**Section 1**

## Higher Education Employees Group Insurance Contributions
## Summary of Recommendations - Senate

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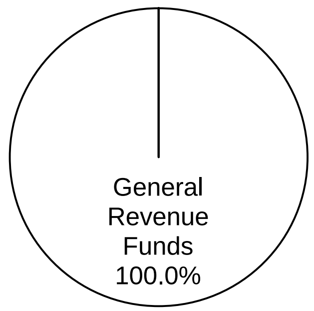
Emily Deardorff, LBB Analyst

| Method of Financing | 2014-15 Base | 2016-17 Recommended | Biennial Change | % Change |
|---|---|---|---|---|
| General Revenue Funds | $1,189,205,243 | $1,375,254,536 | $186,049,293 | 15.6% |
| GR Dedicated Funds | $0 | $0 | $0 | 0.0% |
| *Total GR-Related Funds* | *$1,189,205,243* | *$1,375,254,536* | *$186,049,293* | *15.6%* |
| Federal Funds | $0 | $0 | $0 | 0.0% |
| Other | $1,622,947 | $0 | ($1,622,947) | (100.0%) |
| **All Funds** | **$1,190,828,190** | **$1,375,254,536** | **$184,426,346** | **15.5%** |

| | FY 2015 Budgeted | FY 2017 Recommended | Biennial Change | % Change |
|---|---|---|---|---|
| **FTEs** | | | 0.0 | 0.0% |

RECOMMENDED FUNDING BY METHOD OF FINANCING




The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

The General Revenue amounts included here represent 100 percent of the direct state contributions appropriated to institutions of higher education for the purposes of paying group health insurance premiums. Institutions pay health care premiums proportionally from the other fund sources to the degree they receive fund sources other than General Revenue. Any difference between actual premium cost and appropriated state contributions is paid by the institution.

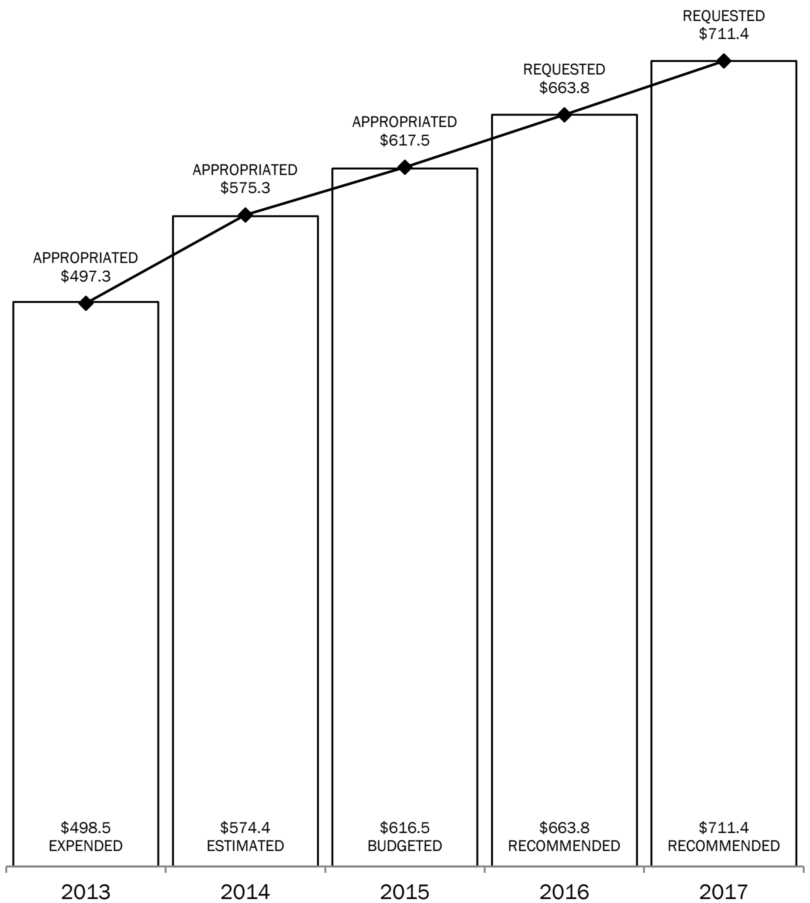
**Section 1**

**Higher Education Employees Group Insurance Contributions**

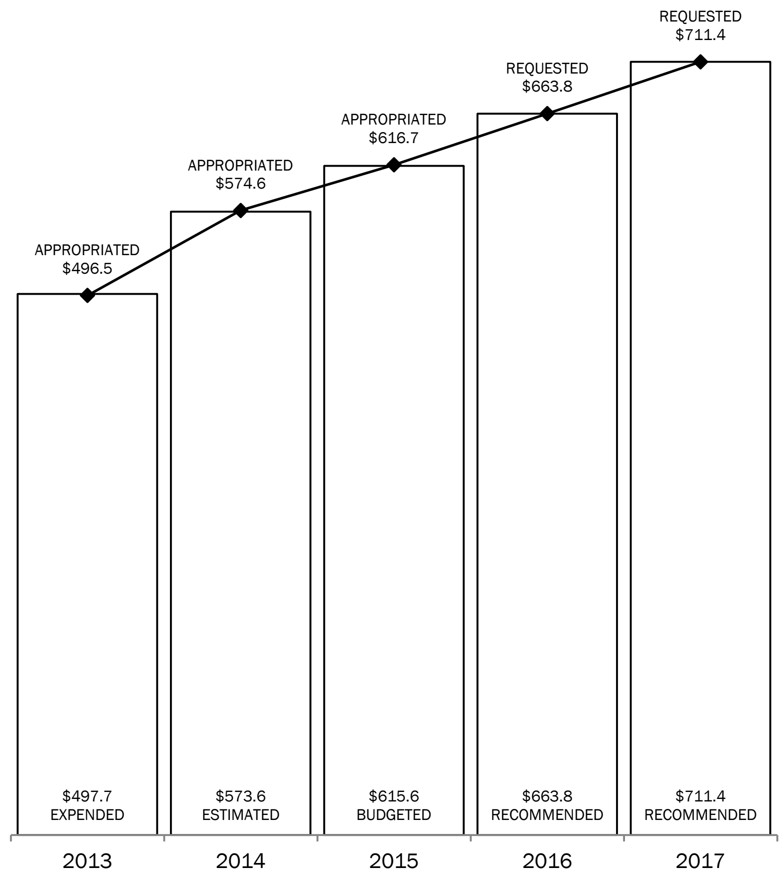
2016-2017 BIENNIUM — TOTAL= $1,375.3 MILLION

