

## LEGISLATIVE BUDGET BOARD

# Financing Public Higher Education in Texas

## Legislative Primer

LEGISLATIVE BUDGET BOARD STAFF

AUGUST 2016

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# INTRODUCTION

Texas' system of public higher education encompasses 37 general academic institutions; three lower-division institutions; 50 community and junior college districts; one technical college system; and 12 health related institutions, which include two new medical schools that began accepting students in fall 2016. Additionally, higher education also includes seven Texas A&M University (TAMU) System agencies that provide research and other statewide support; two constitutionally authorized funds to support new construction and maintenance programs; several statutorily authorized research funds; and a statutorily authorized fund established to assist public institutions of higher education offset the waived tuition and fee revenue from the Hazlewood Legacy Program.

The state's public higher education system is governed by the nine-member Texas Higher Education Coordinating Board (THECB), whose mission is to ensure an effective and efficient system of higher education. THECB's responsibilities include assessing Texas' system of higher education and developing recommendations for improvements to the Governor, the Legislature, and institutions. THECB reviews and recommends changes in formulas regarding the allocation of state funds to public institutions to limit duplication of academic programs and unnecessary construction projects. THECB also promotes access to high-quality programs at different institutional levels and oversees the state's student financial aid programs.

Based on 2015 certified enrollment figures reported by THECB, about 1.36 million students are enrolled in public institutions of higher education in Texas. Public institutions serve about 91.4 percent of all students enrolled in higher education in Texas. General academic institutions, health related institutions, and community colleges experienced increased enrollment; however, technical schools experienced decreased enrollment. The result was a slight net increase (22,245 students) in enrollment from 2014.

Public higher education institutions and agencies allocate state appropriations through a variety of methods, and the manners in which appropriations may be expended vary. References in the following sections to appropriated funds

are based on the Eighty-fourth Legislature, General Appropriations Act (GAA), 2016–17 Biennium.

Methods of financing higher education and the ways that appropriations can be expended are explained in the section, Appropriations and Expenditures. Each category of institution—general academic institutions, health related institutions, community and technical colleges, and Texas A&M System agencies—is presented separately. Appropriations made to THECB, the Texas A&M University System agencies, constitutional and statutory funds, and higher education employee benefits are also detailed in separate sections.

## LEGISLATIVE APPROPRIATIONS

Legislative appropriations for higher education provide funding for instruction, student services, administration, employee benefits, facility construction and renovation, capital equipment, special items that represent an institution's area of expertise or special need, and student financial aid. Except for appropriations to THECB and the TAMU System agencies, Federal Funds are not included in appropriations for higher education. Institutions of higher education have discretion in their budgeting because they receive lump sum appropriations, a single amount of funding that has few limits on transferability between strategies.

The Eighty-fourth Legislature, 2015, appropriated \$17.3 billion in All Funds in the GAA for the 2016–17 biennium to support Texas higher education (**Figure 1**), excluding employee benefits. This amount is a \$1.2 billion increase from the 2014–15 biennium. This amount includes \$12.2 billion in General Revenue Funds, \$2.5 billion in General Revenue–Dedicated Funds, and \$2.6 billion in Federal Funds and Other Funds.

Higher education formulas are supported by \$7.2 billion in General Revenue Funds and \$1.3 billion in General Revenue–Dedicated Funds. Included in this amount are an increase of \$391.5 million in General Revenue Funds and an increase of \$68.2 million in statutory tuition in General Revenue–Dedicated Funds. The increase in formula appropriations reflects both the funding of enrollment

