

- SUBJECT:** Establishing performance-based funding for higher education
- COMMITTEE:** Higher Education — committee substitute recommended
- VOTE:** 8 ayes — Branch, Castro, Alonzo, Bonnen, Brown, Johnson, Lewis, Patrick
- 1 nay — D. Howard
- WITNESSES:** For — Bill Hammond, Texas Association of Business; Woody Hunt, Governor’s Business Council; Dennis Jones, Governor’s Business Council/ National Center for H.E. Management Systems; Drew Scheberle, Greater Austin Chamber of Commerce; (*Registered, but did not testify:* Leslie Helmcamp, Center for Public Policy Priorities)
- Against — Marianna Anaya; Yannis Banks, Texas NAACP; Ted Melina Raab, Texas American Federation of Teachers; Richard Moore, Texas Community College Teachers Association; Richard Rhodes, Texas Association of Community Colleges; Roberto Zarate, Community College Association of Texas Trustees; (*Registered, but did not testify:* Carlos Cardenas, Brenda Castillo, Christina Rodriquez, The University of Texas Student Longhorn LULAC; Chuck Hempstead, Texas Association of College Teachers; Jesse Romero, Texas Association for Bilingual Education; Velma Ybarra, League of United Latin American Citizens State)
- On —Luis Figueroa, Mexican American Legal Defense & Educational Fund (MALDEF); Fred Heldenfels, Raymund Paredes, Texas Higher Education Coordinating Board; Monica Martinez, Texas Education Agency; (*Registered, but did not testify:* Patricia Lopez, Texas Center for Education Policy; Angela Valenzuela, Texas Center for Education Policy – UT Austin)
- DIGEST:** CSHB 9 would establish the Higher Education Outcomes-Based Funding Act. It would require the Texas Higher Education Coordinating Board, in devising and establishing base formula funding recommendations for public institutions of higher education, to incorporate the goals identified in the long-range statewide plan into the agency’s funding recommendations.

The bill would emphasize the need to evaluate student achievement based on objective indicators of relative performance, such as degree completion rates, and to align those student outcomes with the state's educational goals and develop funding policy based on that evaluation.

In devising base funding formula recommendations to the Legislature, the coordinating board, in consultation with higher education institutions, would be required to consider undergraduate student success measures achieved during the preceding state fiscal biennium for base funding.

For general academic teaching institutions other than a public state college, the success measures the board would have to consider would have to include:

- the total number of bachelor's degrees awarded by the institution;
- the total number of bachelor's degrees in critical fields awarded by the institution;
- the total number of bachelor's degrees awarded by the institution to at-risk students; and
- the six-year graduation rate of students of the institution who initially enrolled in the fall semester immediately following their graduation from public high school in Texas, as compared to the six-year graduation rate predicted for those students based on the composition of the institution's student body.

For public junior colleges, public state colleges, or public technical institutes, the success measures considered by the board have to include the following academic progress measures achieved by students at the institution:

- successful completion of developmental education in math and English; the first college-level math and English course with a grade of "C" or higher; and the first 30 semester credit hours at the institution; and
- transfer to a four-year college or university after successful completion of at least 15 semester credit hours at the institution.

Success measures considered by the board also would include the total number of associate's and bachelor's degrees awarded by the institution, as well as certificates identified by the coordinating board as effective measures of student success.

The coordinating board would have to include in its findings and recommendations to the Legislature an evaluation of the effectiveness of these student success measures in achieving the purpose of the bill during the preceding state fiscal biennium, plus any related recommendations the coordinating board considered appropriate.

“At-risk” students would be defined as those undergraduate students who received Pell grants, who were 20 years old or older when they first enrolled in a higher education institution, had an SAT/ACT score lower than the national mean score, were enrolled as part-time students, or who had not received a high school diploma but had received a high school equivalency certificate within the last six years.

A “critical field” would be defined as a field of study in engineering, computer science, mathematics, physical science, allied health, nursing, and teaching certification in science or math. Beginning September 1, 2013, the coordinating board would be authorized to designate a critical field of study that was not currently designated as such or to remove a field of study from the list.

The coordinating board would adopt rules to administer these provisions, including rules requiring each higher education institution to submit to the coordinating board any student data or other information the coordinating board considered necessary.

The bill would take effect September 1, 2011.

