LEGISLATIVE BUDGET BOARD

Texas Public Higher Education

Overview of Funding Formulas for Institutions of Higher Education

PRESENTED TO SENATE HIGHER EDUCATION COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF **MAY 2016**

Overview of Presentation

Related to Senate Higher Education Committee Interim Charge #2, Performance Funding for GAIs and Community Colleges: Study current funding methods for both general academic institutions and community colleges, examining current performance-based methods of funding for community colleges. Review funding methods used in other states and make recommendations on how to incorporate and/or change student outcome measures in institutional funding to benefit students and promote the education needs of a rapidly growing and changing workforce.

1. Overview of Formula Funding Mechanics and Methods of Finance
2. Overview of General Academic Institution (GAI) Formulas
3. Overview of Lamar State Colleges (Lamars) and Texas State Technical College (TSTC) Formulas
4. Overview of Formula Appropriations for GAIs, Lamars, and TSTCs
5. Overview of Health Related Institution (HRI) Formulas and Appropriations
6. Overview of Public Community and Junior Colleges Formula and Appropriations

General Formula Funding Mechanics

- Formulas are a distribution method for higher education funding. Higher education formulas do not create a statutory or constitutional entitlement.
- Formula Method of Finance.
  - General Academic Institutions, Health Related Institutions, Lamar State Colleges and Texas State Technical Colleges are funded through an All Funds methodology which means that General Revenue and GR-Dedicated–Other Educational and General Income (E&G) are used to fund these formulas. The Community and Junior College formula is funded only with General Revenue.
  - "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
Instruction and Operations Formula

The General Academic Institution (GAI) Instruction and Operations (I&O) Formula is based on Semester Credit Hours (SCH) during a three-semester base period. SCH is a measure of how many classes an institution delivers. The base period used for the 2016-17 biennium is Summer and Fall of 2014 and Spring of 2015.

SCH are weighted by discipline (e.g. nursing is weighted more than liberal arts) and by level (lower and upper division, masters, doctoral, and professional). The weights are based on a cost study completed by the Texas Higher Education Coordinating Board of relative costs and are listed on the following slide.

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

Semester Credit Hours X Program/Level Weight X Rate ($55.39)

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.

Semester Credit Hours X Program/Level Weight X Supplement (0.10) X Rate ($55.39)

General Academic Institutions
Cost Based Matrix

	LOWER DIVISION	UPPER DIVISION	MASTERS	DOCTORAL	SPECIAL PROFESSIONAL
Liberal Arts	1.00	1.76	4.00	10.77	
Science	1.78	3.02	7.53	20.61	
Fine Arts	1.47	2.52	6.03	7.95	
Teacher Ed	1.63	2.08	2.56	7.42	
Agriculture	2.07	2.75	7.80	11.77	
Engineering	2.38	3.52	7.10	17.98	
Home Economics	1.10	1.75	3.01	8.67	
Law					5.13
Social Services	1.68	2.05	2.93	18.18	
Library Science	1.49	1.57	3.60	12.06	
Vocational Training	1.45	2.64			
Physical Training	1.51	1.26			
Health Services	1.07	1.65	2.79	9.86	2.64
Pharmacy	1.86	5.02	28.29	35.14	4.32
Business Admin	1.19	1.88	3.39	23.92	
Optometry			37.52	55.92	7.58
Teacher Ed Practice	2.28	2.13			
Technology	2.26	2.41	3.89	5.20	
Nursing	1.72	2.11	3.34	8.99	
Developmental Ed	1.00				
Veterinary Medicine					22.03

GAI, Lamars, and TSTC Infrastructure Formula

- The GAI Infrastructure Formula, which also includes the Lamar State Colleges and the Texas State Technical Colleges, allocates funding for physical plant support and utilities and is based on predicted square feet for universities' educational and general activities produced by the Space Projection Model developed by the Coordinating Board.
- As with the SCH rate, the Legislature sets the rate based on available funding, including consideration of changes in space and other factors.

Predicted Square Feet X Rate ($5.62)

- Additionally, institutions with a headcount of less than 10,000 students also receive the Small Institution Supplement. The supplement totals $1.5 million for the biennium for each institution with less than a 5,000 student headcount. Institutions with headcounts that range from 5,000 to 10,000 students receive an appropriation that decreases from $1.5 million with each additional student.

