



LEGISLATIVE BUDGET BOARD

Higher Education Funding

Overview of Formula Funding for All Institution Types, Small Institution Supplement Funding & the Available University Fund and Higher Education Fund

**PRESENTED TO JOINT INTERIM COMMITTEE
ON HIGHER EDUCATION FORMULA FUNDING
LEGISLATIVE BUDGET BOARD STAFF**

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Overview of Presentation

Related to General Appropriations Act, Article III Special Provisions Sec. 62. Non-Formula Support Items and Formula Study.

- Overview of Formula Funding Mechanics and Methods of Finance
- Overview of General Academic Institution (GAI) Formulas
- Overview of Lamar State Colleges (Lamars) and Texas State Technical College (TSTC) Formulas
- Overview of Health Related Institution (HRI) Formulas
- Overview of Public Community and Junior Colleges Formulas
- Overview of Small Institution Supplement Funding
- Overview of the Permanent University Fund and the Higher Education Fund

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.
 - “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 2018-19 biennium is Summer and Fall of 2016 and Spring of 2017.
- 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 an expenditure 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 (\$55.82)

- 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 (\$55.82)

General Academic Institutions Cost Based Matrix

	LOWER DIVISION	UPPER DIVISION	MASTERS	DOCTORAL	SPECIAL PROFESSIONAL
Liberal Arts	1.00	1.73	4.01	10.90	
Science	1.64	2.81	7.04	20.70	
Fine Arts	1.46	2.51	6.07	7.48	
Teacher Ed	1.53	2.07	2.39	6.91	
Agriculture	2.08	2.58	6.54	11.80	
Engineering	2.15	3.22	5.50	17.15	
Home Economics	1.11	1.76	2.79	9.09	
Law					4.77
Social Services	1.57	1.89	2.47	19.33	
Library Science	1.44	1.54	3.35	14.64	
Vocational Training	1.16	2.74			
Physical Training	1.46	1.26			
Health Services	1.02	1.55	2.54	10.19	2.50
Pharmacy	2.46	4.73	28.55	32.17	4.23
Business Admin	1.16	1.83	3.26	24.70	
Optometry			37.52	55.92	7.65
Teacher Ed Practice	1.91	2.18			
Technology	2.08	2.32	3.42	14.79	
Nursing	1.49	2.04	3.00	9.57	
Developmental Ed	1.00				
Veterinary Medicine					23.30

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 Texas Higher Education 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 (\$5.41)

Small Institution Supplement

- Additionally, institutions with a headcount of less than 10,000 students also receive the Small Institution Supplement. For General Academic Institutions, 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.
- For the Lamar State Colleges and Texas State Technical Colleges, the methodology is similar, but the threshold for the supplement is 5,000 students and the maximum supplement is \$750,000.

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 2018-19 biennium is Summer and Fall of 2016 and Spring of 2017.

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 (27.6%)

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

IN MILLIONS	2016-17 Appropriations		2018-19 Appropriations	
	Formula General Revenue	Annual All Funds Rate	Formula General Revenue	Annual All Funds Rate
Instruction and Operations - GAIs	\$2,917.1	\$55.39	\$2,870.1	\$55.82
Infrastructure Support – GAIs, Lamars, and TSTCs	551.1	5.62	530.2	5.41
Instruction and Administration - Lamars	26.1	3.53	27.2	3.53
Instruction and Administration – TSTCs*	94.0	35.5%	94.0	27.6%
Total	\$3,588.3		\$3,521.5	

*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 (\$9,431)

- 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 (\$6.11)

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) + 1.16% 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 (\$5,824)

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 (\$1,650)

- 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 (\$187)

- 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	2016-17 Appropriations		2018-19 Appropriations	
	Formula General Revenue	Annual All Funds Rate	Formula General Revenue	Annual All Funds Rate
Instruction and Operations*	\$1,169.2	\$9,829	\$1,175.7	\$9,431
Infrastructure Support	246.8	6.65; 6.26	250.1	6.11
Research Enhancement	74.6	1.23 percent	80.6	1.16 percent
Graduate Medical Education*	85.9	6,266	90.1	5,824
Cancer Center Operations	264.8	1,877	264.8	1,650
Chest Disease Center Operations	58.4	215	58.4	187
Total	\$1,899.6		\$1,919.8	

*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 Instructional and Administrative formula that includes three funding components:
 - Core Operations
 - Success Points
 - Contact Hours
- Unlike other institutions, formula funding is funded entirely with General Revenue and does not include tuition and fee revenue as part of the method of finance.

Core Operations and Success Points Funding

- **Core Operations**

- Each community/junior college district receives \$1.4 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 (\$171.56)**

- Funding is 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 individual metrics.

Success Points

<u>Metric</u>	<u>Points</u>
▪ 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

- 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 2018-19 biennium is Summer and Fall 2016 and Spring of 2017.

