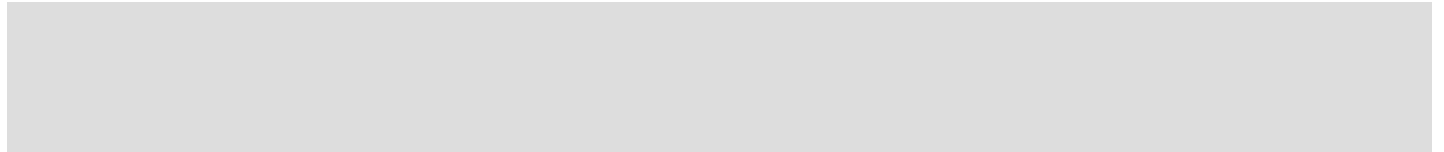


STATE FUNDING FOR INSTITUTIONS OF HIGHER EDUCATION

Legislative Budget Board Staff

Presented to the House Committee on Appropriations

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Texas Public Higher Education

- 50 Community and Junior Colleges
Annual Unduplicated Enrollment 2012 – 846,000

- 38 General Academic Institutions (including law schools)
Fall 2012 Total Headcount Enrollment – 577,000

- Nine Health Related Institutions
 - Eight medical schools
 - Dental, Pharmacy, Allied Health, and Nursing schoolsFall 2012 Total Headcount Enrollment – 22,000

- One Texas College System with four main campuses
Annual Unduplicated Enrollment 2012 – 18,000

- Three Lamar State Colleges
Annual Unduplicated Enrollment 2012 – 16,000

State Funding for Institutions of Higher Education is not based on enrollment data, but is generally based on weighted semester credit hours, contact hours, full time equivalent students, and other operations.

Appropriated vs. Non-appropriated Funds

Appropriated

- General Revenue
- GR-Dedicated, “Local Funds” includes:
 - Net Tuition
 - Student teaching fees
 - Special Course Fees
 - Student Teaching Fees
 - Organized Activity Fees
 - Income from the sale of Educational and General Equipment

Appropriated in various ways:

- Directly in institution’s bill pattern
- Indirectly appropriated in other parts of the General Appropriations Act

Non-appropriated

- Designated Funds
 - Designated Tuition
 - All other fees
 - Interest on local funds
 - Restricted Funds
 - Earnings on endowments
 - Contracts & grants
 - Gift funds
- Auxiliary Income
- Patient Income
- Other Funds collected at the institution that are not “educational and general”

Appropriations v. Expenditures

Institutions of higher education receive lump sum, estimated appropriations. Unlike other state agencies, higher education institutions are not bound to spend the appropriation within the specified strategy, with the following exceptions:

- Article VII, Section 17(j) and 18(l) of the Texas Constitution prohibits, with limited exceptions, the use of General Revenue Funds for construction projects. However, the legislature, by two-thirds vote in each house, may expressly determine that there is a natural disaster or demonstrated need for the project.
- Education Code Section 130.003(c) restricts the use of Public Community/Junior Colleges General Revenue Funds only for the purpose of instruction and administrative costs.
- Section 12 of the Higher Education Special Provisions, GAA, prohibits the use of appropriated funds for the support or maintenance of alumni organizations or activities.
- Section 6, Rider 8b of the Higher Education Special Provisions, GAA, prohibits the use of appropriated funds for auxiliary purposes, such as athletics and parking.
- Section 6, Rider 9 of the Higher Education Special Provisions, GAA, limits the use of appropriations for tuition revenue bond debt service to pay debt service for tuition revenue bonds.
- Section 52 of the Higher Education Special Provisions, GAA, also restricts the use of funds in the Research Development Strategy to purposes defined in Education Code Section 62.091.
- Certain institutions have riders that require appropriated funds to be spent on a particular program.

**Introduced House Bill Total 2014-15 Biennial Appropriation for
General Academic Institutions is \$6.0 billion**
(General Revenue \$4.1 billion; GR–Dedicated \$1.9 billion; Other \$15 million)

1. Formula – General Revenue and General Revenue-Dedicated (\$4,374 million)
 - ❑ Instruction and Operations, including Teaching Experience Supplement (\$3,481 million)
 - ❑ Infrastructure, including Small Institution Supplement (\$671 million)
 - ❑ Board Authorized Tuition (\$222 million)