IN MILLIONS

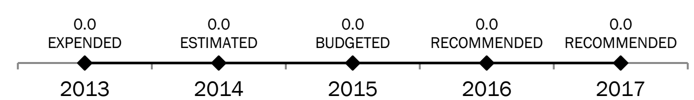
**ALL FUNDS**




**GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS**




**FULL-TIME-EQUIVALENT POSITIONS**



## Section 2

**Higher Education Employees Group Insurance Contributions**
**Summary of Recommendations - Senate, By Method of Finance -- ALL FUNDS**

| Strategy/Goal | 2014-15 Base | 2016-17 Recommended | Biennial Change | % Change | Comments |
|---|---|---|---|---|---|
| Total, Goal A, STATE CONTRIBUTION, UT SYSTEM | $397,706,643 | $471,651,920 | $73,945,277 | 18.6% | |
| Total, Goal B, STATE CONTRIBUTION, A&M SYSTEM | $195,420,713 | $227,857,796 | $32,437,083 | 16.6% | |
| Total, Goal C, STATE CONTRIBUTION, ERS | $597,700,834 | $675,744,820 | $78,043,986 | 13.1% | |
| Grand Total, All Strategies | $1,190,828,190 | $1,375,254,536 | $184,426,346 | 15.5% | |

Contributions for The University of Texas System and Texas A&M University System are based on the same annual premium growth assumptions (cost growth of 7.19 percent in fiscal year 2016 and 7.17 percent in fiscal year 2017) used for the Employees Retirement System group benefits program recommendations.

All of the above Higher Education Employees Group Insurance (HEGI) contributions are General Revenue Fund 001, except for the Texas A&M Forest Service, which in addition to Fund 001 appropriations, also receives HEGI contributions paid out of the Insurance Company Maintenance Tax Fees and Insurance Department Fund 8042 ($2.3 million in fiscal year 2016; $2.5 million in fiscal year 2017). In Senate Bill 2 as Introduced, the Texas A&M Transportation Institute no longer receives appropriations from State Highway Fund 6 (see Selected Fiscal and Policy Issues #5).

## Higher Education Employees Group Insurance Contributions
## Selected Fiscal and Policy Issues - Senate

1. **HEGI Data Assumptions.** Recommendations are based on each institution's best estimate of actual enrollment as of December 1, 2014, and the institution's estimate of the General Revenue and General Revenue-Dedicated proportionality likely to be reported in the institution's fiscal year 2014 Accounting Policy Statement 011 (APS 011) report, as reported in each institution's respective Legislative Appropriations Request. Community colleges are not subject to proportionality requirements and therefore do not submit an APS 011 Report. Institutions will submit actual enrollment and proportionality submitted in the APS 011 report to the LBB by mid-February for the December 1, 2014, census date. Should the Legislature opt to use the updated census data and maintain the recommended rates, there will be a reallocation in funding among institutions and possibly also in overall appropriations.

2. **Premium Contribution Rates.** While premium contributions for general state employees are funded at 100 percent of Employee Retirement System (ERS) premium rates, since fiscal year 2004 the Legislature has provided a lower level of premium contributions for higher education employees.

   For the 2012-13 biennium, the state paid the following percentages of premium rates:
   - 85.8 percent for institutions of higher education insured within the ERS Group Benefits Program (GBP);
   - 83.4 percent for institutions of higher education within the University of Texas (UT) and Texas A&M University (TAMU) Systems; and
   - 42.1 percent for community colleges insured within the ERS GBP.

   For the 2014-15 biennium, the state paid the following percentages of premium rates:
   - 89.4 percent for institutions of higher education insured within the ERS GBP;
   - 87.0 percent for institutions of higher education within the UT and TAMU Systems; and
   - 50.0 percent for community colleges insured within the ERS GBP.

   Recommended amounts maintain the 2014-15 rate contribution levels. Using these rates as a baseline, the recommendations are consistent with the recommendations for ERS' general state employees by providing annual rate increases of 7.19 percent in fiscal year 2016 and 7.17 percent in fiscal year 2017. Senate Bill (SB) 1812, Eighty-third Legislature, set the state contribution rate for community colleges at 50 percent of the full contribution rate in statute, therefore this rate can only change through legislation. Please see Section 3d and 3e for a comparison of different proration rates and the resulting funding compared to the recommended 2016-17 biennium funding level as well as a comparison of HEGI expenditure amounts since the 2010-11 biennium.

3. **Employee Headcount Trends.** For institutions of higher education (excluding community colleges), the total number of employees increased by 3.6 percent from the previous biennium and the number of General Revenue funded employees increased by 2.7 percent from the previous biennium. For community colleges, the total number of employees increased by 5.8 percent and the number of Instructional and Administrative (I&A) employees increased by 4.3 percent. However, because of the growth limitations established in SB 1812, the number of I&A employees eligible to receive HEGI contributions decreased by 2.6 percent from the previous biennium. Sections 3f and 3g provide additional detail on employee headcount trends for reference.

4. **Contributions for Community Colleges.** SB 1812, Eighty-third Legislature, set the state contribution rate for HEGI contributions for community colleges at 50 percent of the cost associated with eligible I&A employees. SB 1812 also specifies that the number of employees eligible to receive HEGI contributions may not be adjusted in a proportion greater than the change in student enrollment at each institution. For community colleges that experience a decline in enrollment, they may petition the LBB to maintain eligible employees up to 98 percent of the employee level of the previous biennium.

   Recommendations are based on enrollment and headcount growth limitations provided in statute and do not consider any petition adjustments. For all community college districts, the growth limitations reduce the total number of employees eligible to receive HEGI contributions from 39,491 to 36,871 employees (approximately a 6.6 percent decrease). The reduction in eligible employees is greater than the 4.6 percent decline in contact hours because at some community colleges the number of eligible HEGI employees declined at a rate greater than enrollment.

   The following table provides a summary of the recommended eligible employees and resulting recommended appropriations for the 2016-17 biennium included in Senate Bill 2 as Introduced. For reference, the table also includes the number of eligible employees and resulting funding level if the maximum 98 percent hold harmless level was granted through the petition process.

   **Community College HEGI Contributions: Petition Option Comparison**

   | | Total Eligible Employees | 2016-17 Appropriation |
   |---|---|---|
   | **Recommended: No Petition** | 36,871 | $314,347,484 |
   | **Maximum Petition Hold Harmless (98%)** | 37,758 | $322,219,025 |
   | **Difference:** | 887 | $7,871,541 |

   Please see Section 3b for a supplementary policy overview  for additional information on the implementation of SB 1812 for HEGI, Teacher Retirement System, and Optional Retirement System benefits and the community college petition process.

