



SUBSIDIZING SUCCESS, NOT ENROLLMENT

THE TEXAS STATE TECHNICAL COLLEGE FUNDING MODEL

/ **MICHAEL BETTERS WORTH** TEXAS STATE TECHNICAL COLLEGE

Under the weight of waning enrollment, constrained budgets, and public doubt, higher education stands at a crossroads that few institutions can ignore. Enrollment in many places is declining, resources are stretched thin, and skepticism about higher education's real-world value is on the rise. The COVID-19 pandemic only magnified these challenges, forcing colleges to shift quickly to online learning and reshaping what students expect from their educational experiences.

The latest data confirms these concerns. Overall, higher education enrollments inched upward in fall 2024. Public and private nonprofit four-year institutions saw the sharpest declines, at -8.5% and -6.5%, respectively.²³⁸ From 2004 to 2020, roughly 2,700 colleges with more than 12,000 campuses closed — most in the for-profit sector²³⁹ — and the pace of closures accelerated from two per month in 2023 to one per week in 2024.²⁴⁰ Meanwhile, the much-discussed “enrollment cliff”

238 “Fall 2024 SI Dashboard,” National Student Clearinghouse Research Center, October 9, 2024, <https://public.tableau.com/app/profile/researchcenter/viz/Fall2024SIDashboard/Fall2024StayInformed>

239 Jennifer A. Kingdon, “Schools Are Bracing for the Looming ‘Enrollment Cliff,’” *Axios*, July 3, 2024, <https://www.axios.com/2024/07/03/education-enrollment-cliff-schools>.

240 Peace Bransberger, Colleen Falkenstern, and Patrick Lane, “Knocking at the College Door: Projections of High School Graduates,” Western Interstate Commission for Higher Education, December 2020.

looming in 2027 (caused by declining birth rates) suggests the situation may only worsen.²⁴¹

If an institution isn't a well-endowed private college or a brand-dominant public university with deep reserves and multiple revenue streams, sticking to the status quo is risky. In this tough environment, innovative, outcomes-based approaches are more important than ever. Fortunately, we at Texas State Technical College (TSTC) found an alternative that focuses on workforce readiness — and it's paying off.

TSTC'S VALUE-ADDED MODEL: A BOLD NEW APPROACH

In 2010, we took a radical step at TSTC. We linked our state funding to the job placement and earnings of our graduates — a first-of-its-kind model in the nation. Instead of basing budget allocations on how many students show up on campus (known as contact-hour-based funding), we now align our funding with actual workforce outcomes. Programs that don't lead to strong employment are re-examined and often closed, ensuring that both our students and the broader Texas economy receive maximum benefit.

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This chapter updates our earlier work in the first volume of *Workforce Realigned*, "Going All In: Linking Funding to Outcomes at Texas State Technical College," by exploring how this value-added funding model has transformed our culture, improved job placement, and prepared us to meet the ever-growing demand for well-trained workers. Our story offers a real-world blueprint for how colleges can thrive under pressure when stakeholders demand tangible, measurable results.

HOW THE VALUE-ADDED FUNDING MODEL WORKS

In the early 2010s, many states — Texas included — wanted to move beyond the traditional "enrollment-based" or "contact-hour-based" formulas. We recognized that simply counting how many students start a program doesn't guarantee successful outcomes for graduates, employers, or the economy.

At TSTC, we asked a simple question: Why not tie our funding to the one thing that truly matters: whether our students find good-paying

241 Sarah Wood, "Why Do Colleges Close?" U.S. News & World Report, , February, 20, 2024, <https://www.usnews.com/education/articles/why-do-colleges-close>.

jobs? With legislative support, we switched to a performance-based formula that measures actual employment outcomes for our students. Here's how it works:

1. **Identify the Cohort:** We list all students who have completed at least nine semester credit hours, including both graduates and nongraduates.
2. **Gather Employment and Wage Data:** Through a partnership with the Texas Workforce Commission, we collect wage data from unemployment insurance records, capturing 75%–80% of our former students. We then track their job placement and earnings.
3. **Calculate Value Added:** We compare each student's earnings to a baseline (full-time employment at minimum wage), determining the extra value TSTC adds in producing skilled graduates. An indirect multiplier accounts for broader economic benefits over five years.
4. **Allocate Funding:** TSTC and the state share this newly generated value, each receiving half. A campus's specific funding is based on how much value that campus's students add overall.

This “commission-like” approach measures and rewards our ability to place students in well-paying jobs. No longer are we funded simply by classroom head counts; if our students succeed in the workforce, so do we.

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It's important to distinguish between value-added and economic impact. Our formula does not measure TSTC's entire economic footprint. Instead, it focuses on earnings outcomes tied directly to student employment. This streamlined focus helps us keep the formula both accurate and aligned with our core mission: putting more Texans to work in rewarding careers.

OVERCOMING CULTURAL BARRIERS

Shifting from a decades-old contact-hour formula to an innovative, outcomes-based approach was more than a mere policy change — it was a cultural transformation. At first, some within TSTC were unsure whether the new model would fully take root, and a few of our processes still leaned on the old approach.