Contact Hours X Rate (\$2.70)

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

Formula Appropriations for Public Community/Junior Colleges

IN MILLIONS	2016-17 Appropriations		2018-19 Appropriations	
	Formula General Revenue	Annual All Funds Rate	Formula General Revenue	Annual All Funds Rate
Contact Hours	\$1,522.5	\$2.69	\$1,516.6	2.70
Success Points	\$169.2	\$172.58	\$180.0	\$171.56
Core Funding	\$50.0	\$0.5 million per district	\$68.0	\$1.4 million per district
Total	\$1,736.7		\$1,764.6	

Permanent University Fund / Available University Fund

- The Permanent University Fund (PUF) is a public endowment established in 1876 by the Texas Constitution. The PUF contains approximately 2.1 million acres located in 24 West Texas counties. The Available University Fund (AUF) is the money available from the PUF for use by The University of Texas and Texas A&M University Systems.
- The AUF is composed of a certain percent of all PUF investments and all net surface income from PUF lands. The distribution amount is determined annually by The University of Texas System within two constitutional limitations: the annual distribution may not exceed 7 percent of the average market value of the PUF and the purchasing power of the PUF shall be sustained over a 10-year rolling average.
- The Texas Constitution dedicates two-thirds of the AUF to The University of Texas System and one-third to the Texas A&M University System. Within each system, the amount of AUF funds allocated to each eligible institution is determined by each system's respective governing board. The Texas Constitution requires that the first use of the AUF is to pay debt service on PUF-backed bonds that are used for the following purposes: acquiring land; constructing, equipping, and repairing buildings; and acquiring capital equipment, library books, and library materials.
- For certain institutions, the Texas Constitution allows AUF funds to be used for the support and maintenance of eligible institutions. These institutions are listed on the next slide.

Permanent University Fund / Available University Fund (continued)

- The Available University Fund is a separate bill pattern. AUF appropriations are estimated and are “Other Funds.”
- Funds may be used to provide support and maintenance at the following schools or system offices:
 - The University of Texas System
 - The University of Texas at Austin
 - The Texas A&M System
 - Texas A&M University
 - Prairie View A&M University
- Funds may be used for debt service on PUF-backed bonds for the following institutions:

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas of the Permian Basin
The University of Texas Rio Grande Valley
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas Southwestern Medical Center
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio
The University of Texas M.D. Anderson Cancer Center
The University of Texas Health Science Center at Tyler

The University of Texas System
Texas A&M University
Texas A&M University System Health Science Center
Texas A&M University at Galveston
Prairie View Texas A&M University
Tarleton State University
Texas A&M University – San Antonio
Texas A&M University – Central Texas
Texas A&M AgriLife Research
Texas A&M AgriLife Extension Service
Texas A&M Forest Service
Texas A&M Transportation Institute
Texas A&M Engineering Experiment Station
Texas A&M Engineering Extension Service
Texas A&M University System

Higher Education Fund

- The Higher Education Fund (HEF) is an annual General Revenue Fund appropriation dedicated by the Constitution to support certain capital purposes at eligible state institutions, including: acquiring land; constructing, equipping, and repairing buildings; and acquiring capital equipment, library books, and library materials. These institutions are constitutionally ineligible to receive proceeds from the PUF. HEF-eligible institutions are limited to using at most 50 percent of their respective annual HEF allocations for debt service on HEF-backed bonds.
- The Texas Constitution requires the Legislature to review the HEF's formula allocation every 10 years, and the Legislature may once every five years adjust the amount and the allocation of the constitutional appropriation for the subsequent five years. An adjustment requires a two-thirds majority vote, and the reallocation may not impair any debt service obligation established by the issuance of HEF bonds or notes.
- Appropriations are allocated using an "equitable formula" based on space deficit, facility condition, and institutional complexity variables, with a separate allocation for the Texas State Technical College System. The formula is administered by the Texas Higher Education Coordinating Board (THECB). The resulting appropriation amounts for each institution are set in statute.
- The 84th Legislature both increased and reallocated the annual HEF appropriation from \$262.5 million to \$393.8 million. Additionally, the University of North Texas at Dallas and Texas Tech University Health Sciences Center at El Paso were added to the distribution and The University of Texas – Pan American and The University of Texas at Brownsville were removed from the distribution.

Higher Education Fund (continued)

- HEF is a separate bill pattern that contains General Revenue appropriations that are not estimated. Currently, the following institutions receive HEF allocations:

Texas A&M University – Corpus Christi

Texas A&M International University

Texas A&M University – Kingsville

Texas A&M University – Commerce

Texas A&M University – Texarkana

West Texas A&M University

University of Houston

University of Houston – Clear Lake

University of Houston – Downtown

University of Houston – Victoria

Texas Tech University

Texas Tech University Health Sciences Center

Texas Tech University Health Sciences Center at

El Paso

Angelo State University

Texas State Technical College System

University of North Texas

University of North Texas at Dallas

University of North Texas Health Science Center

Midwestern State University

Stephen F. Austin State University

Texas Southern University

Texas Woman's University

Lamar University

Lamar State College – Orange

Lamar State College – Port Arthur

Lamar Institute of Technology

Sul Ross University

Sul Ross University – Rio Grande College

Sam Houston State University

Texas State University



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