Lamar State Colleges and Texas State Technical Colleges

The Instruction and Administration (I&A) Formula for the Lamar State Colleges is based on contact hours. A contact hour is a standard unit of measure that represents an hour of scheduled academic and technical instruction given to students during a semester. The base period used for the 2016-17 biennium is Summer and Fall of 2014 and Spring of 2015.

Contact Hours X Rate ($3.53)

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

The Eighty-third Legislature, Regular Session, 2013, modified the calculation of the Texas State Technical College (TSTC) I&A formula to base it on the returned value to the state generated by the TSTC System rather than student contact hours. The I&A formula now compares average student wages upon completion of nine semester credit hours or more at a TSTC institution to minimum wage to determine the additional value an individual generates for the state after attending a TSTC institution. Based on available funding, the Legislature then appropriates a percentage of this returned value amount to the TSTC System for I&A funding.

Returned Value X Percentage Allocated to TSTC (35.5%)

Formula Appropriations for General Academic Institutions, Lamar State Colleges, and Texas State Technical Colleges

IN MILLIONS	2014-15 Appropriations		2016-17 Appropriations	
Formula	Formula General Revenue	Annual All Funds Rate	Formula General Revenue	Annual All Funds Rate
Instruction and Operations - GAIs	$2,664.5	$54.86	$2,917.1	$55.39
Infrastructure Support – GAIs, Lamars, and TSTCs	521.7	5.56	551.1	5.62
Instruction and Administration - Lamars	30.4	3.44	26.1	3.53
Instruction and Administration – TSTCs*	89.8	32.6%	94.0	35.5%
Total	$3,306.4		$3,588.3	

*Percentage reflects the allocation of returned value appropriated to the TSTC System for I&A funding.

Health Related Institutions Formulas

- The Health Related Institutions (HRI) Instruction and Operations Formula is based on Full-Time Student Equivalents (FTSE) during a three-semester base period. The FTSEs are weighted by program, and the Legislature sets the rate based on available funding, including consideration of enrollment changes and other factors.

FTSE X Program/Level Weight X Rate ($9,829)

- The HRI Infrastructure Support Formula allocates funding for physical plant support and utilities based on the predicted square feet at the institutions. As with the I&O rate, the Legislature sets the rate based on available funding, including consideration of changes in space and other factors.

Predicted Square Feet X Rate

(Rate is $6.65 for HRIs other than The University of Texas M.D. Anderson Cancer Center (UTMDACC) and The University of Texas Health Science Center at Tyler (UTHSCT) ; $6.26 for UTMDACC and UTHSCT)

Note: Baylor College of Medicine receives funding for its undergraduate medical students, by statute, based on the average cost per undergraduate medical student enrolled at The University of Texas Medical Branch and The University of Texas Southwestern Medical Center.

I&O Funding by Weights and Discipline

The I&O formula multiplies the number of FTSEs generated at an institution by a weight assigned to the program, regardless of level. The weights for each of these programs are shown in the table below. These weights are not based on a cost study and have not changed since the inception of the formulas in 2000-01.

Program	Weight
Allied Health	1.000
Biomedical Science	1.018
Nursing	1.138
Pharmacy	1.670
Public Health	1.721
Dental	4.601
Medical	4.753

Health Related Institutions Formulas

- The Research Enhancement Formula provides support for medical and clinical research of the institutions, and are allocated using a base amount plus a percentage of research expenditures from the most recent fiscal year.

Base ($1,412,500) + 1.23% of Research Expenditures

- The Graduate Medical Education (GME) Formula provides funding on a per medical resident basis in an accredited program.

Number of Medical Residents X Rate ($6,266)

Note: Baylor College of Medicine receives Graduate Medical Education funding through the HRI GME formula.

Health Related Institutions Mission Specific Formulas

- UTMDACC Cancer Center Operations Formula is a mission specific formula that provides support for UTMDACC based on Texas cancer patients served.

Number of Texas Cancer Patients Served X Rate ($1,877)

- UTHSCT Chest Disease Center Operations is a mission specific formula that provides support for UTHSCT based on the number of new primary chest disease diagnoses in Texas each year.