5. **Method of Finance Swap.** Recommendations replace HEGI appropriations to the Texas A&M Transportation Institute (TTI) funded with State Highway Fund 6 with General Revenue. This recommendation is consistent with the recommended method of finance swap for funding directly appropriated to TTI in the agency's bill pattern. HEGI Appropriations to TTI total $1.9 million for the 2016-17 biennium.

6. **Contributions for Correctional Managed Health Care (CMHC) Employees.** Certain institutions receive HEGI appropriations for individuals employed by institutions, but associated with an external contract. This applies to The University of Texas Medical Branch (UTMB) at Galveston and Texas Tech Health Sciences Center (TTHSC) for the CMHC contracts with the Texas Department of Criminal Justice (TDCJ) and/or the Texas Juvenile Justice Department (JJD), and for the University of Texas Health Science Center at Houston for its contract for the Harris County Psychiatric Center. Rider 6 specifies the amounts allocated for employees associated with these contracts within Strategy A.1.10 UT Medical –

Galveston, Strategy C.1.23 Texas Tech Health Sciences Center, and Strategy A.1.11 UTHSC Houston.

7. **Contributions for CMHC Retirees.** Recommendations include TDCJ and JJD retirees within the CMHC employee calculation for both UTMB and TTHSC. In previous biennia, TDCJ retirees from TTHSC were included in the TTHSC HEGI contribution calculation rather than the CHMC HEGI contribution calculation, causing those employees to be funded at the General Revenue proportionality rate for TTHSC instead of the CMHC contract. This recommended change makes the CMHC HEGI contribution calculation methodology consistent between TTHSC and UTMB. Compared to the previous calculation methodology, this recommendation results in $0.2 million in additional HEGI appropriations to TTHSC.

8. **Regional Academic Health Center Employees.** Employees reported for The University of Texas Health Science Center San Antonio (UTHSC-SA) include employees from the Regional Academic Health Center (RAHC) in the Rio Grande Valley. Recommendations include allowing UTHSC-SA to transfer HEGI appropriations to The University of Texas Rio Grande Valley (UTRGV) for the purpose of funding group insurance for employees of the UTRGV School of Medicine (see Rider Highlights #6). Please see Section 3c for a supplementary policy overview for additional information on the integration of Health Related Institutions and General Academic Institutions.

9. **Higher Education Benefits Reporting Issues.** During the interim, audit findings showed that the University of North Texas (UNT) had engaged in accounting practices that resulted in the institution receiving state-funded benefits for locally-funded employees. This included payments for group insurance, retirement, and social security. This discovery prompted Governor Perry to require all institutions of higher education to internally audit their benefits reporting practices and ensure all institutions were adhering to proportionality standards. The following summaries provide an overview of six institutions that have engaged in reporting practices that have resulted in the institutions receiving excess benefits payments. The degree to which these funds should be repaid to the state is a budget policy issue that is yet to be determined.

    - **University of North Texas.** Over the course of the interim, UNT officials discovered accounting irregularities regarding how the institution managed its state appropriations. The institution's practice was to use General Revenue to pay employee salary and benefits and then reimburse their account with local funds as needed for locally funded employees. However, while the institution reimbursed the salary amounts for the locally funded employees, they did not reimburse the corresponding benefit expenses for those salaries, resulting in the institution drawing down General Revenue benefits for non-state funded employees. This practice violates the proportionality requirement provided in Article IX, Sec. 6.08, 2014-15 General Appropriations Act, which requires that employee benefits must be paid from the same source of funds as the salaries associated with those benefits.

      In addition, UNT incorrectly reported employees in Schedule 3A, Staff Group Insurance Data Elements, in their previous Legislative Appropriations Requests. The data provided by this schedule is used to calculate each institution's HEGI and Staff Group Insurance (SGI) appropriations. As a result of their accounting practices, UNT was incorrectly categorizing employees as Educational and General Funds (E&G) employees, resulting in additional HEGI and SGI appropriations to the institution. For the 2016-17 biennium, the institution corrected the reporting practice. As a result, recommended HEGI appropriations for UNT total $30.3 million for the 2016-17 biennium, a decrease of $11.2 million from HEGI appropriated amounts for the 2014-15 biennium.

      UNT hired Deloitte to perform an independent audit of the institution's financial management practices and the State Auditor's Office (SAO) also conducted an audit. Both audits found evidence of the reporting practice being in place since at least fiscal year 2004. According to the

SAO report, UNT received an estimated $75.6 million in excess state funding since 2004. SAO recommends that the Eighty-fourth Legislature require UNT to reimburse at least $75.6 million to the General Revenue Fund over the next 10 years. Senate Bill 2 as Introduced includes a new rider that would require UNT to reimburse the state's General Revenue Fund in an amount to be determined for the excess state-funded benefits the institution received (see Rider Highlights #8).

- **The University of Texas at Dallas.** In September 2014, LBB was notified that due to a programming mapping error in PeopleSoft, UT Dallas had incorrectly reported some local-funded benefits as state-funded benefits in their Accounting Policy Statement (APS) 011 report in fiscal years 2011 through 2013. This caused the actual state-funded benefits they included in their APS 011 reports to be overstated resulting in UT Dallas receiving excess benefit funds from the state totaling approximately $4.0 million from fiscal year 2011 to fiscal year 2014. UT Dallas worked with the CPA to correct the problem and submitted a remittance payment of $3.1 million to CPA to reimburse the state for the overpayments received in fiscal year 2012 and fiscal year 2013. Because fiscal year 2011 was closed, CPA determined that they would not allow UT Dallas to make any adjustments in USAS for fiscal year 2011.

- **Texas State System Office.** In October 2014, LBB was notified that the Texas State System Office had been incorrectly categorizing some of their employees as E&G employees, resulting in the System Office receiving excess benefits funding from the state totaling approximately $0.8 million from fiscal year 2011 to fiscal year 2014. The System Office has been working with CPA to fix the problem and submitted a remittance payment of $0.4 million to reimburse the state for the overpayments received in fiscal year 2013 and fiscal year 2014. Similar to UT Dallas, CPA determined that they would not allow the System Office to make any adjustments in USAS for fiscal years 2011 and 2012 because those fiscal years were already closed. While the problem may have existed in prior fiscal years, the scope of the internal audit only went back to fiscal year 2011 so the level of prior overpayments is unknown.