**FIGURE 1**  
**HISTORICAL SPENDING FOR TEXAS PUBLIC HIGHER EDUCATION, 2006–07 TO 2016–17 BIENNIA**

METHOD OF FINANCE	2006–07	2008–09	2010–11	2012–13	2014–15	2016–17
General Revenue Funds	\$9,702.8	\$10,885.4	\$10,848.0	\$10,471.2	\$11,029.4	\$12,209.9
General Revenue–Dedicated Funds	\$2,000.0	\$1,965.5	\$2,173.4	\$2,276.0	\$2,437.4	\$2,532.5
Other Funds	\$5,110.9	\$6,302.7	\$6,604.7	\$8,080.3	\$2,357.6	\$2,303.7
Federal Funds	\$335.9	\$308.6	\$693.5 <sup>(3)</sup>	\$322.0	\$274.6	\$269.6
<b>TOTAL, HIGHER EDUCATION</b>	<b>\$17,149.5</b>	<b>\$19,462.2</b>	<b>\$20,319.6</b>	<b>\$21,149.5</b>	<b>\$16,099.0</b>	<b>\$17,315.7</b>
Percentage of Statewide Total	11.8%	11.3%	10.8%	11.1%	7.9%	8.2%
<b>STATEWIDE TOTAL, ALL ARTICLES</b>	<b>\$145,059.3</b>	<b>\$172,131.5</b>	<b>\$187,516.5</b>	<b>\$190,766.8</b>	<b>\$203,300.5</b>	<b>\$209,103.0</b>

## NOTES:

- (1) Amounts shown in millions and do not include amounts related to employee benefits.  
(2) Amounts shown for the 2006–17 to 2014–15 biennia are estimated or budgeted; amounts shown for the 2016–17 biennium are appropriated.  
(3) Data includes \$326.9 million in federal American Recovery and Reinvestment Act funds.

SOURCE: Legislative Budget Board.

growth and increasing rates in all of the formulas, except the health related institutions' two mission-specific formulas and the success point component of the public community and junior colleges formula.

Funding for institutions of higher education includes funding for special items, which are direct appropriations for projects specifically identified by the Legislature for support. This special item funding includes the following 2016–17 biennial General Revenue Funds appropriations:

- \$617.3 million for general academic institutions and system offices, an increase of \$83.9 million from the 2014–15 biennium;
- \$14.9 million for the Lamar State Colleges, an increase of \$4.7 million from 2014–15 biennial levels;
- \$24.6 million for the Texas State Technical Colleges, an increase of \$10.1 million from the 2014–15 biennium;
- \$458.9 million for health related institutions, which includes The University of Texas Rio Grande Valley School of Medicine, an increase of \$87.6 million from 2014–15 biennial appropriations; and
- \$31.0 million for public community and junior colleges, an increase of \$11.6 million from the 2014–15 biennium.

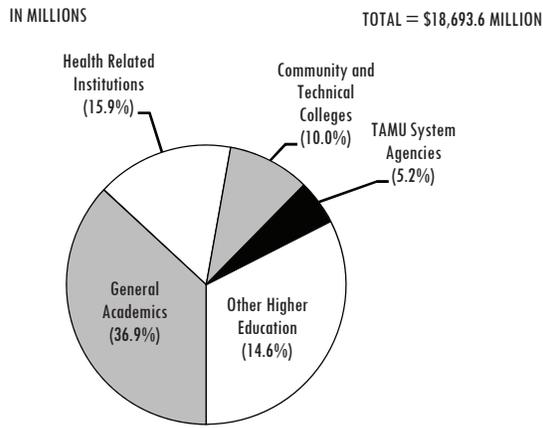
Appropriations for the 2016–17 biennium also reflect the discontinuation of the Texas Competitive Knowledge Fund and the Research Development Fund. The Legislature instead

provides direct support for research to general academic institutions through the following research funds:

- \$147.1 million in All Funds for the Texas Research University Fund, which includes \$8.0 million from the General Revenue–Dedicated Emerging Technology Account No. 5124, to the two eligible institutions, The University of Texas at Austin and Texas A&M University;
- \$117.1 million in General Revenue Funds for Core Research Support to the state's eight emerging research universities; and
- \$14.3 million in General Revenue Funds for the Comprehensive Research Fund to institutions not eligible for either the Texas Research University Fund or Core Research Support.

