

**State Funding for
General Academic
Institutions of Higher Education**

Prepared by the Legislative Budget Board Staff
for the Joint Interim Committee on Higher Education Excellence Funding
February 2002

Total 2002-03 Biennial Appropriation for General Academic Institutions in Texas is \$6.2 Billion

(General Revenue \$4.4 billion; GR-Dedicated \$1.2 billion; Other \$0.6 billion)

1. Formula (\$3,620 million)
 - a. Instruction and Operations, including Teaching Experience Supplement (\$2,951 million)
 - b. Infrastructure (\$646 million)
 - c. Hold Harmless (\$23 million)

2. Non-Formula (\$2,262 million)
 - a. Institutional Enhancement (\$253 million)
 - b. Special Items (\$258 million)
 - c. Capital Equity and Excellence (\$91 million)
 - d. Available University Fund and Higher Education Fund (\$891 million)*
(an additional \$83 million is available for the Univ. of Texas and Texas A&M Systems)
 - e. HB 1839 – Excellence and University Research Funds (\$68 million)*
 - f. Capital Funds (\$235 million)
 - g. Higher Education Employees Group Insurance (\$395 million)*
(an additional \$1 million is appropriated for all system offices)
 - h. Indirect Cost Recovery (\$71 million)

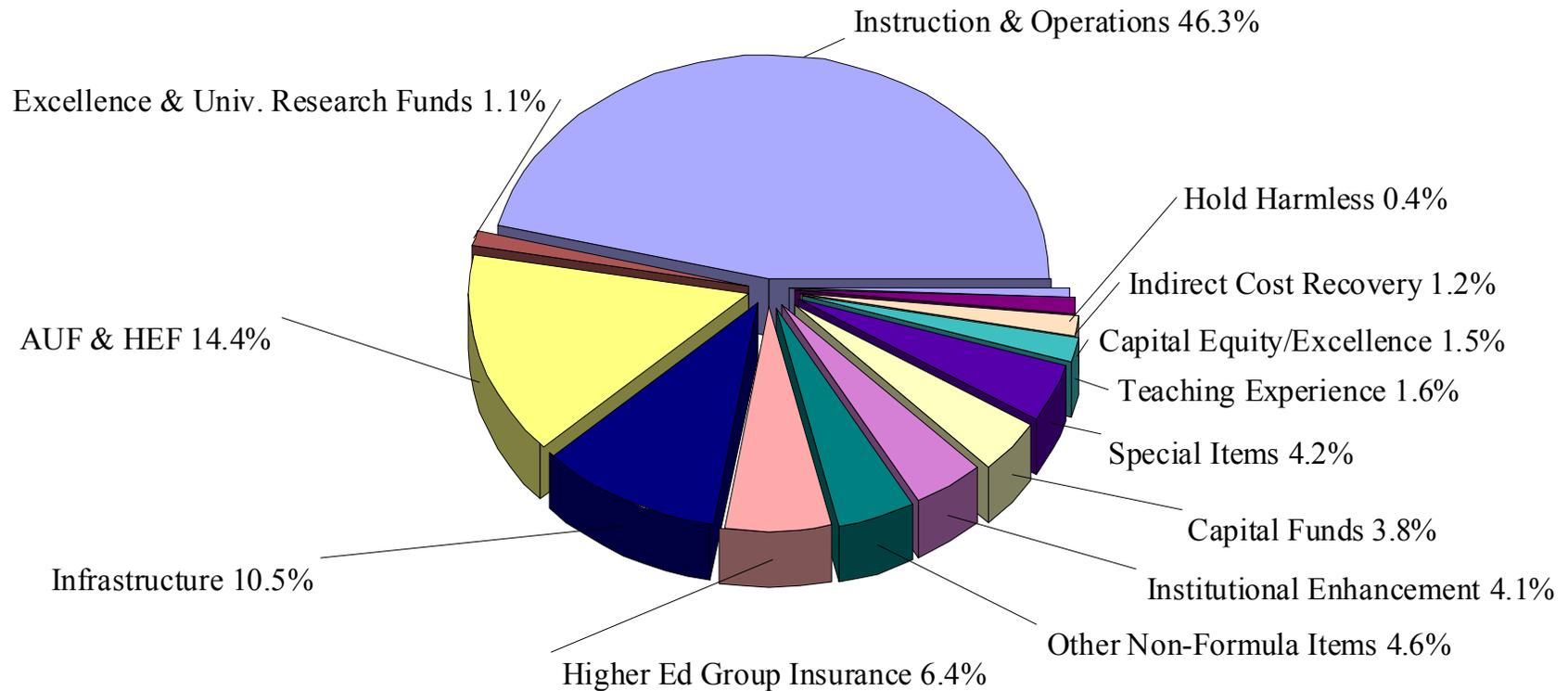
* Not directly appropriated to the institutions.