- **University of Houston System.** During Strategic Fiscal Review of the system offices, LBB found that the University of Houston (UH) System was incorrectly categorizing some locally funded employees as E&G employees in the group insurance data submitted for HEGI calculations. UH System provided updated HEGI data which resulted in a decrease of $0.6 million in HEGI appropriations for the 2016-17 biennium compared to the calculations based on the original data elements submitted in the institution's 2016-17 biennium Legislative Appropriations Request.

- **Stephen F. Austin State University.** In January 2015, LBB was notified that Stephen F. Austin State University (SFA) was reporting their benefits proportionality based on job function rather than method of finance. This resulted in SFA drawing down excess benefits funding from the state totaling approximately $6.7 million from fiscal year 2012 to fiscal year 2014. SFA is currently working with CPA to resolve the issue. While the problem may have existed in prior fiscal years, the scope of CPA's investigation only went back to fiscal year 2012 so the level of prior overpayment is unknown.

- **The University of Texas at Arlington.** In January 2015, LBB was notified that The University of Texas at Arlington (UTA) also reimbursed salaries and wages previously paid with state funds with institutional funds but did not reimburse the related benefit costs associated with those salaries and wages. At this time, CPA is still working with UTA to determine the exact level of overpayment related to those transactions.

## Community College Benefits Petition Process
## Selected Policy Overview - Senate

**Background:** Senate Bill 1812, Eighty-third Legislature, set the state contribution rate for health insurance and retirement benefits for eligible Instructional and Administrative community college employees whose salaries may be paid from appropriated funds, regardless of whether such salaries are actually paid from appropriated funds. For Higher Education Employees Group Insurance (HEGI), the state contribution rate is set at 50 percent of full premium contribution rates for eligible employees. For Teacher Retirement System (TRS) and Optional Retirement Program (ORP) benefits, the state contribution rate is applied to 50 percent of eligible compensation. In addition, for all three benefit programs, the number of employees eligible to receive state contributions may not be adjusted in a proportion greater than the change in student enrollment at each community college district. Districts that experience a decline in enrollment may petition the Legislative Budget Board (LBB) to maintain eligible employees up to 98 percent of the employee level of the previous biennium.

**Student Enrollment.** For the 2016-17 biennium, enrollment growth calculations are based on a comparison of contact hours at each institution in Base Year 2012 to Base Year 2014. Recommendations use Spring 2014 data as a placeholder for Base Year 2014 data. In Spring 2015, THECB will provide updated data so the Conference Committee bill is based on contact hours for Base Year 2014, similar to the other higher education formula calculations. The calculated change in student enrollment at each institution will be the same across the HEGI, TRS, and ORP appropriations calculations.

**Employee Headcount.** The eligible employee growth calculation for each community college district varies between benefit type due to the differing nature of their contribution calculation.

- HEGI Employee Headcount—HEGI appropriations calculations are based on the number of eligible employees at an institution as of December 1st of the year preceding the Legislative Session. Since the appropriation is based on a point in time headcount, for the 2016-17 biennium, the employee growth calculation is based on the total number of active, enrolled employees at each institution on December 1, 2012 compared to December 1, 2014. Retired employees are not included in the employee growth calculation. This data is collected through Schedule 3C of the Legislative Appropriations Request. Employee headcount growth rates included in the recommendations are based on each community college's best estimate of the number of employees they will employ on December 1, 2014. LBB will request updated data in Spring 2015 in order to include actual employee headcount for the Conference Committee Bill.

- TRS and ORP Employee Headcount—TRS and ORP contributions are based on payroll amounts. Because TRS and ORP appropriations are not based on a point in time employee count, for the 2016-17 biennium, the employee growth calculation is based on the total annual number of employees enrolled in TRS and ORP, respectively, in Base Year 2012 compared to Base Year 2014. The data is collected through a survey administered by THECB. Similar to student enrollment, recommendations use placeholder months for Base Year 2014 (October 2013-February 2014). In Spring 2015, THECB will provide updated data so the Conference Committee bill includes annual employee headcount for Base Year 2014 in the employee growth calculation, similar to student enrollment.

**Petition Process.** Pursuant to statute, a petition process was administered in June 2014 to determine the employee growth limitations that would be incorporated into the estimated state contributions to the TRS and ORP retirement systems for the 2016-17 biennium. Out of the 50 community college districts, 40 were eligible to petition and all eligible community colleges chose to submit a petition. The final growth limitations maintained hold harmless employee levels for community colleges based on each district's percentage decline in enrollment. No petition process was administered for HEGI since the appropriation is calculated during the legislative session.

A similar petition process will be administered to determine the growth limitations incorporated into the appropriations calculations during Conference Committee for the 2016-17 biennium for HEGI, TRS, and ORP. No petitions were considered in the recommendations for the Senate Bill 2 as Introduced since student enrollment and employee headcount data will be updated in Spring 2015. Once the data is updated in the spring, LBB will notify all community college districts that are eligible to submit a petition and each school will fill out a single petition for all three benefit types.

## Integration of Health Related Institutions (HRI) and General Academic Institutions (GAI)
## Selected Policy Overview - Senate

**Background**. Prior to the Eighty-third Legislative Session, all public medical schools in Texas were located at health related institutions (HRI) and were not directly associated with a general academic institution (GAI). During the current biennium, several institutions have realized an integration of medical schools within a GAI:

- **Texas A&M University Health Sciences Center (TAMUHSC) and Texas A&M University (TAMU):** On July 15, 2013, TAMUHSC completed its realignment under TAMU as an academic unit within the university after previously operating as separate entities since TAMUHSC's creation in 1976. Below is a brief summary of how the two institutions have aligned individual functions:
    - <u>Budget Structure:</u> TAMU and TAMUHSC each maintain a separate bill pattern, agency code, and participate in formula funding and legislative discussions as a GAI and HRI, respectively.
    - <u>Formula Funding:</u> TAMU and TAMUHSC each receive formula funding through the GAI and HRI formulas, respectively. When beginning a new program, the institution chooses whether it will be done through TAMU and TAMUHSC and thus, receive the corresponding formula funding.
    - <u>Research Considerations</u>: TAMU and TAMUHSC each maintain separate accounting of research expenditures based on the principal investigator. The research expenditures are reported to the state under the separate entities. TAMU does not receive any allocation of funds from research funds designated for GAIs for research generated through TAMUHSC and vice versa.
- **The University of Texas Rio Grande Valley (UTRGV) School of Medicine**: Senate Bill (SB) 24, Eighty-third Legislative Session, established UTRGV as a GAI comprised of components including a medical school and the Lower Rio Grande Valley Academic Health Center authorized by Texas Education Code Section 74, Subchapter N and Subchapter L, respectively. The Lower Rio Grande Valley Academic Health Center is currently managed by The University of Texas Health Science Center at San Antonio (UTHSC-SA). The center is referred to as the Regional Academic Health Center (RAHC) and UTHSC-SA received $30.6 million for this special item during the 2014-15 biennium. Of this funding, $10.0 million over the biennium was contingency funding provided to UTHSC-SA to implement the provisions of SB24, Eighty-third Legislature, UTRGV's enabling statute. The RAHC is intended to provide the basis of UTRGV School of Medicine. The UTRGV School of Medicine is scheduled to open in fall 2016. UTHSC-SA will continue to matriculate students through the RAHC until 2020.
- **The University of Texas (UT) at Austin Dell Medical School:** UT Austin notified the Higher Education Coordinating Board (THECB) of the establishment of a new medical program in February 2013. UT Austin did not receive direct appropriations for the Dell Medical School during the 2014-15 biennium and the school is scheduled to open in fall 2016.

<u>**Items for Consideration and Items Included in Recommendations for the 2016-17 Biennium**</u>

**Issue #1. Budget Structure.** The introduced bill includes both funding for a medical school integrated into one bill pattern with the associated GAI (UTRGV), as well as funding for a medical school in a separate bill pattern from its affiliated GAI (TAMU and TAMUHSC).

<u>*Included in Recommendations*</u>: Appropriations for the UTRGV School of Medicine are provided directly to UTRGV and include $5.0 million each year of the 2016-17 biennium reallocated from contingency funding provided to UTHSC-SA during the 2014-15 biennium. Authority is also provided to allow UTRGV and UTHSC-SA to transfer funding between the institutions relating to the establishment, operation, and administration of the RAHC and School of Medicine. Currently, there are no recommendations for appropriations related to UT Austin Dell Medical School for the 2016-17 biennium.

**Issue #2: Formula Funding.** HRIs and GAIs both receive formula funding through separate allocations for instruction and operations and infrastructure.

*Included in Recommendations*: None. UTRGV and UT Austin will not have any medical students during the base period of formula funding for the 2016-17 biennium and will not receive an allocation for these formulas. There would not be a fiscal implication until the 2018-19 biennium.

**Issue #3. Higher Education Employees Group Insurance (HEGI).** UT Austin and UTRGV receive appropriations through the HEGI bill pattern based on employees at the institution as of Dec. 1, 2014. Employees associated with the Dell Medical School are included in the UT Austin HEGI appropriation. Employees of the RAHC are currently funded within the UTHSC-SA appropriation for HEGI.

*Included in Recommendations*: Recommendations include a rider allowing the transfer of funding between UTHSC-SA and UTRGV to fund group insurance costs for employees of the UTRGV School of Medicine at the discretion of the chief administrative officer of The UT System.

**Issue #4. Research Considerations.** There are four research funds that provide funding to support research at GAIs.

- 2014-15 Research Funds: The Available National Research University Fund (NRUF), Texas Research Incentive Program (TRIP), and Texas Competitive Knowledge Fund (TCKF) are research funds established for institutions designated as emerging research universities by the THECB Accountability System and meeting certain criteria specified in statute and/or the Constitution. The Research Development Fund (RDF) provides appropriations to general academic institutions, except UT Austin and TAMU, based on restricted research expenditures. Currently, TAMU and UT Austin do not participate in NRUF, TRIP, or RDF as they are considered research universities. UTRGV is not expected to be classified as an emerging research university during the upcoming 2016-17 biennium.
    - LBB Considerations for TCKF and RDF: The legislature appropriates TCKF and RDF directly to institutions based on research expenditures at each institution. In future biennia, the Legislature can choose whether to include research funds generated by the medical school in the distribution calculation for either fund.
    - LBB Considerations for NRUF and TRIP: A change in statute would be required to prohibit UTRGV from using research funding generated by the associated medical school to reach emerging research university status and/or to receive appropriations from NRUF or TRIP once that status and other criteria is attained. UT Austin is not eligible for either of these funds and would not be impacted by Dell Medical School.
- Research Enhancement Formula: The HRIs receive funding through the research enhancement formula based on research expenditures in the most recent fiscal year. There is no research generated by the UTRGV School of Medicine or Dell Medical School in the base period for the 2016-17 biennium.

*Included in Recommendations*: In preparation for the 2018-19 biennium, recommendations include a reporting requirement for UT Austin and UTRGV to provide the LBB and the Governor's Office with information on research expenditures at the medical school during the 2016-17 biennium.

**Issue #5. Benefits**. Both UT Austin and UTRGV receive benefit appropriations through the Teachers Retirement System (TRS), Optional Retirement Program (ORP), and social security. TRS, ORP, and social security are estimated appropriations and are based on actual benefit expenditures.

*Included in Recommendations*: In preparation for the 2018-19 biennium, recommendations include a reporting requirement for UT Austin and UTRGV to provide the LBB and the Governor's Office with information on benefit expenditures at the medical school during the 2016-17 biennium.

**Section 3d**

## Summary of Recommendations and Potential Funding Options for HEGI Contributions to Institutions of Higher Education

**2016-17 Recommendations included in Senate Bill 2 as Introduced (2014-15 Levels)**

| | 2016 | 2017 | Biennium |
|---|---|---|---|
| UT (87.0%) | $ 227,664,198 | $ 243,987,722 | $ 471,651,920 |
| TAMU (87.0%) | $ 109,985,904 | $ 117,871,892 | $ 227,857,796 |
| ERS - IHE (89.4%) | $ 174,448,025 | $ 186,949,311 | $ 361,397,336 |
| Community Colleges (50%) | $ 151,740,197 | $ 162,607,287 | $ 314,347,484 |
| **Total** | **$ 663,838,324** | **$ 711,416,212** | **$ 1,375,254,536** |

**Estimated Cost to Fund All Institutions at "Full" ERS Premium Rate**

| | 2016 | 2017 | Biennium | Increase/(Decrease) from Recommendations |
|---|---|---|---|---|
| UT (100%) | $ 261,649,906 | $ 280,410,199 | $ 542,060,105 | $ 70,408,185 |
| TAMU (100%) | $ 126,404,589 | $ 135,467,803 | $ 261,872,392 | $ 34,014,596 |
| ERS - IHE (100%) | $ 195,134,138 | $ 209,118,616 | $ 404,252,754 | $ 42,855,418 |
| **Total** | **$ 583,188,633** | **$ 624,996,618** | **$ 1,208,185,251** | **$ 147,278,199** |