**Figure 2** shows the percentage of state funding appropriated to the various types of institutions, including Higher Education Group Insurance (HEGI), but excluding other employee benefits.

**FIGURE 2**  
**TEXAS PUBLIC HIGHER EDUCATION APPROPRIATION BY**  
**TYPE OF INSTITUTION, 2016–17 BIENNIUM**



NOTES:

- (1) Appropriations exclude benefits other than Higher Education Employees Group Insurance (HEGI).
- (2) Appropriations within the Other Higher Education category include HEGI, the Texas Higher Education Coordinating Board, the Higher Education Fund, the Available University Fund, the Available National Research University Fund, and the Permanent Fund Supporting Military and Veterans Exemptions.

SOURCE: Legislative Budget Board.

### SIGNIFICANT ACTIONS OF THE EIGHTY-FOURTH LEGISLATURE, 2015

Several bills were passed by the Eighty-fourth Legislature, 2015, that affect higher education institutions. Among the more significant are the following:

- **House Bill 100 – Tuition Revenue Bonds.** The enactment of HB 100 authorizes the issuance of \$3.1 billion in Tuition Revenue Bonds to fund capital projects at public institutions of higher education. The Legislature appropriated \$240.0 million in General Revenue Funds to the Texas Higher Education Coordinating Board in fiscal year 2017 for distribution to the institutions for debt service on the authorized tuition revenue bonds;
- **House Bill 700 – B-On-Time Program.** The enactment of HB 700 phases out the B-On-Time Program during the next five years and abolishes the General Revenue–Dedicated Texas B-On-Time Account effective September 1, 2020. On that date, the remaining B-On-Time account balances will be allocated to institutions of higher education based on a formula adopted by THECB. B-On-Time loans will be provided only to students who received an

initial loan before the 2015–16 academic year. The bill eliminates the requirement that institutions of higher education set aside 5.0 percent of designated tuition to support the program; and

- **Senate Bill 18 – Measures to Support or Enhance Graduate Medical Education (GME).** The enactment of SB 18 modifies and establishes the following GME programs administered by THECB:
  - grants for unfilled residency positions can be made available for first-year residency positions that were unfilled as of July 1, 2013;
  - grants for new or existing GME programs to increase the number of first-year residency programs are awarded for the duration of the period in which the resident who initially fills the residency position continues to hold the position;
  - onetime GME planning and partnership grants to hospitals, medical schools, and community-based ambulatory patient care centers to develop new GME programs;
  - continuation of grants awarded through the new and expanded GME programs in fiscal year 2015; and
  - establishes the Permanent Fund Supporting Graduate Medical Education, a special fund in the Treasury outside the General Revenue Fund that consists of money transferred or appropriated by the Legislature, gifts and grants contributed to the fund, and investment returns.



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## APPROPRIATIONS AND EXPENDITURES

Public institutions and agencies of higher education in Texas receive funding from appropriated and nonappropriated funds. Appropriated funds are allocated to public institutions and agencies of higher education in a number of ways through the General Appropriations Act (GAA). An institution may receive direct appropriations through the institution's bill pattern or indirect appropriations, which are appropriated elsewhere in the GAA and subsequently are allocated to the institution. Nonappropriated funds are received by an institution and are not included in the GAA.

### APPROPRIATED FUNDS

The General Appropriations Act (GAA) establishes a key distinction for public higher education entities in Texas to differentiate them from other state agencies. The Texas Education Code, Section 61.059(k), directs the Legislature to encourage institutions of higher education to use appropriated funds at their discretion. This direction is achieved by appropriating base funding to each institution as a single, unrestricted amount known as a lump sum appropriation. Unlike other state agencies, higher education institutions are not required to spend appropriations within a specified funding strategy with certain limitations. For each institution, the GAA provides an informational listing of appropriated funds shown with each institution's lump sum appropriation. This information shows how the state funds are allocated, not how they must be spent.