**SUPPORTERS  
SAY:**

Texas needs to use finance policy to drive college completion, and for that reason, it is time for CSHB 9. For years, higher education funding formulas have essentially rewarded colleges and universities for student headcount, with little accountability for results. The current funding model for public higher education is not aligned with state needs. Texas has increased annual degree production since 2000, but too many students are falling through the cracks at too high a cost. According to the coordinating board, two-thirds of those who enrolled in post-secondary education in 2003 failed to graduate in 2009. That translates into taxpayer support for the unsuccessful college careers of more than 100,000 students during that time. Texas ranks third in state resources spent on first-year dropouts —\$470.5 million over a five-year period.

The latest progress report says that Texas must produce about 46,000 more degrees each year to reach our 2015 goal for success. More needs to be done to increase the number of students who graduate with certificates and degrees.

If the goal were to get more students to commencement and not just into the classroom, then it would make sense to distribute higher education formula funding in ways that recognized gains in both outcomes and enrollment. Demographers project the state will need to double the percentage of adults with at least an associate's degree to 60 percent by 2030 to be able to meet the demands of the state's future work force.

The state needs to make the most progress among at-risk students and to graduate more students in critical fields, such as science, technology engineering, and math. CSHB 9 would direct the coordinating board to consider degrees awarded in these areas in their general academic formula funding recommendations.

To account for the diverse student populations at state universities, the coordinating board would be directed to consider a metric that compared a university's actual six-year graduation rate to a predicted rate based on the institution's student body.

Since two-year institutions have different challenges, the bill would contemplate a separate set of metrics, commonly called "momentum points." Instead of focusing only on graduations, academic progress measures also would be recognized. Other states are moving toward this model, such as Washington, Indiana, and Ohio.

The notion of using these metrics as measures of success has been piloted with the performance incentive initiative, started in 2007. The 80th Legislature appropriated \$100 million in fiscal 2009 to the coordinating board to establish the initiative for the purpose of providing additional funding, outside of formula dollars, to institutions based on at-risk student enrollments and graduation rates of students in high-need fields.

The 81st Legislature enacted HB 51 by Branch, establishing the metrics for the initiative, including factors such as at-risk students and critical fields, and appropriated \$80 million for the initiative. The incentive fund was not funded under the current budget proposal.

CSHB 9 would not specify the final student success metrics, nor would it define the weighting of those metrics. The coordinating board would be required to consider certain metrics, but would have the flexibility to include or exclude additional metrics where appropriate. The bill would not determine the percentage of funding dedicated to the outcomes-based methodology, but instead would direct the coordinating board to examine the feasibility of incorporating performance-based measures into its formula funding recommendations. The Legislature also would decide the appropriate funding methodology and levels.

Claims that college doors could be closed to certain students who might be an academic gamble are unfounded. CSHB 9 would provide institutions an additional opportunity to gain funding by introducing student success measures into the formula. One of the metrics specifically would require the coordinating board to include in its formula recommendations graduation of at-risk students. The purpose of this metric would be to incentivize schools to accept and graduate students who had greater barriers to achieving their educational goals.

With limited state resources, it is more important than ever to demand more value from each dollar invested in higher education.

**OPPONENTS  
SAY:**

While the state should promote student success, now is not the time to incorporate outcomes-based funding as part of higher education funding when institutions already are experiencing shrinking state support. Even though the bill would not specify any percentage dedicated to outcomes-based funding, any portion for outcomes-based funding should be in addition to base-level funding for two-year and four-year institutions and not be carved out of existing funding levels.

Dedicating a portion of an already decreased level of state appropriations to outcomes-based funding could cause institutions to lose state support. Institutions could not sustain any hold-back of state appropriations for the use of performance-based funding. This would be especially true for the state's community colleges. Other states, like Washington, use a similar approach to funding community colleges, but the funding model is used as incentive funding over and above base formula funding and does not supplant state funding.

Outcomes-based funding could produce unintended consequences, such as an institution's closing its doors to certain students who could be an

academic gamble, which would reduce access, or giving grades to students they had not earned because of the financial pressure to meet the benchmarks.

Implementing a funding structure based on the outcomes proposed by the bill at this time would be premature. Tying dollars directly to goals that community colleges have not yet achieved is problematic. It could disrupt the progress currently being made related to new program innovation that will eventually point to best practices.