Number of New Primary Chest Disease Diagnoses X Rate ($215)

- For each of the mission specific formulas, the amount of growth in total funding from one biennium to another may not exceed the average growth in funding for Health Related Institutions in the I&O formula for the current biennium.

Formula Appropriations for Health Related Institutions

IN MILLIONS	2014-15 Appropriations		2016-17 Appropriations	
Formula	Formula General Revenue	Annual All Funds Rate	Formula General Revenue	Annual All Funds Rate
Instruction and Operations*	$1,093.1	$9,527	$1,169.2	$9,829
Infrastructure Support	236.0	6.63; 6.09	246.8	6.65; 6.26
Research Enhancement	68.7	1.22 percent	74.6	1.23 percent
Graduate Medical Education*	65.7	5,122	85.9	6,266
Cancer Center Operations	247.5	1,944	264.8	1,877
Chest Disease Center Operations	54.6	378	58.4	215
Total	$1,765.6		$1,899.6	

*Included in these totals are amounts appropriated for Baylor College of Medicine through the Higher Education Coordinating Board's bill pattern.

Public Community and Junior Colleges

- Beginning in the 2014-15 biennium, the Legislature implemented a new outcomes-based model for the Public Community and Junior Colleges' Instructional and Administrative (I&A) formula that includes three funding components:
  - **Core Operations** ($1.0 million per institution)
  - **Success Points** (10 percent of remaining formula funding)
  - **Contact Hours** (90 percent of remaining formula funding)

- Community colleges report contact hour and success points data to the Texas Higher Education Coordinating Board (THECB). THECB compiles the data and provides success points and weighted contact hour data to the Legislative Budget Board.

Core Operations and Success Points Funding

- Core Operations
  - Each community/junior college district receives $1.0 million per biennium to help cover basic operating costs, regardless of size or geographic location.
  - Core Operations replaced the community college small institution supplement.

- Success Points
  - After Core Operations is funded, 10 percent of the remaining funds are distributed based on Success Points.
  - Success Points are funded based on a three year average of success points earned by students at each community college.
  - Students are able to earn success points through eleven different metrics.

Success Points

Metric	Points
▪Student successfully completes developmental education in mathematics	1.0
▪Student successfully completes developmental education in reading	0.5
▪Student successfully completes developmental education in writing	0.5
▪Student completes first college-level mathematics course with a grade of "C" or better	1.0
▪Student completes first college-level course designated as reading intensive with a grade of "C" or better	0.5
▪Student completes first college-level course designated as writing intensive with a grade of "C" or better	0.5
▪Student successfully completes first 15 semester credit hours at the institution	1.0
▪Student successfully completes first 30 semester credit hours at the institution	1.0
▪Student transfers to a General Academic Institution after successfully completing at least 15 semester credit hours at the institution	2.0
▪Student receives from the institution an associate's degree, a Bachelor's degree, or a certificate recognized for this purpose by the Coordinating Board in a field other than a critical field, such as Science, Technology, Engineering and Mathematics (STEM), or Allied Health.	2.0
▪Student receives from the institution an associate's degree, a Bachelor's degree, or a certificate recognized for this purpose by the Coordinating Board in a critical field, including the fields of Science, Technology, Engineering or Mathematics (STEM), or Allied Health.	2.25

Contact Hour Funding

- The remaining 90 percent of funds are distributed based on the number of contact hours for each community college.
- A contact hour is a time unit of measure that represents an hour of scheduled academic or technical class time, 50 minutes of which must be instructional.
- Contact hour funding is based on each community college's share of total weighted base year contact hours. The base period used for the 2016-17 biennium is Summer and Fall of 2014 and Spring of 2015.

Contact Hours X Rate ($2.69)

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

Public Community and Junior Colleges Formula Appropriations

	2014-15 Appropriations		2016-17 Appropriations	
Formula	Formula General Revenue (in millions)	Annual All Funds Rate	Formula General Revenue (in millions)	Annual All Funds Rate
Contact Hour	$1,547.8	$2.65	$1,522.5	$2.69
Success Points	$172.0	$185.12	$169.2	$172.58
Core Funding	$50.0	$0.5 million per district	$50.0	$0.5 million per district
Total	$1,769.8		$1,741.7	

Note: 2016-17 amounts do not include hold harmless funding. 2016-17 appropriations included $4.0 million for a 90 percent hold harmless.

Contact the LBB

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