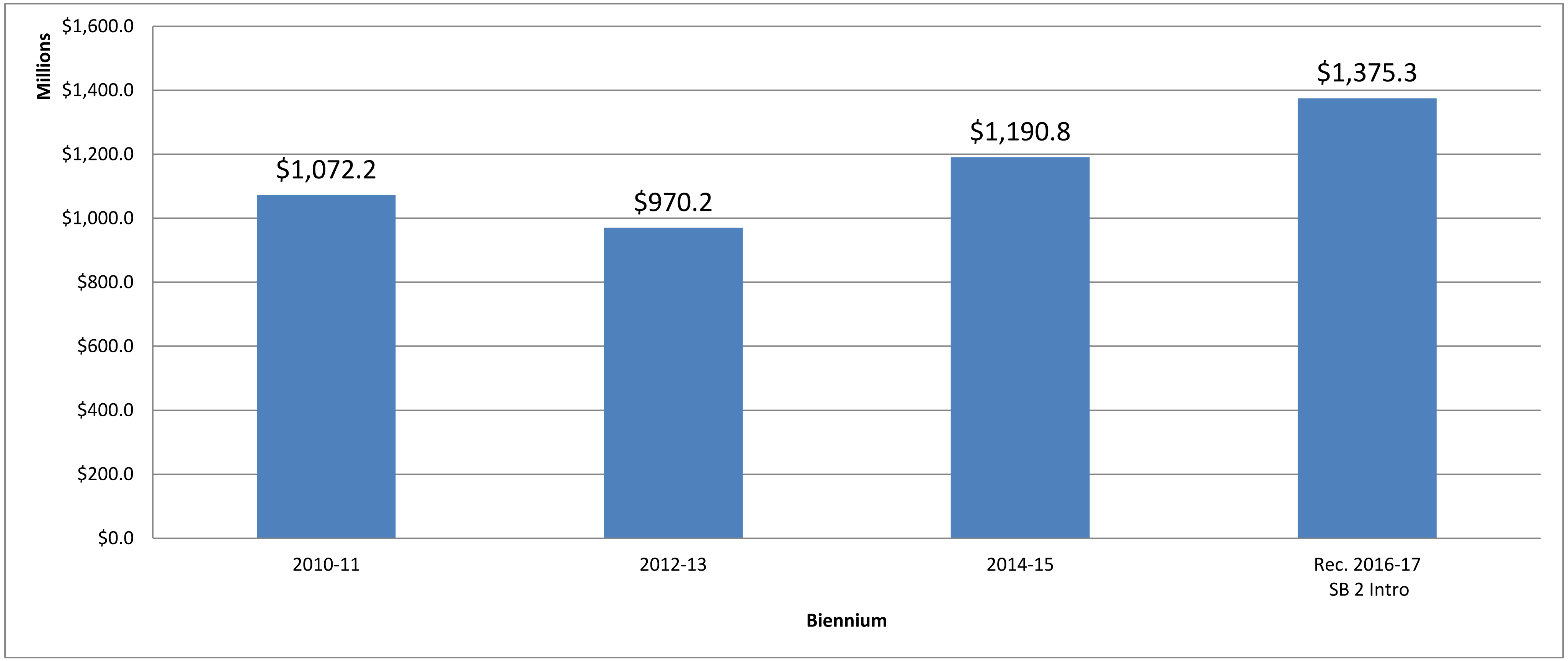
**Estimated Cost to Fund UT and TAMU Institutions at 2016-17 ERS Recommended Proration Rates**

| | 2016 | 2017 | Biennium | Increase/(Decrease) from Recommendations |
|---|---|---|---|---|
| UT (89.4%) | $ 233,899,316 | $ 250,669,893 | $ 484,569,209 | $ 12,917,289 |
| TAMU (89.4%) | $ 112,998,125 | $ 121,100,088 | $ 234,098,213 | $ 6,240,417 |
| **Total** | **$ 346,897,441** | **$ 371,769,981** | **$ 718,667,422** | **$ 19,157,706** |

Note: Because the state contribution for community colleges is now set in statute, community college funding was not included in the potential funding options since the proration rate is fixed.

Section 3e

## History of HEGI All Funds Expended/Budgeted and Appropriated Amounts by Biennium (in millions)




| | 2010-11 | 2012-13 | 2014-15 | 2016-17 SB 2 Intro |
|---|---|---|---|---|
| HEGI (in millions) | $ 1,072.2 | $ 970.2 | $ 1,190.8 | $ 1,375.3 |
| Precent Change from Previous Biennium | N/A | -9.5% | 22.7% | 15.5% |

Section 3f

## Summary of Employee Headcount for Institutions of Higher Education (excluding community colleges)

**General Revenue Funded Employee Headcount Totals (By Insuring System)**

| | 2006 | 2008 | 2010 | 2012 | 2014 est. | Diff.* | % Change |
|---|---|---|---|---|---|---|---|
| ERS (excluding community colleges) | 24,406 | 26,359 | 25,940 | 25,082 | 25,479 | 397 | 1.58% |
| | | | | | | | |
| UT System Institutions | 32,255 | 34,296 | 35,325 | 31,503 | 32,918 | 1,415 | 4.49% |
| | | | | | | | |
| TAMU System Institutions | 15,532 | 16,064 | 16,980 | 15,219 | 15,339 | 120 | 0.79% |
| | | | | | | | |
| TOTAL: | 72,193 | 76,719 | 78,245 | 71,804 | 73,736 | 1,932 | 2.69% |

**General Revenue Funded Employee Headcount Totals (by Institution Type)**

| | 2006 | 2008 | 2010 | 2012 | 2014 est. | Diff.* | % Change |
|---|---|---|---|---|---|---|---|
| General Academic Institutions** | 45,538 | 48,026 | 48,524 | 44,634 | 44,496 | (138) | -0.31% |
| Health Related Institutions | 20,154 | 21,921 | 22,991 | 20,656 | 22,726 | 2,070 | 10.02% |
| Lamar Two-Year | 517 | 486 | 472 | 468 | 493 | 25 | 5.34% |
| TSTCs | 1,047 | 1,066 | 1,001 | 938 | 956 | 18 | 1.92% |
| TAMU System Agencies | 4,069 | 4,240 | 4,343 | 4,050 | 3,972 | (78) | -1.93% |
| System Offices (Excluding TSTC) | 868 | 980 | 914 | 1,058 | 1,093 | 35 | 3.31% |
| TOTAL: | 72,193 | 76,719 | 78,245 | 71,804 | 73,736 | 1,932 | 2.69% |
| Percent Change from Previous Biennium | NA | 6.27% | 1.99% | -8.23% | 2.69% | | |

