarding universities \$500 for each not “at risk” student awarded a bachelor’s degree and \$1,000 for each “at risk” student awarded a bachelor’s degree. An “at risk” student would be defined as any student who is eligible to receive a Pell Grant or whose SAT or ACT score was below average. The recommendation was included in HB 1241 by Representative Helen Giddings, but did not become law.