

Innovative Postsecondary Funding Strategies to Support Students

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Background

State governments provided more than **\$112 billion** to support higher education institutions and programs in fiscal year 2023, according to data from the State Higher Education Executive Officers Association. Of this funding, the vast majority was appropriated directly to public colleges and universities. In FY22, more than **78%** of total state funding was allocated to direct appropriations to higher education institutions. Specific appropriations to research, agriculture and medicine programs were approximately 10.1% of state funding and state financial aid programs comprised 8.6% of state funding. These state appropriations comprise roughly **18%** of revenue at public four-year institutions and nearly half of revenue at public two-year institutions.

Each state distributes funding to higher education institutions using unique higher education funding formulas. Even within a state, most states use a different funding formula for four-year and two-year systems. In 2021, just **17 states** used a similar model for funding these different sectors.

Historically, most states based higher education funding on how many full-time equivalent are enrolled at the institution each semester. These appropriations fluctuate based on the level of

Key Takeaways

- Nearly 80% of state funding for postsecondary education is allocated directly to institutions via state higher education funding formulas.
- States continue to modify funding formulas and explore a variety of strategies to support affordable postsecondary education options for students and families.

appropriations and may fluctuate yearly or based on individual campus needs. Over the past several decades, a growing number of states have sought to expand higher education funding formulas beyond enrollment numbers. These changes can be modifications to funding formulas that consider inputs, such as enrollment of low-income or first-generation students or metrics such as number of degrees awarded. When outcome and completion metrics are used, a funding model is generally considered to be a performance-based funding model.

By 2020, at least **31 states** had performance-based funding models for higher education funding. However, in most states, performance-based funding accounts for a relatively small portion of appropriations to institutions. In 2021, just **9.4%** of public higher education funding was allocated via performance-based funding nationwide. Other key factors within a formula can determine

institutional funding levels. For example, enrollment formulas that use [FTE](#) student counts can provide lower funding to institutions that serve larger groups of nontraditional students, such as adults, who are more likely to enroll part time.

State Policy Action

CHANGES TO STATE FUNDING FORMULAS

COLORADO



Since 2014, Colorado lawmakers have approved several iterations of the state’s higher education funding formula. That year, the state passed [legislation](#) that created a new funding formula that included some performance metrics. However, under this formula, approximately 80% of state funding was still based on enrollment figures. In 2019, the Colorado legislature passed [SB 95](#) which required the Colorado Commission on Higher Education to convene in 2019 and every five years after that to review the state’s funding formula. As part of this work, in 2020, Colorado lawmakers passed [HB 1366](#) which created a new higher education funding allocation model. The new model created by this legislation funds institutions based on three [primary components](#).

- Ongoing additional funding – base building funding awarded to an institution working to address state higher education master plan goals.
- Temporary additional funding – funding awarded to an institution for a specified period to address state master plan goals or priorities.
- Performance funding – funding award to an institution based on changes in performance on certain metrics compared to other institutions.

Performance funding metrics outlined in Colorado state statute include: resident FTE enrollment, credential completion rates, Pell-eligible student population, underrepresented minority student population share, retention rates, graduation rates, and first-generation undergraduate student population share.

The weight and funding changes associated with the performance funding are determined each year by the Joint Budget Committee (comprised of six legislative members) and finalized in collaboration with higher education institutions. Preliminary calculations for the fiscal year 2023-24 appropriation are available [online](#). The Colorado Commission on Higher Education is also required to make funding recommendations to the Joint Budget Committee as part of the annual budget request process. JBC analysis [found that](#) “Performance outcomes do not shift funding in this model very much” and noted that the uncalibrated formula would reduce appropriations to the community college system, largely due to low completion rates.

TEXAS



In 2023, Texas passed [HB 8](#), which modifies the state formula for funding 50 community colleges to a [primarily outcomes-based](#) approach. The state’s previous funding formula relied on enrollment through contact and instructional hours provided. The legislation was a result of the work of the [Commission on Community College Finance](#) which was established by [SB 1230](#) in 2021. The commission worked with the Texas Association of Community Colleges and 48 member colleges to craft unanimous support for a funding model that includes measurable outcomes. The formula is also aligned to the state’s higher education strategic plan, [Building a Talent Strong Texas](#).

The new funding formula relies on several metric outcomes including:

- Dual enrollment completions – Funding awarded for high school students who complete at least 15 hours of sequential college credit that meets academic or workforce program requirements.
- Successful transfers – Funding for students who transfer to a Texas four-year university or enroll in a co-enrollment program.
- Credential attainment – Funding for completion of postsecondary credentials including degrees, certificates, and workforce credentials. The legislation allows for an additional weight for credentials issued in high-demand occupations.

Along with the restructuring of the funding formula, the state appropriated a total \$683 million to support community colleges and included provisions to hold institutions harmless to avoid budget cuts in this fiscal year. The Texas Higher Education Coordinating Board will oversee and can design specific metrics as part of the formula including weighting for economically or academically disadvantaged students and adult learners.

Other Programs

Some states are exploring postsecondary funding options that leverage new funding mechanisms or streams to reduce costs for students. For example, Virginia’s [FastForward](#) program ([HB 66](#); 2016) funds programs using a “[paying for success](#)” model, where students pay only one-third of tuition costs upon registration. An additional third is covered by the state upon training completion, and the final third is paid by the state when a credential is earned. Most FastForward programs are between six and 12 weeks and are offered at all the state’s 23 community colleges in high-demand occupations. Over 32,000 certificates and credentials have been issued in 40 in-demand careers across the state, and the average wage gain from program completion is \$11,626. In 2023, Montana passed [HB 245](#) which expands the state’s Trades Education and Training Credit. This [tax credit](#) is available to employers paying expenses associated with training or education for their employees to attend training for a trades profession. The credit covers up to 50% of the cost of education, up to \$2,000 per employee. HB 245 expands this credit to apply to more professions including agricultural equipment operators, construction professions, IT and computer science careers, and medical and dental professions.

Additional Resources

- [NCSL Podcast: Innovative Financing](#)
- [NCSL Postsecondary Bill Tracking Database](#)

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