3. Other Non-Formula Items (\$286 million)

These items include Staff Group Insurance, Workers' and Unemployment Compensation, Public Education Grants, and Organized Activities

4. Other Sources of Revenue Not Included in the \$6.2 Billion Total are:
 - Coordinating Board–Trusteed Funds \$ 460 million
(The majority of the Trusteed Funds relate to student financial aid. see page 19)
 - Retirement Contribution for Higher Ed Employees \$ 641 million
(This figure reflects all higher education employees, not just those at general academic institutions.)

The \$6.2 Billion in appropriations is distributed as follows:



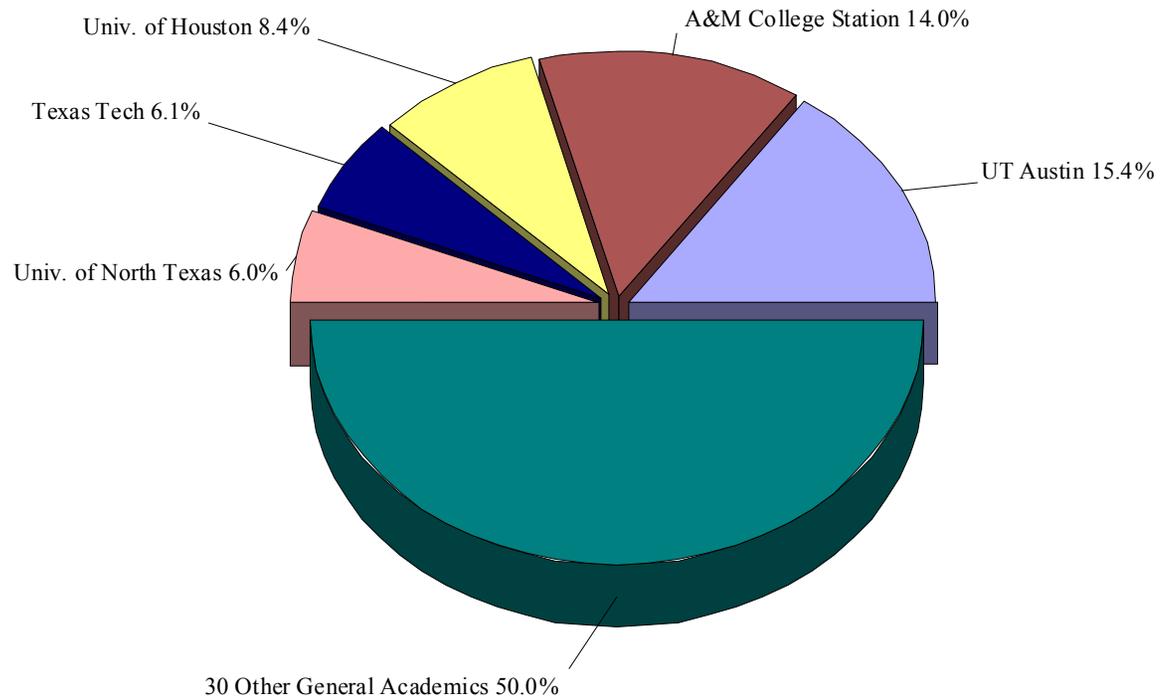
Appropriations v. Expenditures

- 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. The funding formulas reflect how the state funds are “earned,” not how they must be spent.
- *Except*, debt service on tuition revenue bonds must be spent as appropriated, or it reverts to the Treasury. *Also*, Excellence and University Research Funds and Available University and Higher Education Funds must be used for the purpose for which they are intended.
- The Texas Constitution (Art. VII, § 18(i)) prohibits, with limited exceptions, the use of general revenue funds for construction projects. An exception includes the legislature, by two-thirds vote of each house, expressly determining that there is a demonstrated need for the project.
- The General Appropriations Act (Higher Education Special Provisions, Sec.6 (8b)) specifically prohibits the use of appropriated funds for auxiliary purposes.

Formula Funding Mechanics