Appropriated funds for higher education institutions are appropriated from All Funds through four methods of finance: General Revenue Funds; General Revenue–Dedicated Funds; Federal Funds; and Other Funds. The majority of those appropriations are allocated to institutions of higher education by the use of funding formulas, which vary by type of institution. The Legislature's allocation of state appropriations may differ by groups of institutions, such as general academic institutions or community colleges. For example, all general academic institutions receive funding generated through an Instruction and Operations formula and an Infrastructure formula; community colleges receive a portion of their funding through an outcomes-based model for their Instruction and Administration formula. Within each type of institution, such as the general academic

institutions, state appropriations are allocated in a consistent manner.

General Revenue Funds are non-dedicated appropriations and serve as the state's primary operating fund. Most state tax revenue, many state fees, and various other sources of revenue are deposited as non-dedicated General Revenue Funds. Appropriations from General Revenue Funds provide the majority of formula funding to higher education institutions; these appropriations also fund other areas of higher education, including the Texas A&M University (TAMU) System agencies, higher education group insurance (HEGI), the Higher Education Fund, and certain financial aid programs at the Texas Higher Education Coordinating Board (THECB).

General Revenue–Dedicated Funds include accounts within the General Revenue Fund that are dedicated as a result of legislative action. For higher education institutions, the bulk of appropriations from General Revenue–Dedicated Funds consist of statutory tuition and fee revenue generated by the institutions. These appropriations are considered local funds. The Texas Education Code, Section 51.009(a), defines local funds as net tuition, certain special course fees, lab fees, student teaching fees, hospital and clinic fees, organized activity fees, proceeds from the sale of educational and general equipment, and indirect cost recovery fees. This revenue is accounted for as educational and general funds and is included in the GAA.

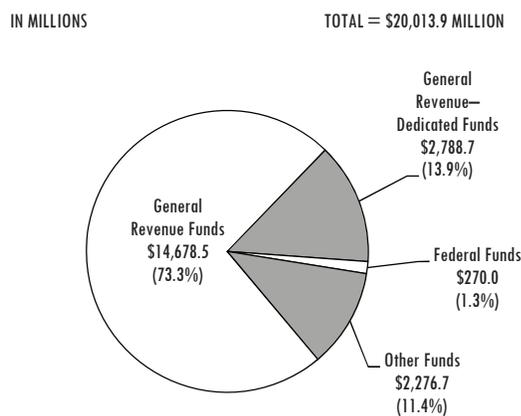
Although appropriations from General Revenue Funds directed to institutions is sum certain, or limited to the amount in the institutions' appropriations, the appropriation of Other Educational and General Income—primarily statutory tuition—is estimated. If tuition revenue generated by an institution is greater than the amount included in the GAA, the institution can spend at a level higher than the amounts in the GAA. If an institution generates less tuition revenue, it must spend less.

Federal Funds appropriations include grants, allocations, payments, or reimbursements received from the federal government by institutions. Only Federal Funds received by THECB and the TAMU System agencies are appropriated in the GAA.

Other Funds are state funds that are not included in General Revenue Funds or General Revenue–Dedicated Funds. These funds can be appropriated directly or indirectly. For institutions of higher education, examples of these funds include the Available University Fund, the National Research University Fund, and the Permanent Health Fund.

Figure 3 shows the sources of revenue, referred to as methods of finance, of the \$20.0 billion in state appropriations for the 2016–17 biennium. This amount includes appropriations for all employee benefits.

**FIGURE 3**  
**METHODS OF FINANCE FOR TEXAS PUBLIC HIGHER**  
**EDUCATION INSTITUTIONS, INCLUDING BENEFITS**  
**2016–17 BIENNIUM**



NOTE: Total may not sum due to rounding.  
 SOURCE: Legislative Budget Board.