2. Non-Formula General Revenue (\$1,114 million)
 - ❑ Special Items, including Institutional Enhancement (\$441 million)
 - ❑ Tuition Revenue Bond Debt Service (\$413 million)
 - ❑ Texas Competitive Knowledge Fund (\$100 million)
 - ❑ Research Development Fund (\$65 million)
 - ❑ System Office Operations (\$42 million)
 - ❑ Academic Development Initiative (\$37 million)
 - ❑ Workers' and Unemployment Compensation Insurance (\$13 million)
 - ❑ Lease of Facilities (\$3 million)

3. Non-Formula General Revenue Dedicated (\$512 million)
 - ❑ Public Education Grants (\$223 million)
 - ❑ Staff Group Insurance (\$220 million)
 - ❑ Organized Activities (\$52 million)
 - ❑ Special Items (\$17 million)

General Academic Institutions Formula Funding Mechanics

- Formulas are a distribution method for higher education funding. Higher education formulas do not create a statutory or constitutional entitlement.

- Allocations Among Formulas. Generally, formula funding flows:
 - 83% through Instructions & Operations and Teaching Supplement and
 - 17% through Infrastructure.

- Formula Method of Finance. All Funds methodology which means that General Revenue and GR-Dedicated–Other Educational and General Income (E&G) are used to fund the formulas. “Other E&G” includes revenue generated by statutory tuition, interest on funds in the state treasury, and various fees. (Board Authorized Tuition is distributed after formula calculation, therefore does not affect the amount of General Revenue.)

- Other E&G Set Asides. Some E&G income is set aside for specific purposes. Specific amounts are unavailable for formula purposes and, consequently, as a formula method of finance. For example, institutions set aside a portion of their tuition to provide Texas Public Education Grants.

General Academic Institutions Formula: Instructions and Operations

Introduced House Bill 2014-15 Biennium: \$3,481 million
(includes \$94 million for Teaching Experience Supplement)

Semester Credit Hours	X	Program/Level Weight	X	Rate
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Semester credit hours (SCH) SCH is a measure of how many classes an institution delivers. The time for which data is gathered is called the **base period**. The base period used for the Introduced Bill 2014-15 biennium is Spring, Summer, and Fall of 2012. In March, the Higher Education Coordinating Board will provide updated numbers based on the base period of Summer and Fall of 2012 and Spring of 2013.

SCH are **weighted** by discipline (e.g. nursing is weighted more than liberal arts) and by level (i.e. lower and upper division, masters, doctoral, and professional.)

The Legislature sets the rate based on available funding, including consideration of enrollment changes and other factors.

Teaching Experience Supplement

Semester Credit Hours	X	Program/Level Weight	X	Supplement	X	Rate
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(0.10)

Hours taught by **tenured or tenure-track faculty** qualify for the teaching experience supplement.

The weight functions as it does in the Instruction and Operations formula.

General Academic Institutions, Lamar State Colleges, and Texas State Technical Colleges

Formula: Infrastructure

Introduced House Bill 2014-15 Biennium: \$696 million

The infrastructure formula uses a statewide infrastructure rate, which is set in the appropriations bill. The statewide infrastructure rate is divided into two rates: a utility rate and an “all other” infrastructure rate. As with the SCH rate, the Legislature sets the rate based on available funding, including consideration of changes in space and other factors.

Institutions with enrollment less than 10,000 receive a Small School Supplement for infrastructure.

(**Adjusted Utility** + **All Other**) X **Predicted Square Feet**

The **Adjusted Utility Rate** is adjusted for each institution to reflect local utility costs, relative to other institutions.

The **All Other Rate** is constant among institutions and accounts for physical plant, grounds, maintenance, and custodial services.

Institutions generate infrastructure funding according to the amount of space they *should* need, as predicted by the Coordinating Board’s **space model**, not on the space they actually have.

The space model is based on factors including:

- number, program & level of SCH;
- number of faculty, non-faculty, students, programs, and library holdings; and
- research and current E&G expenditure

**Introduced House Bill Total 2014-15 Biennial Appropriation for
Health Related Institutions is \$2.6 billion**
(General Revenue \$2.4 billion; GR–Dedicated \$160 million; Other \$108 million)

1. Formula (\$1,687 million)

GR and GR-Dedicated Formulas:

- Instruction and Operations (\$1,017 million)
- Infrastructure (\$233 million)

GR Formulas:

- Cancer Center Operations (\$237 million)
- Research (\$65 million)
- Graduate Medical Education (\$49 million)
- Chest Disease Center Operations (\$49 million)

- Board Authorized Tuition (\$37 million)

Appropriations for Health Related Institutions (cont.)