- ***Allocations Among Formulas.*** Generally, formula funding flows:
 - 80% through Instructions & Operations and Teaching Supplement and
 - 20% 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, indirect cost recovery (50%), interest on funds in the state treasury, and various fees. (Board Authorized Tuition is distributed across the formula strategies after the 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 (TPEGs – \$130 million for biennium).

Formula: Instruction and Operations
2002-03 Biennium: \$2,950.9 million
(includes \$96.8 million for Teaching Experience Supplement)



Formula: Infrastructure

2002-03 Biennium: \$645.8 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 5,000 receive a \$750,000 annual Small School Supplement for infrastructure.

$$\left(\begin{array}{c} \text{Adjusted Utility} \\ \text{\$ \$ Rate} \end{array} + \begin{array}{c} \text{All Other} \\ \text{\$ \$ Rate} \end{array} \right) \times \text{Predicted Square Feet}$$

The **Adjusted Utility Rate** is 49.6% of the statewide infrastructure rate. The statewide rate is then adjusted for each institution to reflect local utility costs, relative to other institutions.

The **All Other Rate** is 50.4% of the statewide infrastructure rate and constant among institutions. It accounts for physical plant, grounds, maintenance, and custodial services.

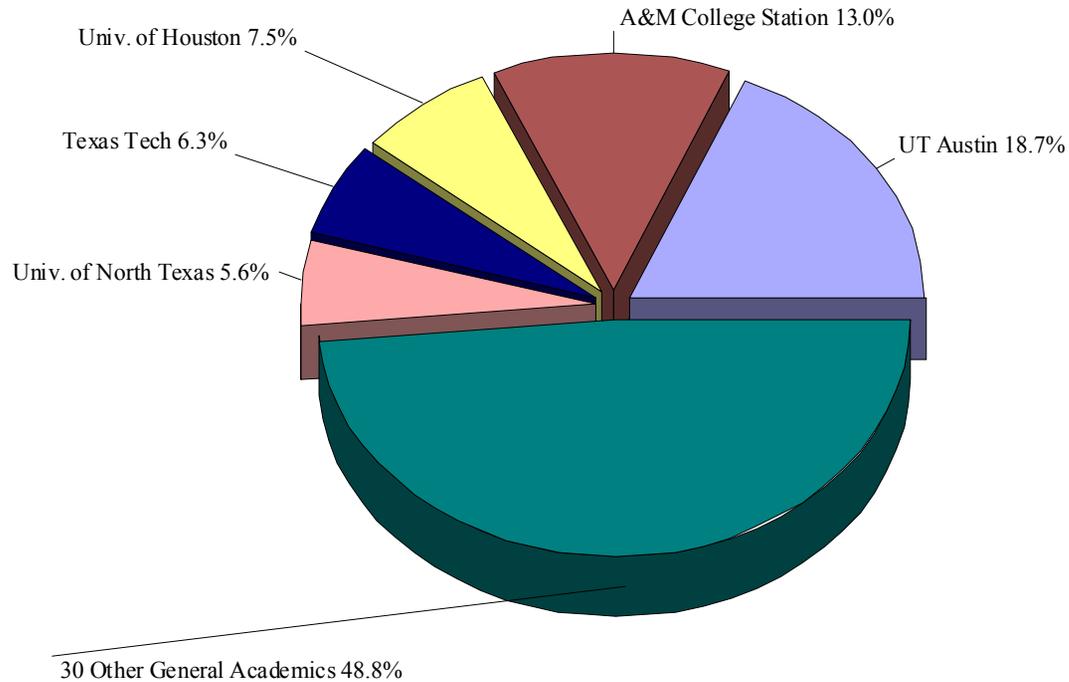
Institutions generate infrastructure funding according to the amount of space they *should* need, as predicted by the Coordinating Board’s *space model*, not on the space they actually have.