**All E&G and Local Non-E&G Funded Employee Headcount Totals (By Insuring System)**

| | 2006 | 2008 | 2010 | 2012 | 2014 est. | Diff.* | % Change |
|---|---|---|---|---|---|---|---|
| ERS (excluding community colleges) | 45,884 | 48,663 | 48,413 | 50,712 | 52,934 | 2,222 | 4.38% |
| | | | | | | | |
| UT System Institutions | 95,181 | 102,084 | 106,112 | 108,504 | 114,070 | 5,566 | 5.13% |
| | | | | | | | |
| TAMU System Institutions | 31,471 | 32,879 | 35,368 | 34,034 | 33,228 | (806) | -2.37% |
| | | | | | | | |
| TOTAL: | 172,536 | 183,626 | 189,893 | 193,250 | 200,232 | 6,982 | 3.61% |

**All E&G and Local Non-E&G Funded Employee Headcount Totals (by Institution Type)**

| | 2006 | 2008 | 2010 | 2012 | 2014 est. | Diff.* | % Change |
|---|---|---|---|---|---|---|---|
| General Academic Institutions | 95,842 | 102,529 | 105,802 | 106,457 | 109,175 | 2,718 | 2.55% |
| Health Related Institutions | 64,479 | 68,479 | 71,094 | 73,939 | 78,430 | 4,491 | 6.07% |
| Lamar Two-Year | 675 | 642 | 668 | 637 | 667 | 30 | 4.71% |
| TSTCs | 1,477 | 1,497 | 1,493 | 1,416 | 1,457 | 41 | 2.90% |
| TAMU System Agencies | 7,786 | 7,938 | 8,497 | 8,135 | 7,711 | (424) | -5.21% |
| System Offices (Excluding TSTC) | 2,277 | 2,541 | 2,339 | 2,666 | 2,792 | 126 | 4.73% |
| TOTAL: | 172,536 | 183,626 | 189,893 | 193,250 | 200,232 | 6,982 | 3.61% |
| Percent Change from Previous Biennium | NA | 6.43% | 3.41% | 1.77% | 3.61% | | |

* Difference and percent change calculated between 2014 and 2012 employee headcount

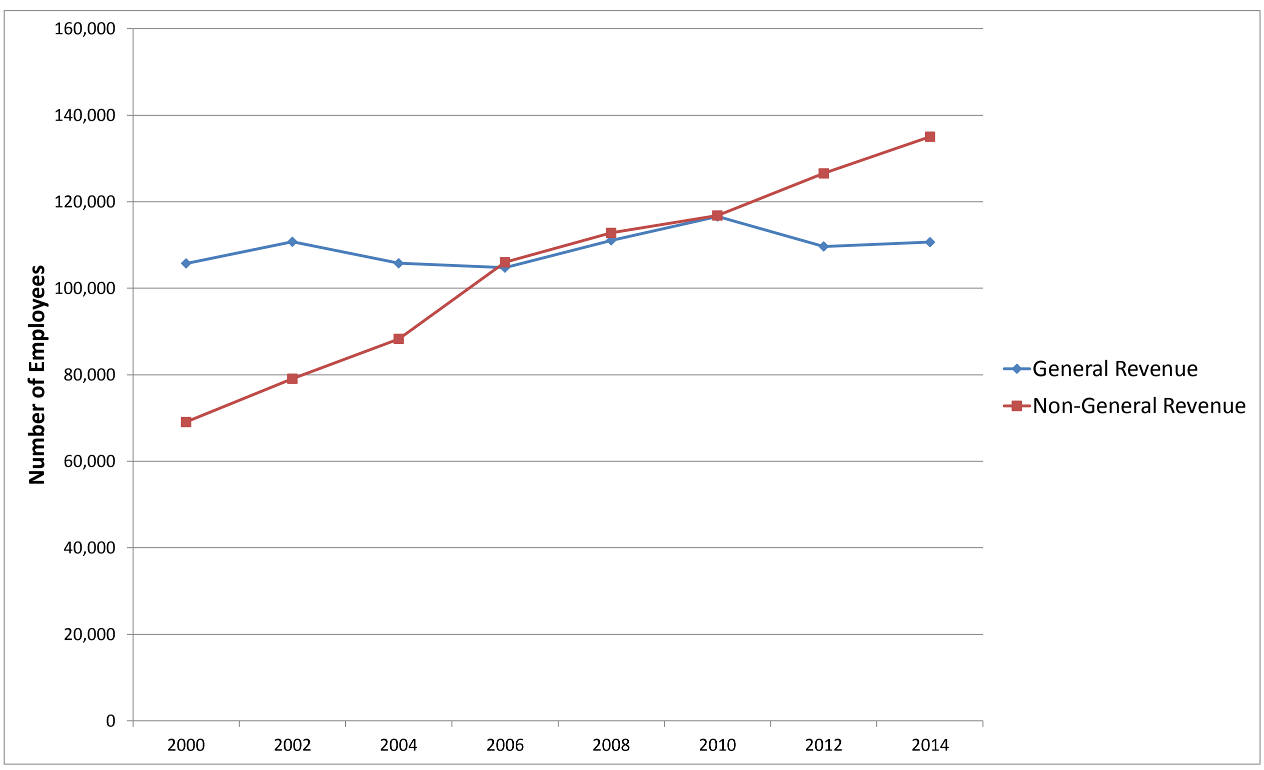
**The decline in General Revenue funded employees for the General Academic Institutions is primarily due to the decline of E&G employees reported at UNT due to the institution correcting their previous practice of incorrectly categorizing E&G employees (see Selected Fiscal and Policy Issues #9). This resulted in a decline of 978 General Revenue funded employees from 2012 to 2014.