During the initial funding cycle, it became clear that our updated model and the traditional budgeting processes weren't yet completely aligned. This caused initial funding projections to rely on contact-hour data rather than on our new outcomes-based metrics. Because we had intentionally reduced contact hours to focus on student success and labor market results, the mismatch highlighted a potential shortfall in our state appropriation. Fortunately, this shortfall was recognized and addressed, and our final allocation was restored to levels that reflected our actual outcomes.

This experience served as a wake-up call, showing how deeply ingrained the contact-hour model was. It also underscored the importance of proactively updating both our internal operations and external communications so that stakeholders and standard processes recognized the new approach. Once that alignment took hold, the benefits of outcomes-based funding became more apparent, and we were able to showcase our improved student job placement and earnings — ultimately reinforcing the model's validity.

PAYING FOR PERFORMANCE

Our value-added funding model hinges on a simple principle: When graduates earn higher wages, TSTC receives a corresponding increase in appropriations, allowing us to attract and retain top-tier faculty and staff. Recognizing that industry salaries in high-demand technical fields often outpace the public sector, we conduct regular market compensation analyses to ensure our faculty's pay remains competitive. This approach not only fosters excellence in instruction but also signals to our students that the experts teaching them are leaders in their fields.

We have also adopted performance-based and merit raises, a relatively rare practice in the public sector. By linking compensation more directly to student success measures, we create an institutional culture where everyone's incentives align with the goal of seeing our graduates thrive in the workforce. This alignment has further fueled improvements in our programs, as instructors and staff focus on ensuring that students complete their studies on time, learn the right skills, and secure meaningful employment that leads to higher earnings.

INNOVATION BEGETS INNOVATION

When funding is tied to student success, innovation naturally follows. We began reevaluating our offerings, identifying programs with poor placement or earnings outcomes and discontinuing them when necessary. At the same time, we worked to transform our dual enrollment efforts, grouping related technical courses into three-course sequences that offer high school students job-relevant skills rather than isolated classes. Whether students continue with us at

TSTC or enter the workforce directly, they arrive armed with real-world competencies and a clear sense of how their studies connect to actual employment opportunities.

We also discovered through our earnings data that completing a degree or certificate correlates with a 20%–30% higher first-year income compared to dropping out. By sharing these figures, we motivated more students to stay enrolled and earn a credential — no longer just a bureaucratic milestone but an engine for higher wages and career mobility. In line with this emphasis on outcomes, we have worked diligently to accelerate program completion whenever possible.

Time spent in the classroom can delay students' entry into the workforce — and thus delay our funding return from their future wages. This has driven us to accelerate program completion, reflected in TSTC's impressive three-year graduation rate of 40%. By comparison, the six-year graduation rate for two-year colleges averages 41%.²⁴² Helping students move quickly into high-paying jobs ensures they start earning sooner — a win-win for everyone.

BRANDING UP

Our Money-Back Guarantee, which refunds students' tuition if they don't find employment after completing key programs, has also amplified our credibility. Lawmakers, employers, and prospective students see us as an institution that stands behind its promises. This reputation as the "real deal" is backed by our strong graduate outcomes, reinforcing TSTC's brand as a leader in workforce-focused education.

NOTABLE GAINS

Since adopting the value-added funding model, our graduates — and TSTC as a whole — have experienced significant benefits (see *Figure 1*):

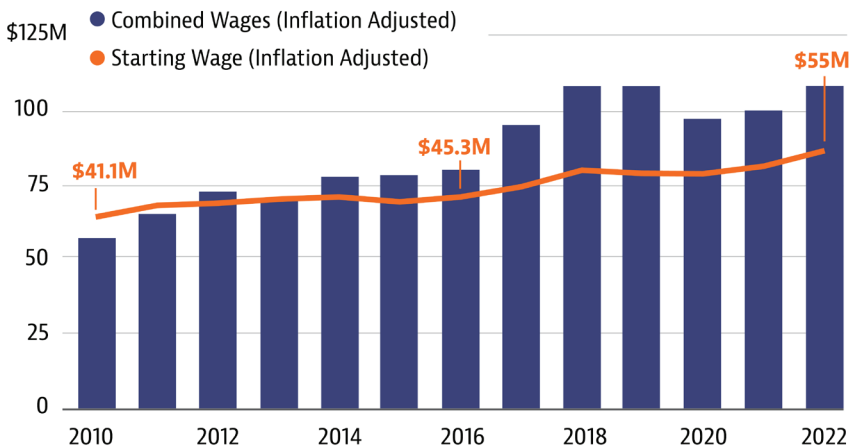
- **34% Higher Starting Wages:** Adjusted for inflation, our graduates' starting wages have risen by over a third since 2010.²⁴³
- **51% Increase in Combined Earnings:** The total earnings of all employed TSTC students, which feed into our funding formula, have grown by more than half in that same period.
- **136% Growth in Returned Value Appropriations:** Our annual "returned value" funding jumped from \$47 million in 2016 to \$111 million in the upcoming 2025 legislative session, supporting everything from instructor salaries to new lab equipment.