The space model is based on:

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

Formula: Infrastructure

2002-03 Biennium: \$645.8 million



Small School Supplement Recipients

- | | |
|-------------------|-----------------------|
| UT Brownsville | A&M Texarkana |
| UT Permian Basin | UH Victoria |
| UT Tyler | Sul Ross |
| A&M Galveston | Sul Ross - Rio Grande |
| A&M International | |

Formula: Hold Harmless
2002-03 Biennium: \$23 million

The 77th Legislature provided hold harmless funding for any institution that would have otherwise received less formula funding than it did in the previous biennium. It is paid with General Revenue.

Declines in formula funding are generally due to:

- declining enrollment;
- a shift from upper level or graduate semester credit hours to lower level hours;
- a much smaller increase in enrollment than other institutions; or
- a change in utility costs.

Non-Formula: Institutional Enhancement
2002-03 Biennium: \$253 million

The base for Institutional Enhancement includes the 1999 consolidated funding for certain types of special items, *as they existed in the 76th Legislature's HB 1, as introduced*, and \$1 million per year per institution for the 2000-01 biennium.

For the 2002-03 biennium there is an additional \$1 million per year per institution for most institutions and \$1.5 million per year per institution for selected institutions in South Texas and the Border region. Institutions that benefitted significantly from the 77th Legislature's new research and excellence funding (House Bill 1839) or from Permanent University Fund excellence funding did not receive a 2002-03 enhancement.

Non-Formula: Capital Equity and Excellence

2002-03 Biennium: \$91.1 million

FY 2002, the Capital Equity and Excellence strategy uses the parameters of the Higher Education Fund (HEF) allocation model, which include space deficit (space model projection minus actual space), the condition of facilities, and institutional complexity. Different types of institutions are eligible for each part.

Capital Equity was intended to address reported inequities in capital funding between PUF- and HEF-eligible institutions. PUF- eligible general academic institutions, *except* UT Austin and Texas A&M, receive these funds:

- UT Arlington, Dallas, El Paso, Permian Basin, San Antonio, Tyler
- A&M Galveston, Prairie View A&M, Tarleton

Excellence is intended to allow an institution to pursue its unique mission, e.g., research enhancement, student services, recruitment efforts, etc. All general academic institutions, *except* UT Austin and Texas A&M, are eligible.

FY 2003, all Capital Equity and Excellence funding will be distributed according to the Excellence allocation. Those receiving Capital Equity funding receive a hold harmless in 2003.

Funding for Capital Equity and Excellence Hold Harmless is not to be continued after the 2002-03 biennium. (Higher Education Special Provisions Rider #50.)

Non-Formula: Special Items

2002-03 Biennium: \$258.0 million

(includes \$50 million OCR appropriation for Prairie View A&M & TSU)

Special items are activities that are not funded by formula or direct payment but are specifically designated by the Legislature for state support. They include:

- public service items;
- research items, other than general research support;
- student nurse stipends;
- funding for separate campuses;
- accreditation program items; and
- specific one-time capital expenses.

Proposed special items are called *exceptional items*.

Non-Formula: Constitutional Funds for General Academics

Available University Fund

2002-03 Biennium: \$578.8 million

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.