## Summary of Employee Headcount and Growth Limitations for Community Colleges

| Community College Employees | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2008 | 2010 | 2012 | 2014 est. | Diff. from 2012 to 2014 | % Change |
| **General Revenue I&A (prior to growth limitations)** | 32,574 | 34,355 | 38,311 | 37,855 | 39,491 | 1,636 | 4.32% |
| **General Revenue I&A (after growth limitations)** | N/A | N/A | N/A | N/A | 36,871 | (984) | -2.60% |
| **All I&A and Non-I&A Employees** | 38,242 | 40,240 | 43,502 | 42,961 | 45,443 | 2,482 | 5.78% |

*For General Revenue I&A (after growth limitations), difference and percent change show change from 2012 to 2014 after growth limitations

## Comparison: General Revenue versus Non-General Revenue Funded Employees for Institutions of Higher Education



Section 3h

## Higher Education Employees Group Insurance (HEGI) Historical Rates

**Historical System Proration of "Full" ERS Rates**

| System | 78th Legislature 2004-05 | 79th Legislature 2006-07 | 80th Legislature 2008-09 | 81st Legislature 2010-11 | 82nd Legislature 2012-13 | 83rd Legislature 2014-15 |
|---|---|---|---|---|---|---|
| ERS - Institutions of Higher Education | 87.5% | 87.5% | 97.5% | 97.5% | 85.8% | 89.4% |
| University of Texas (UT) System | 87.5% | 87.5% | 95.0% | 95.0% | 83.4% | 87.0% |
| Texas A&M University (TAMU) System | 87.5% | 87.5% | 95.0% | 95.0% | 83.4% | 87.0% |
| ERS - Community Colleges | 87.5% | 87.5% | 90.0% | 83.0% | 42.1% | 50.0% |

Until FY 2004, state premium contributions for HEGI roughly equaled the state premium contributions for general state employees and followed the appropriations decisions for the ERS Group Benefits Plan (GBP). However, starting in FY 2004, the Legislature funded all higher education institutions at 87.5% of the "full" premium cost for general state employees. The Legislature has since differentially funded each of the following HEGI appropriations: community colleges insured within ERS' GBP, state higher education institutions insured within ERS' GBP, components insured within The UT System, and components insured within the Texas A&M System. With the passage of SB 1812, 83rd Legislature, the state contribution for community college is now set in statute at 50 percent of full premium contributions.

# Recommended Plan Year 2015 Premium Contribution Base Rates - 84th Legislature*

**HEGI Rates**

| | | Employee Only | Employee & Child | Employee & Spouse | Employee & Family |
|---|---|---|---|---|---|
| **ERS - "FULL" RATES (100%)** | | | | | |
| Full-time | | $ 537.66 | $ 743.80 | $ 845.54 | $ 1,051.68 |
| Part-time | | $ 268.83 | $ 371.90 | $ 422.77 | $ 525.84 |
| **ERS HEGI - HIGHER EDUCATION INSTITUTIONS** | | | | | |
| Full-time | 89.4% of ERS Rates | $ 480.64 | $ 664.91 | $ 755.86 | $ 940.14 |
| Part-time | | $ 240.32 | $ 332.46 | $ 377.93 | $ 470.07 |
| **ERS HEGI - COMMUNITY COLLEGES** | | | | | |
| Full-time | 50.0% of ERS Rates | $ 268.83 | $ 371.90 | $ 422.77 | $ 525.84 |
| Part-time | | $ 134.42 | $ 185.95 | $ 211.39 | $ 262.92 |
| **UT SYSTEM** | | | | | |
| Full-time | 87.0% of ERS Rates | $ 467.82 | $ 647.19 | $ 735.71 | $ 915.08 |
| Part-time | | $ 233.91 | $ 323.59 | $ 367.86 | $ 457.54 |
| **A&M SYSTEM** | | | | | |
| Full-time | 87.0% of ERS Rates | $ 467.82 | $ 647.19 | $ 735.71 | $ 915.08 |
| Part-time | | $ 233.91 | $ 323.59 | $ 367.86 | $ 457.54 |

*2015 rates will be inflated by out year rate increases of 7.19% in fiscal year 2016 and 7.17% in fiscal year 2017

# Higher Education Group Insurance Contributions
## Performance Review and Policy Report Highlights

| Reports & Recommendations | Savings/ (Cost) | Gain/ (Loss) | Fund Type | Included in Introduced Bill | Action Required During Session |
|---|---|---|---|---|---|

**NO RELATED RECOMMENDATIONS**

## Higher Education Employees Group Insurance Contributions
## Rider Highlights - Senate

**Amended Riders:**

4. **Transfer Authority.** Recommendations amend rider to no longer include exemptions to Texas Southmost College (TSC) and The University of Texas at Brownsville (UTB). The two institutions are no longer partners and the HEGI appropriations will be transferred to the Employees Retirement System's Group Benefits Program and to The University of Texas System Office, respectively, as stipulated in the rider.

6. **Appropriations Transfers.** Recommendations amend the rider to allow UTHSC-SA to transfer appropriations to UT RGV for the purpose of funding group insurance for employees of the UTRGV School of Medicine (see Integration of Health Related Institutions (HRI) and General Academic Institutions (GAI) Selected Policy Overview).

**New Rider:**

8. **University of North Texas Benefits Repayment.** The new rider requires UNT to reimburse the General Revenue fund in an amount to be determined for the excess state funded benefits the institution received.

**Deleted Riders:**

8. **(previous) Contingent Appropriations, Higher Education Group Insurance Contributions.** Recommendations delete this rider. TSC and UTB are no longer partners, therefore the contingent appropriations are no longer necessary.

9. **Higher Education Group Insurance rates for Public Community/Junior Colleges.** Recommendations delete this rider. Senate Bill 1812, Eighty-third Legislature, set the state contribution rate for group insurance at 50 percent of ERS premium costs.

## Higher Education Employees Group Insurance Contributions
## Items not Included in Recommendations - Senate

| | 2016-17 Biennial Total | |
|---|---|---|
| | GR & GR-Dedicated | All Funds |
| 1. Texas A&M University System - Increased Proration Rates<br>Additional funding requested by the Texas A&M University System in the administrator's statement of their Legislative Appropriations Request to restore some increment of the differential funding level between Texas A&M System employees and state employees in the ERS group insurance plan. Funding Texas A&M System institutions at the same proration rate for institutions of higher education in the ERS group insurance plan would require an additional $6.2 million in General Revenue over recommended funding levels. | $ - | $ - |
| 2. Texas Tech University System - Increased Proration Rates<br>Additional funding requested by the Texas Tech University System in the administrator's statement of their Legislative Appropriations Request to increase the state's share of group insurance premium costs. Funding all institutions of higher education (excluding community colleges) at the full ERS premium rate would require an additional $147.3 million in General Revenue over recommended funding levels. | $ - | $ - |
| **Total, Items Not Included in the Recommendations** | **$ -** | **$ -** |