2. Non-Formula General Revenue (\$798 million)

- Special Items, including Institutional Enhancement (\$329 million)
- Hospital Operations (\$290 million)
- Tuition Revenue Bond Debt Service and Facilities Operations (\$176 million)
- Workers' and Unemployment Compensation Insurance (\$3 million)

3. Non-Formula General Revenue-Dedicated (\$47 million)

- Staff Group Insurance (\$24 million)
- Public Education Grants (\$21 million)
- Medical Loans (\$2 million)

4. Other Funds Include Tobacco Funds and Interagency Contracts; patient income was previously appropriated but House Bill 1 removes that funding from the appropriations process.

Introduced House Bill Total 2014-15 Biennial Appropriation for Public Community and Junior Colleges is \$1.6 billion in General Revenue

1. Formula (\$1.6 billion)

- Instruction and Administration

Formula is General Revenue only and is based on contact hours

2. Non-Formula (\$18 million)

- Special Items (\$12 million)

- Small Institution Supplement (\$4.5 million)

Eligible institutions receive \$500,000 each for the biennium

- Bachelor of Applied Technology (\$1 million)

Funding is based on the General Revenue rate of the General Academic Instruction and Operations formula

**Introduced House Bill Total 2014-15 Biennial Appropriation for
Lamar State Colleges and Texas State Technical Colleges is \$202 million
(General Revenue \$147 million; GR–Dedicated \$55 million)**

1. Formula (\$161 million)

- Instruction and Administration (\$136 million)

Formulas are based on contact hours. General Revenue-Dedicated statutory tuition is distributed after the formula calculation and is not used to offset General Revenue in these formulas.

- Infrastructure (\$25 million)

Lamar State Colleges and Texas State Technical Colleges are included in the Infrastructure formula for the General Academic Institutions. Ten percent of their General Revenue-Dedicated statutory tuition is included in the formula.

2. Non-Formula General Revenue (\$25 million)

- Special Items, including Institutional Enhancement (\$14 million)
- Tuition Revenue Bond Debt Service (\$6 million)
- System Office Operations (\$5 million)

3. Non-Formula General Revenue Dedicated (\$17 million)

- Public Education Grants (\$10 million)
- Staff Group Insurance (\$7 million)

Constitutional Funds

Available University Fund

2014-15 Biennium: \$1.3 billion in Other Funds

The Available University Fund (AUF) consists of the proceeds from the Permanent University Fund (PUF). Two-thirds (2/3) of the AUF is appropriated to the UT System and 1/3 is appropriated to the A&M System.

The UT and A&M Systems may use AUF for capital purposes (debt service on PUF bonds) and, at some institutions, for promoting “excellence.” The system offices, UT Austin, Texas A&M, and Prairie View A&M are eligible for “excellence funds.” The systems’ boards of regents determine allocations to individual institutions, including health-related institutions, and how excellence funds are spent. Currently, there are two institutions under The University of Texas System and six institutions under the Texas A&M system that are not eligible to receive PUF funds

Higher Education Fund

2014-15 Biennium: \$525 million in General Revenue

The HEF is a constitutional fund, established to benefit institutions of higher education not eligible for PUF/AUF. The HEF is supported by GR appropriations. Institutions may use HEF allocations for debt service on HEF bonds or as cash. HEF allocations must be used for capital purposes.

Constitutional Funds (cont.)

Available National Research University Fund

2014-15 Biennium: \$56 million in Other Funds

The NRUF is a constitutional fund created in 2009 to assist emerging research universities achieve Tier 1 status. The Higher Education Coordinating Board determines eligibility criteria, which consists of two mandatory requirements: (1) designation as an emerging research university, and (2) restricted research expenditures of at least \$45 million for each of the two previous fiscal years. A school must also meet four of six additional criteria relating to academic excellence and research capabilities. There are currently eight emerging research universities as designated by the HECB, but only two (The University of Houston and Texas Tech University) have met all the requirements to receive NRUF distributions.

Tuition Revenue Bond Debt Service

Introduced House Bill 2014–15 Biennium: \$588 million (appropriated directly to institutions in their bill patterns)

- Tuition revenue bonds (TRBs) are revenue bonds, backed by tuition and fees, issued by institutions of higher education.
- TRBs are used to finance educational space, but cannot be used to support auxiliary space such as dormitories.
- A university or college system is authorized to pledge the tuition income from all the system's institutions to support the system's bonds.
- The Legislature authorizes issuance of the bonds in legislation. Typically there is not an expiration date on the authorization.
- The authorization and issuance of the bonds is not contingent on an appropriation for related debt service, but legislative practice has been to use General Revenue to reimburse institutions for the cost related to debt service.
- TRBs are not included in the calculation of the constitutional debt limit.