(An additional \$191.6 million has been budgeted for System and non-general academic institutions)

Higher Education Fund

2002-03 Biennium: \$312.4 million

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.

The total HEF appropriation is \$224.4 million/year. Pursuant to the constitution, \$175 million is allocated by statute to institutions (\$156.2 million to general academics and \$18.8 million to other institutions). Pursuant to statute, the remaining \$49.4 million is, in part, set aside to build a permanent fund corpus to \$2 billion and, in part, to fund the Texas Excellence Fund (HB 1839) for allocation to HEF institutions.

AUF Recipients

Excellence and Debt Service:

UT Austin **A&M University**
Prairie View A&M

Debt Service Only:

UT Arlington **UT San Antonio**
UT Dallas **UT Tyler**
UT El Paso **A&M Univ. Galveston**
UT Permian Basin **Tarleton State Univ.**

Non-General Academic Institutions w/ AUF Excellence and Debt Service:

UT System **A&M System**

Non-General Academics w/AUF Debt Service:

UT Southwestern Medical Center
UTMB Galveston
UT Health Science Center Houston
UT Health Science Center San Antonio
UT MD Anderson Cancer Center
UT Health Center Tyler
TAMUS Health Science Center
Agricultural Experiment Station
Cooperative Extension Service
Engineering Experiment Station
Engineering Extension Service
Texas Transportation Institute
Texas Forest Service

HEF Recipients

UT Pan American **Univ. North Texas**
UT Brownsville **Midwestern State Univ.**
A&M Corpus Christi **Stephen F Austin Univ.**
A&M International **Texas Southern Univ.**
A&M Kingsville **Texas Tech Univ.**
West Texas A&M **Texas Woman's Univ.**
A&M Commerce **Angelo State Univ.**
A&M Texarkana **Lamar Univ. - Beaumont**
U of Houston **Sam Houston State Univ.**
UH Clear Lake **Southwest Texas State**
UH Downtown **Sul Ross State Univ.**
UH Victoria **SRSU - Rio Grande**

Non-General Academics w/ HEF:

Lamar Univ. - Orange
Lamar Univ. - Port Arthur
Lamar Institute of Technology
Univ. North Texas Health Science Center
Texas Tech Univ. Health Sciences Center
Texas State Technical College System Administration
and four components

Non-Formula: HB 1839 – Excellence and University Research Funds

2002-03 Biennium: \$67.6 million

In 2001, the 77th Legislature created the Texas Excellence Fund and the University Research Fund. Both funds support excellence and research at general academic institutions.

Texas Excellence Fund

2002-03 Biennium: \$33.8 million

The Texas Excellence Fund is for general academic institutions that are HEF-eligible.

The **21 institutions** are divided into two groups, based on annual restricted research expenditures and the number of PhDs awarded.

- three institutions considered *comprehensive research universities* (Houston, Tech, and North Texas) share 80% of the fund, and
- 18 *other HEF-eligible institutions* share 20% of the fund.

Distributions from the Fund are based on the institutions' restricted research expenditures.

This General Revenue appropriation is based on the annual interest earned by the HEF. The \$49.4 million appropriation to the HEF corpus is reduced by the amount of the interest earned and that portion is transferred to the Excellence Fund.

University Research Fund

2002-03 Biennium: \$33.8 million

The University Research Fund is for general academic institutions that are PUF-eligible, other than UT Austin, Texas A&M, and Prairie View A&M.

The **eight institutions** are divided into three groups, based on annual number of master's and doctoral degrees awarded and restricted research expenditures.

- four *teaching institutions* (UT Permian Basin and Tyler, A&M Galveston, and Tarleton),
- two *doctoral/research universities* (UT Arlington and Dallas), and
- two *emerging doctoral/research universities* (UT San Antonio and El Paso) share the remaining amount.

The four teaching institutions receive \$1 million each year and the other four share the remaining amount based on restricted research funds and doctoral and master's degrees.

This General Revenue appropriation is equal to the Texas Excellence Fund appropriation.

