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PUBLIC POLICY FOR A MORE GLOBALLY COMPETITIVE TEXAS

THE IMPACT OF FEDERAL POLICY CHANGES ON TEXAS HIGHER EDUCATION, WORKFORCE DEVELOPMENT, AND GLOBAL COMPETITIVENESS

Texas' economic strength depends on a steady pipeline of skilled, credentialed workers prepared to meet the demands of a fast-changing global economy. Talent is the most important factor in attracting investment, driving innovation, and sustaining long-term growth. Recent federal legislation will shape access to higher education and workforce readiness in Texas going forward. If Texas is to remain globally competitive, state policy makers and business leaders must understand the scale of the opportunity and the risks, and consider actions to shape implementation, fund strategic responses, and support education providers to optimize this evolving landscape.

According to the Texas Higher Education Coordinating Board (THECB) in an update on the state's strategic plan *Building a Talent Strong Texas*, in 2023, roughly **53.7%** of Texans ages 25-34 and **51.9%** of Texans ages 35-64 had earned a degree, certificate, or other postsecondary credential.¹ Texas' economy is growing rapidly in sectors like energy, healthcare, tech, logistics, advanced manufacturing, and biosciences. To sustain this growth, Texas must increase the number of residents who hold credentials that align with industry needs.

Federal and state job projections indicate strong demand for credentialed workers. Texas employment is projected to increase **14.7%** from 2022-2032. Many of the fastest-growing, higher-paying occupations require a credential and, in general, hiring managers are demanding workers with more technical skills, more work experience, and more education than in the past and this trend is likely to be accelerated with the expanding impact of AI on the workforce.² According to research by Texas 2036, an estimated **71% of Texas jobs will require postsecondary education by 2036** — underscoring the magnitude of the state's talent challenge.

Recent changes in federal policy are likely to have material impacts on higher education access and participation. These changes create both opportunities and challenges for Texas and this paper will highlight two key areas, the impact on affordability and access to workforce training.

FEDERAL ACTIONS IMPACTING HIGHER EDUCATION AFFORDABILITY

1. Pell funding infusion and ongoing fiscal risk

A notable near-term win in H.R. 1, One Big Beautiful Bill (OBBB), was the appropriation of **\$10.5 billion** to shore up Pell Grant funding, effectively backstopping the program against immediate cuts. However, this infusion is not a durable solution—Pell remains vulnerable to future federal budget pressures. Based on data from the Congressional Budget Office, it is estimated that there will be a **\$61 billion shortfall over the next 10 years** and this could increase with the expansion of Pell to include short-term credential programs.³ Because **Pell is the largest single source of grant aid for low- and moderate-income students in Texas** (and nationally), any instability in its funding could have outsized impacts on enrollment and completion.

In Texas, state policymakers this year appropriated an additional \$320 million (a 22% increase compared to the previous biennium) to the state's need-based financial aid programs; however, this is only sufficient to reach a projected 67.5% of eligible students. Even if they receive financial aid, it does not cover the full cost of attendance for many students and recent inflation trends have exacerbated this. After accounting for financial aid and family contributions, the average Texas student needs more than \$11,400 to cover the remaining costs.⁴ According to the **2024 Student Financial Wellness Survey by Trellis Strategies**, 58% of respondents reported basic needs insecurities and 68% reported running out of money at least once during the school year.⁵

Given this shortfall in both state funding and addressing the full cost of attendance, it is critical that Texas maintain pressure on federal appropriations while bolstering its own financial aid infrastructure to keep pace with the state's established goal of supporting 70% of eligible students demonstrating financial need. State policy makers should also consider opportunities to provide institutions with more flexibility to leverage various sources of aid to help students cover unanticipated expenses that may jeopardize their ability to persist and complete.

2. Increased repayment risks and constraints on delinquency relief

OBBC contains sweeping changes to student loan repayment flexibility, with potentially harmful consequences for borrowers, particularly those who face financial hardship:

- The option for **\$0 payments** for new borrowers living in or near poverty is eliminated. That is, new borrowers will no longer be able to enroll in plans that set payments to zero (based on income) as a default safety valve.
- After July 1, 2027, borrowers will no longer be able to use **economic hardship or unemployment deferrals** to pause payments if they cannot afford them.
- The **forbearance option** is curtailed: caps are reduced from 12 months at a time (up to 3 full years) to 9 months at a time within any 24-month period.

Combined, these restrictions to consumer protections mean that borrowers who lose income, face health issues, or have uneven earnings will have fewer options to suspend payments or avoid default. This will make the repayment system less responsive to economic downturns. Texas is particularly at risk with this change as one of the top ten states with the highest percentage of delinquent borrowers at 29.7% according to research by the Education Trust.⁶ State policy makers and institutions of higher education should work to protect students from these repayment risks through mitigation tactics such as providing robust debt counseling.

The legislature took an important step in the 89th session with SB 2314 in ensuring that students

have access to resources through **MyTexasFuture.org** to make informed decisions about investing in education. In addition to streamlining the college application process and facilitating direct admissions, this portal provides transparent wage outcomes and debt-to-earnings data by field of study and institution to empower student decision-making. These resources can guide risk adverse students to pursue credential programs in high-demand, high-wage fields that offer a strong return on their investment in education in order to avoid loan repayment challenges.