**DIRECT AND INDIRECT APPROPRIATED FUNDS**

Public higher education institutions receive direct appropriations through funding formulas and other nonformula-funded appropriations. Direct appropriations are identified in the informational strategies of each institution’s bill pattern in the GAA, and are made to institutions as lump sum appropriations. The informational strategies reflect how state funds are allocated, not how they must be spent. With a few exceptions, higher education entities, unlike other state agencies, are not required to spend appropriations within a specified funding strategy.

Also included in appropriated funds are indirect appropriations, which are not allocated directly to an institution in its bill pattern in the GAA. Indirect

appropriations initially are placed into other funding mechanisms on behalf of an institution before being redistributed and allocated to the institution. Institutions use indirect appropriations from General Funds and Other Funds to cover costs related to the institution’s employees for health insurance, retirement benefits, and Social Security.

**NONAPPROPRIATED FUNDS**

Nonappropriated funds include designated funds, auxiliary income, and patient income. Designated funds include designated tuition, all other fees, interest on local funds, restricted funds, earnings on endowments, contracts and grants, and gifts. Designated tuition, which is tuition in addition to statutory tuition, is set by each institution’s respective governing board. Designated tuition is defined in statute as an institutional fund, which means the revenue is not considered part of educational and general funds. Statute specifies that this revenue may not be used as a way to offset appropriations from General Revenue Funds in the GAA.

Auxiliary income includes revenue generated through intercollegiate athletics fees, bookstores, food services, transportation services, student health service pharmacies, student unions, residence halls, child development centers, and recreation centers. Student services fees are intended for activities that are separate from the institution’s regularly scheduled academic functions and directly involve or benefit students; such activities include textbook rentals, recreational activities, health-related services, cultural activities, and student transportation services. Incidental fees include late registration fees, library fines, microfilming fees, thesis or doctoral manuscript reproduction or filing fees, and bad check charges.

Hospital and clinic revenues earned through patient-care activities were appropriated to health related institutions before the 2014–15 biennium. This revenue, collectively called patient income, is no longer appropriated to these institutions in the GAA, but instead the institutions receive the revenue as nonappropriated funds.

**EXPENDITURES**

Higher education institutions have discretion in spending appropriated funds, with the following exceptions:

- the Texas Constitution, Article VII, Sections 18(i) and 17(j), prohibits, with limited exceptions, the use of General Revenue Funds for construction projects; an exception occurs when the Texas Legislature, by two-thirds vote in each chamber, opts to use General

Revenue Funds for construction projects following a natural disaster or when there is demonstrated need for a project;

- the Eighty-fourth Legislature, GAA, 2016–17 Biennium, Article III, Special Provisions, Section 6, prohibits the use of appropriated funds for auxiliary enterprises;
- Special Provisions, Section 6 (2016–17 GAA), limits the use of funds clearly labeled in informational strategies for revenue or tuition revenue bond retirement to pay debt service for tuition revenue bonds. Any amount of an appropriation not spent must be returned to the General Revenue Fund at the end of the fiscal year;
- Special Provisions, Section 9 (2016–17 GAA), prohibits the use of appropriated funds for intercollegiate athletics purposes;
- Special Provisions, Section 12 (2016–17 GAA), prohibits the use of appropriated funds for the support or maintenance of alumni organizations or activities;
- the Texas Education Code, Section 130.003(c), restricts community and junior colleges to spending General Revenue Funds only for instruction and administrative costs; and
- certain institutions have riders that require appropriated funds to be spent on a particular program.



# FUNDING GENERAL ACADEMIC INSTITUTIONS

Texas' general academic institutions are included in the Texas Education Code, Section 61.003. **Figure 4** shows the institutions and their enrollments. All of the institutions have common goals of instruction, research, and public service; however, each has a unique set of academic offerings and a unique regional or statewide mission.

**Figure 5** shows the method of finance for appropriations for general academic institutions, including a number of indirect appropriations, but the figure does not include appropriations for employee retirement benefits.