Non-Formula: Capital Funds
Debt Service and Lease Payments
2002-03 Biennium: \$234.5 million

There are three types of reimbursed capital funds:

Tuition revenue bonds: \$223.0 million (*includes \$54.1 million for new issuances in HB 658*)

- Since 1993, have been authorized every other legislative session.
- Authorized in specific amounts.
- Enumerated in legislation.
- Debt service paid with GR.

Skiles Act revenue bonds: \$7.9 million

- Authority repealed in 1997.
- Discretionary amounts.
- Without specific legislative authorization.
- Debt service paid with E&G.

Lease payments: \$3.6 million

- For UT Brownsville, A&M Texarkana, and Sul Ross - Rio Grande.
- Lease payments paid with General Revenue.

<u>Total TRB Authorizations</u>	
1993	\$ 60 million
1995	\$ 352 million
1997	\$ 638 million
2001	\$1,082 million
from Coordinating Board	

Non-Formula: Higher Education Employees Group Insurance

2002-03 Biennium: \$395.1 million

Higher Education Employee Group Insurance is a separate, sum certain General Revenue appropriation to fund health insurance benefits for employees funded 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 coverage for all active and retired employees and 50% of the total cost of health coverage for spouses and dependent children.

ERS provides the coverage for all institutions except the University of Texas and Texas A&M Systems, which provide their own coverage.

(For employees whose salaries are paid from Other Educational and General Income (E&G), health insurance costs for these employees are represented in Staff Group Insurance. Staff Group Insurance is an informational strategy within each institutions' bill pattern. It is based on a proportionality of GR and Other Educational and General Income (E&G) reported by the institution.)

Non-Formula: Indirect Cost Recovery

2002-03 Biennium: \$71.1 million

Indirect cost recovery is the portion of a grant that is allotted for indirect costs.

Indirect costs are those incurred for common objectives and fall into categories such as: depreciation, general administrative and general expenses, project administration, operation and maintenance expenses, etc.

One-half of indirect cost recovery is used as a method of finance in an institution's formula calculation. The other half is appropriated to an institution in the Indirect Cost Recovery strategy.

Other Non-Formula Items
2002-03 Biennium: \$286 million

Staff Group Insurance	E&G	Sum-certain amount based on employment as of October 30, 2000.	\$ 112,736,811
Workers' Compensation	GR	Sum-certain amount, for UT and A&M institutions only.	\$ 13,170,908
Unemployment Compensation	GR	Sum-certain amount, for UT and A&M institutions only.	\$ 366,797
Texas Public Education Grants	E&G	15% of resident tuition and 3% of non-resident tuition at each institution is set aside for these scholarships.	\$ 130,115,626
Organized Activities	E&G	Generally E&G income, not used as a formula MOF, at institutions that operate income-producing enterprises as part of an educational program.	\$ 29,406,610

HIGHER EDUCATION COORDINATING BOARD
Trusteed Funds related to General Academics
2002-03 Biennium: \$475 million

Texas New Horizons Scholarship Fund
Texas College Work Study Program
Student Incentive Grant Program
Financial Aid for Professional Nursing Students
Financial Aid for Licensed Vocational Nursing Students
License Plate Scholarships
Tuition Assistance Grants
National Guard ROTC Program
Fifth-Year Accounting Students
Early High School Graduation Scholarship Program
Temporary Assistance to Needy Families Scholarship Program
Certified Educational Aide Program
Toward, EXcellence, Access, and Success (TEXAS) Grant Program
Teach for Texas Conditional Grant Program
Early Childhood Child-care Worker Student Loan Repayment Program
State Military Forces Tuition Payment Assistance
Border Faculty Loan Repayment Program
Advanced Research Program
Advanced Technology Program
General Academic Developmental Education Accountability Pilot Program
Economically Disadvantaged Freshman Retention Performance Fund Program
General Academic Institution Enrollment Growth
African American Museum Internship
Texas Fund for Geography Education