<u>Total TRB Authorizations</u>		
1991	\$	60 million
1993	\$	352 million
1995	\$	9 million
1997	\$	638 million
2001	\$	1,082 million
2003	\$	269 million
2006	\$	1,859 million
2007	\$	13 million
2009	\$	155 million

Higher Education Employees Group Insurance

Introduced House Bill 2014–15 Biennium: \$1,108 million in General Revenue

- Higher Education Employee Group Insurance is a separate, sum certain General Revenue appropriation that funds health insurance benefits for employees whose salaries are paid by General Revenue. Higher Education Employees Group Insurance Contributions bill pattern includes a line item for each institution.
- The appropriation is intended to fund the total cost of basic life and health employee-only coverage for all active and retired employees and 50% of the difference of between employee-only health coverage for spouses and dependent children.
- ERS provides coverage for all institutions of higher education except the University of Texas and Texas A&M Systems, which provide their own coverage.
- For employees whose salaries are paid from Other Educational General Income (E&G), health insurance costs are represented in the Staff Group Insurance Strategy of each institution's bill pattern, and are estimated for informational purposes only.

HIGHER EDUCATION COORDINATING BOARD

Introduced House Bill Total 2014-15 Appropriation is \$1.3 billion

(General Revenue \$1.1 billion; GR-Dedicated \$116 million; Federal \$55 million; Other \$41 million)

1. Financial Aid Programs

- Texas Grants (\$560 million)

Grant for students at public institutions who show financial need

- Tuition Equalization Grants (\$169 million)

Grant for students at private institutions who show financial need

- B-On Time (\$112 million)

Loan forgiveness program for students at public and private institutions funded, in part, by tuition set asides

- Other Financial Aid programs include Texas Educational Opportunity Grants, College Work Study, Teach for Texas Loan Repayment Program, Top Ten Percent Scholarships, and Texas Armed Forces Scholarship

2. Research Programs

- Texas Research Incentive Program (\$36 million)

Emerging research universities are eligible for this program

- Advanced Research Program (\$1 million)

Competitive grant program for public and private universities

HIGHER EDUCATION COORDINATING BOARD (cont.)

3. Health Programs

- Physician's Education Loan Repayment Program (\$34 million)

This program is supported by a tax on smokeless tobacco

- Professional Nursing Shortage Program (\$30 million)
- Other health programs include Family Practice Residency Program and the Joint Medical Admission Program

4. Other

- Baylor College of Medicine funding is tied to the formulas for the Health Related Institutions
- Quality and Access Programs include Developmental Education Programs, Centers for Teacher Education, and Adult Basic Education Community College Grants
- Trusteed Funds
- Administrative Funding

Texas A&M System Agencies

Introduced House Bill Total 2014-15 Appropriation is \$849 million

(General Revenue \$277 million; GR-Dedicated \$31 million; Federal \$214 million; Other \$327 million)

- The System agencies do not receive formula based funding for operations or administration and do not generate tuition. Funding for their infrastructure inside of Brazos County is based on the rate for Texas A&M University in the general academic institution infrastructure formula.
- 1. Texas A&M AgriLife Research (\$134 million)
Conducts research in the agricultural, environmental, and life sciences and administers the honey bee regulation and feed and fertilizer programs.
- 2. Texas A&M AgriLife Extension Service (\$129 million)
Provides training and education programs, including 4-H, through county extension agents and provides wildlife and insect management services.
- 3. Texas A&M Engineering Experiment Station (\$234 million)
Conducts engineering and technology research.
- 4. Texas A&M Transportation Institute (\$100 million)
Conducts transportation research and develops transportation related technology.

Texas A&M System Agencies (cont.)

5. Texas A&M Engineering Extension Service (\$148 million)

Provides training, technical assistance, and emergency response and administers Texas Task Force 1.

6. Texas A&M Forest Service (\$75 million)

Provides incident management teams and emergency response through the Texas Wildfire Protection Plan and provides wildfire prevention and detection services.

7. Texas A&M Veterinary medical Diagnostic Laboratory (\$30 million)

Provides fee-based veterinary medical diagnostic services and responds to potential high consequence and emerging disease events.