242 National Student Clearinghouse. 2023. "Completing College." Completing College. https://nscresearchcenter.org/wp-content/uploads/Completions_Report_2023.pdf.

243 Texas Workforce Commission, UI Wage Record Data for TSTC Graduates, <https://www.twc.texas.gov/programs/unemployment-benefits>

/ FIGURE 1 /

TSTC GRADUATE STARTING WAGES AND COMBINED COHORT EARNINGS



Source: Texas Workforce Commission, UI Wage Record Data

These resources have enabled us to tackle long-overdue maintenance and take pride in our unique mission. Once a lesser-known option for technical education, TSTC is now widely recognized for its student-centered, workforce-focused model.

Equally noteworthy, our enrollment has grown even as overall community college enrollments in Texas have declined. Over the past five years, TSTC's fall enrollment has risen by 11%, while Texas community colleges collectively have seen a drop of approximately 30% in the same time frame.²⁴⁴ This striking contrast reflects our focus on workforce-driven programs and tangible postgraduation success, positioning TSTC as a compelling, unique option for students seeking strong employment outcomes.

ADDRESSING INFRASTRUCTURE NEEDS

While our value-added funding model rewards TSTC for placing more Texans into high-demand jobs, it does not directly address the costs of maintaining and improving our physical infrastructure. Many of our campuses are situated on former military bases and include facilities dating back to the 1950s, leading to significant deferred maintenance and modernization needs.

²⁴⁴ "Fall 2024 TACC Preliminary Enrollment Report," Texas Association of Community Colleges, November 2024, https://tacc.org/sites/default/files/2024-12/tacc_fall_2024_enrollment_report_11-22-24.pdf.

To tackle these challenges, we rely on a variety of resources, including legislative appropriations, industry partnerships, earned income, and bond financing. By combining these different funding sources, we can take a more strategic approach to address aging buildings, environmental controls, and overall campus modernization.

Currently, with the support of the Texas Legislature, we have secured additional capital funding that enables the construction of seven new buildings — an investment of more than \$300 million. These expansions will boost our capacity to serve students in high-demand fields and ensure that they have access to modern facilities aligned with current industry standards.

Looking ahead, we continue to pursue further appropriations and a proposed endowment, aiming to leverage state surplus balances for more reliable infrastructure funding. These funds, if approved, will enable the construction of three new campuses in Guadalupe-Comal County, Denton County, and Midlothian. By taking a proactive approach to modernization and growth, we strive to maintain safe, well-equipped campuses that promote hands-on technical learning and support our workforce mission across Texas.

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EXPANDING OUTCOMES DATA

We continually seek better information to validate and refine our decisions on behalf of our students. One of our latest efforts is the Secure Query System (SQS), a joint initiative involving TSTC, a trusted academic intermediary, and the IRS. By carefully matching student records with federal tax data — under strict privacy protocols — we aim to go beyond unemployment insurance databases and capture a more comprehensive picture of our graduates' long-term earnings. This enhanced dataset will help us evaluate program effectiveness at a finer level, ensuring that we channel our resources into fields where our graduates see the greatest returns.

In addition to shaping how we develop and update our curricula, these new insights reinforce our commitment to evidence-based policy. By gathering robust, real-world information on workforce outcomes, we can continue validating our performance to stakeholders while providing an adaptable model for other states and institutions interested in similar approaches. Taken together, these efforts

underscore our broader strategy: continually advancing our data capabilities so that we can meet new industry demands, serve our students more effectively, and maintain a leadership role in outcome-driven technical education.

LOOKING AHEAD: CHALLENGES AND OPPORTUNITIES

Our value-added model highlights what a workforce-focused college can do, but challenges remain. We must stay agile, updating programs for emerging industries and technologies, especially as automation, AI, and other disruptions reshape the job market. Simultaneously, we're refining our tiered tuition system, which ties program cost to career earnings potential, to ensure it remains equitable for students while reflecting true instructional expenses.

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As we expand into new regions, building stronger ties with local communities will be crucial to ensuring our campuses meet real workforce needs. Across fields from energy to manufacturing to health care, the demand for technical skills continues to grow — providing us with an opportunity to strengthen Texas' economic future.

CONCLUSION: A BLUEPRINT FOR THE FUTURE OF HIGHER EDUCATION

At TSTC, we've seen firsthand what happens when funding is tied to outcomes. By aligning our financial model with actual student success — measured through job placement and earnings — we've built a system that benefits students, employers, and taxpayers alike. Our journey shows that colleges can adapt when they place the needs of the workforce front and center.

We know we're not the only institution seeking new ways to connect higher education with employment opportunities. Still, our value-added formula, Money-Back Guarantee, and data-driven decision making stand out as a clear road map for any institution ready to break from tradition. We hope our story inspires other higher education leaders to embrace accountability and innovation, ensuring our students thrive in an ever-evolving economy.

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