Appropriations that benefit institutions that are not shown in the bill pattern of individual institutions include the Higher Education Fund, the Available National Research University Fund, Available University Fund, Permanent

Fund Supporting Military and Veterans Exemptions, certain employee benefits, and funds trusted to the Texas Higher Education Coordinating Board (THECB).

**Figure 6** shows the percentage of funding related to these direct and indirect appropriations.

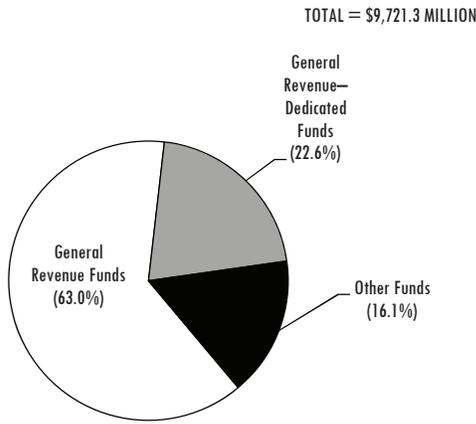
In addition, general academic institutions have access to funds not reflected in the state appropriations process. Examples include certain tuition and fees, such as designated tuition and incidental fees (see Appendix B); indirect cost recovery (see Appendix C); auxiliary operations (i.e., revenue from athletics, student services fees, bookstores, and parking); and grants and gifts.

**FIGURE 4**  
**TEXAS PUBLIC GENERAL ACADEMIC INSTITUTIONS, FALL 2015**

INSTITUTION	ENROLLMENT	INSTITUTION	ENROLLMENT
Angelo State University	8,452	Texas State University	37,979
Lamar University	14,494	Texas Tech University	35,546
Midwestern State University	5,734	Texas Woman's University	15,146
Prairie View A&M University	8,268	The University of Texas at Arlington	37,008
Sam Houston State University	20,031	The University of Texas at Austin	50,950
Stephen F. Austin State University	12,484	The University of Texas at Dallas	24,554
Sul Ross State University	1,973	The University of Texas at El Paso	23,308
Sul Ross State University Rio Grande College	1,019	The University of Texas Rio Grande Valley	28,584
Tarleton State University	12,333	The University of Texas of the Permian Basin	5,937
Texas A&M International University	7,192	The University of Texas at San Antonio	28,787
Texas A&M University	58,515	The University of Texas at Tyler	8,500
Texas A&M University – Central Texas	2,466	University of Houston	42,704
Texas A&M University – Commerce	12,302	University of Houston – Clear Lake	8,906
Texas A&M University – Corpus Christi	11,661	University of Houston – Downtown	14,255
Texas A&M University at Galveston	2,324	University of Houston – Victoria	4,152
Texas A&M University – Kingsville	9,207	University of North Texas	37,175
Texas A&M University – San Antonio	4,564	University of North Texas at Dallas	2,488
Texas A&M University – Texarkana	1,839	West Texas A&M University	9,482
Texas Southern University	8,965	<b>STATEWIDE TOTALS</b>	<b>619,284</b>

NOTE: Enrollment based on certified fall 2015 headcount.  
SOURCE: Texas Higher Education Coordinating Board.

**FIGURE 5  
METHODS OF FINANCE FOR TEXAS GENERAL ACADEMIC  
INSTITUTIONS, 2016–17 BIENNIUM**



NOTE: Includes direct and indirect appropriations.  
SOURCE: Legislative Budget Board.