FEDERAL SUPPORT FOR WORKFORCE EDUCATION

One of the most transformative changes in OBBB is the creation of **Workforce Pell (Short-term Pell)** which will increase access to high-quality short-term credential programs (eight to 14 weeks in length and 150 to 599 clock hours) by providing eligibility for federal financial aid funding through Pell. Improving the affordability of these programs will increase access to a pathway for nontraditional learners and adults looking to reskill or upskill to advance their career and adjust to rapidly changing workforce needs.

Credential attainment is proven to improve lifetime earning rates and help grow the economy and many Texans stand to gain from this opportunity such as the 4.8 million residents who have only a high school diploma.⁷ A recent Strada study found that students at Texas community colleges that completed non-credit occupational training programs had an average annual earnings increase of more than \$2,000 for completing just 92 hours of training and were 4 percentage points more likely to be employed two years later. Students completing programs in higher demand fields such as commercial driving, engineering technologies, and construction experienced higher than average wage gains.⁸

Under new federal law, programs will go through a state approval process to qualify for Workforce Pell and must meet U.S. Department of Education accountability requirements to maintain eligibility. The Department of Education is currently fleshing out implementation details through rulemaking to ensure these programs provide value to students and pathways to employment that meet workforce needs. The negotiated rulemaking committee reached consensus in mid-December on the following proposed regulations that will be subject to public comment prior to finalization in 2026:

WORKFORCE PELL GUARDRAILS ^{9, 10}

State Governor Approval Process to Determine Eligibility	Accountability Standards to Maintain Eligibility
<ul style="list-style-type: none">• Prepares students for high-skill, high-wage or in-demand occupations as defined by the state in alignment with Perkins and WIOA• Meets the hiring requirements of employers• Leads to a recognized postsecondary credential• Awards academic credit towards the program requirements of a related certificate or degree at one or more institutions as demonstrated by written agreement• Has met all requirements for at least 12 months before approval	<ul style="list-style-type: none">• Have a 70% completion rate within 150% of normal completion time• Have a 70% job placement rate• Meet a “value-added earnings” benchmark that tuition and fees cannot be higher than the difference between a graduate’s average earnings and 150% of the poverty line (earnings are measured for graduates one year after completion)

Texas is a national leader in postsecondary outcomes funding for sub-baccalaureate programs centered on value-added earnings which strongly positions our higher education system to maximize this opportunity as compared to other states when access to Workforce Pell starts on July 1, 2026. The Texas State Technical College System (TSTC) which provides technical training in high-demand fields utilizes a 100% outcomes-based "returned-value" funding model, where its state funding is directly tied to wages for students who graduated or completed at least nine credit hours. This incentivizes TSTC to partner with employers to ensure that its graduates have the right skills to be job ready. Since Proposition 1 passed in the recent election, TSTC now has a permanent funding source to support basic infrastructure and allow for expansion as the state's workforce needs grow.

Additionally, House Bill 8 passed by the 88th Texas Legislature has led to an increase in short-term credential offerings at community colleges as a result of new outcomes funding that emphasizes "credentials of value" aligned to workforce demand. Through Senate Bill 1786 (89R), the legislature directed THECB to adopt rules by 2027 to strengthen the credentials of value definition for short-term credentials that will determine what qualifies for state funding to ensure students get a good return on the investment in these programs.

Currently Texas Business Leadership Council is participating in the Certificate Programs Task Force led by the Texas Association of Community Colleges that is evaluating short-term credential program characteristics and wage outcomes to make recommendations to THECB on how to approach the ROI calculation. It will be important for this framework to take into consideration Workforce Pell accountability standards so that Texas community colleges are positioned to optimize this new financial aid opportunity for these programs.

To prepare for the launch of Workforce Pell, institutions should be studying their completion rates and refining student success strategies to meet the 70% completion standard, as well as evaluating earnings data by program. Additionally, employer partnerships are critical to validate that short-term credentials produce the skills needed to be successful on the job and to develop hiring pipelines to support the 70% job placement requirement and earnings threshold to maintain Workforce Pell eligibility.

CONCLUSION

Recent federal policy changes present Texas with a consequential moment—one that will shape the state's talent pipeline, economic growth, and global competitiveness for years to come. The creation of Workforce Pell offers meaningful opportunities to increase access to education and accelerate credential attainment in high-demand fields, particularly for adult learners and those seeking rapid reskilling. At the same time, heightened risks to Pell's long-term stability and reduced flexibility in student loan repayment introduce real threats to affordability, enrollment, and completion. How Texas responds will determine whether these federal shifts translate into stronger outcomes or deepen the state's talent gap.

Texas is well positioned to lead, but success will require intentional alignment across state policy, institutional practice, and employer engagement. State leaders should reinforce financial aid investments and preserve flexibility for institutions to support student persistence. Business leaders have a critical role to play by partnering with education providers to validate credentials of value, co-design workforce pathways, and create hiring pipelines that translate training into employment and earnings. By acting decisively and collaboratively, Texas can leverage federal changes to expand opportunity, meet employer demand, and ensure its workforce remains competitive in an increasingly skills-driven global economy.

FOR QUESTIONS OR ADDITIONAL INFORMATION:

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END NOTES

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7. THECB: Increasing Attainment Rates for Working Age Texans (September 2025) <https://databridge.highered.texas.gov/increasing-attainment-rates-for-working-age-texans/>
8. Strada Institute for the Future of Work: Does Occupational Training Pay Off for Students? (November 2025) https://cdn.prod.website-files.com/6777c52f82e5471a3732ea25/692dd231e9652ddb62444041_Strada_IFW_OccupationalTraining_Nov2025.pdf
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