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LINKING APPROPRIATIONS FOR THE TEXAS STATE TECHNICAL COLLEGE SYSTEM TO STUDENT EMPLOYMENT OUTCOMES

EXECUTIVE SUMMARY

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Executive Summary

When the idea of tying appropriations for the public universities in Texas to performance first emerged in the state legislature in 2007, most university leaders opposed any plan that would diminish the influence of enrollment in allocating state dollars. But there was one exception to the opposition from the state higher-education establishment: the Texas State Technical College System, which jumped at the opportunity to prove its worth to lawmakers and the public. After a state comptroller report showed that technical graduates contributed to the state's economy, legislation directed the technical college system, the state's higher education coordinating board, the comptroller's office and the Texas Workforce Commission to develop a formula for financing the technical colleges.

A new, value-added accountability funding formula was approved by legislators in 2013 and took effect for the 2014-15 academic year. Under the formula, the technical college system was rewarded not for enrolling more students, but for adding economic value. The earnings of students who had taken at least nine credits, earned a credential and remained in the state would be tracked by the Texas Workforce Commission, and the difference between their salary after five years and the state's minimum wage would account for the colleges' added value to the state.

The financing model for the technical college system represents what is perhaps the next wave in outcomes-based funding formulas for public universities: using previously new and previously untapped data sources to track employment outcomes. While the technical college system approach is mostly applicable to similar technical college systems that serve a specific type of student in rigorously-defined technical fields with associate degrees, the general idea of using employment outcomes as one of several measures to reward college performance is gaining some traction among state policy-makers. The technical college system formula has been touted for its simplicity, but it has its limits. It affects only the largest of three budgets that the technical college system receives from the state, and its impact is further muted by the legislature's complicated multi-phase process for financing higher education in Texas. Nevertheless, the funding formula for the technical college system is seen as a bellwether because of its boldness.

Formula Impact on Technical College Campuses

In effect for only a short time, the formula thus far has had little effect on the overall funding levels received from the state. The formula has encouraged campuses to prioritize the needs of employers and to be more proactive in managing programs, such as through limiting enrollment or suspending programs if industry demand for graduates or student interest in a program declines. In addition, students are being advised more carefully about job options, potential salaries and workplace conditions. The system assigned its leaders of student recruitment and student placement to report to the same manager so that their operations and priorities can be more closely aligned. Advisors dealing with undecided students are more frequently using assessment tests to measure their interest and skills. And campus career fairs now target specific industries that are actively hiring and offer the most attractive pay packages.

Considerations for Policymakers

Texas' nascent experience with outcomes-based funding for its technical colleges points to several early lessons:

- 1.** Creating incentives through appropriations can drive innovation in higher education.
- 2.** When crafting outcomes-based funding formulas, policymakers must start with the mission and intention of an institution.
- 3.** Precise data are essential for making the formulas work. States or districts considering such a formula need to take a hard look at what data are available or what could be available, and then continue to improve data collection over time.

Texas is also mindful of key elements of outcomes-based funding in Tennessee, a leading state in this area. Tennessee considers a number of different measures in its funding formula for four-year universities and for the state's community colleges so that no single measure has outsized influence. The state also revisits the provisions of its formulas every few years.