**FORMULA FUNDING**

Nearly 50.4 percent of state appropriations for general academic institutions are allocated via two funding formulas and two supplements: the Instruction and Operations formula; the Teaching Experience Supplement; the Infrastructure Support formula; and the Small Institution

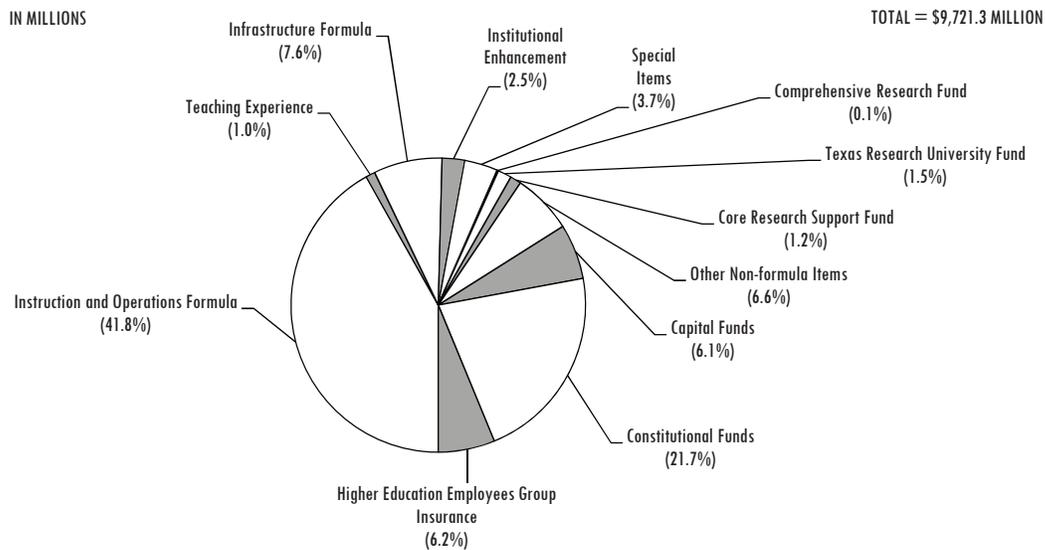
Supplement. The formulas and supplements are direct appropriations and are based primarily on enrollment.

Formula appropriations consist of General Revenue Funds and some General Revenue–Dedicated Funds in the form of Other Educational and General Income (Other E&G). Other E&G Income includes specific tuition and fee revenue (see Appendix B). The inclusion of certain tuition and fee revenue in the formula funding calculation is referred to as an All Funds methodology. The most significant tuition revenue included in the calculation is tuition charged in accordance with the Texas Education Code, Section 54.051, Interim Tuition Rates, which are referred to as statutory tuition. The statutory tuition rate for academic year 2016–17 is \$50 per semester credit hour for Texas residents. The corresponding tuition rate for a nonresident student is the average nonresident tuition charged to a Texas resident at a public university in each of the five most populous states.

Of the \$4.9 billion allocated by the general academic formulas and supplements, nearly 71.2 percent consists of General Revenue Funds, with the remainder consisting of General Revenue–Dedicated Funds (Other E&G).

A portion of Other E&G income is set aside for specific purposes or allocated to non-formula-based strategies in the institution’s bill pattern. For example, institutions set aside a portion of their tuition to provide Texas Public Education

**FIGURE 6  
APPROPRIATIONS FOR TEXAS GENERAL ACADEMIC INSTITUTIONS, 2016–17 BIENNIUM**



NOTE: Includes direct and indirect appropriations.  
SOURCE: Legislative Budget Board.

Grants (TPEG). TPEG are intended to help students cover tuition, fees, and textbook costs when these expenses exceed a certain portion of their families' contributions to their educations. This set-aside revenue is not part of the tuition and fee revenue used to calculate the funding formulas.

**INSTRUCTION AND OPERATIONS FORMULA**

About 85.0 percent of formula funds are calculated through the Instruction and Operations formula (\$4,068.1 million for the 2016–17 biennium) and Teaching Experience Supplement (\$98.7 million for the 2016-17 biennium). The Instruction and Operations formula is calculated as follows:

***Semester Credit Hours X Program and Level Weight***

***X Rate (55.39)***

Semester credit hours (SCH) are a measurement of how many classes, and the number of students enrolled in those classes, an institution delivers. The formula calculation for a biennium uses a base period of SCH. The base period used for the 2016–17 biennium was the combination of summer 2014, fall 2014, and spring 2015.

SCH is weighted by discipline (e.g., nursing is weighted more than liberal arts) and by level (i.e., lower and upper division; masters, doctoral, and professional degrees) based on a cost-based funding matrix. The matrix used for the 2016–17 biennium is based on the most recent expenditure study from THECB. For instance, a lower-division liberal arts course receives a weight of 1.0; a doctoral-level liberal arts course receives a weight of 10.77. A nursing lower-division course receives a weight of 1.72; a doctoral nursing course receives a weight of 8.99. Beginning with the 2006–07 GAA, the basis for the weights per discipline was shifted to an aggregation of actual costs based on institutions' annual financial reports. THECB uses a rolling three-year average to adjust the weights each biennium.

THECB recommends a rate based on its weights and program enhancements. The Legislature sets the weights and the rate in the 2016–17 GAA, Special Provisions Relating Only to State Agencies of Higher Education. In practice, the Legislature has set the rate based on available funding, including consideration of enrollment changes and other factors.

**TEACHING EXPERIENCE SUPPLEMENT**

For the 2016–17 biennium, an additional weight of 10.0 percent is added to lower-division and upper-division

semester credit hours taught by tenured and tenure-track faculty. The 2016–17 GAA, Special Provisions Relating Only to State Agencies of Higher Education, Section 27, directs that the weight should increase by 10.0 percent per biennium, up to 50.0 percent.

The Teaching Experience Supplement is calculated as follows:

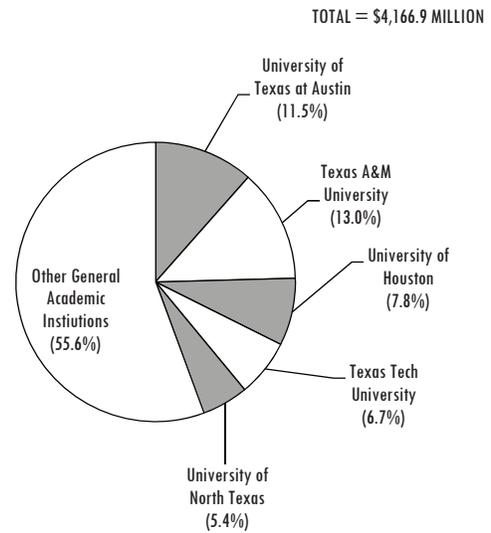
***Semester Credit Hours X Program and Level Weight***

***X Supplement (.10) X Rate (55.39)***

The Teaching Experience Supplement was 5.0 percent during the 1998–99 and 2000–01 biennia. The Seventy-seventh Legislature, 2001, increased the supplement to 10 percent beginning for the 2002–03 biennium.

Figure 7 shows the Instruction and Operations formula, including the Teaching Experience Supplement allocation to institutions.

**FIGURE 7  
DISTRIBUTION OF TEXAS PUBLIC HIGHER EDUCATION  
INSTRUCTION AND OPERATIONS FORMULA AND  
TEACHING EXPERIENCE SUPPLEMENT, 2016–17 BIENNIUM**



SOURCE: Legislative Budget Board.

**INFRASTRUCTURE SUPPORT FORMULA**

Approximately 15.0 percent of formula funds are calculated through the Infrastructure Support formula and Small Institution Supplement (\$734.2 million for the 2016–17 biennium). In addition to the universities, the Lamar State Colleges and components of the Texas State Technical College System also receive infrastructure formula appropriations. This formula uses a statewide infrastructure rate, which is set in the GAA. The statewide infrastructure rate is divided into two rates: an Adjusted Utility Rate and an All Other Rate. As with the SCH rate, the Legislature has set the rate based on available funding, including consideration of changes in institutional space, and other factors.

The Infrastructure Support formula is calculated as follows:

$$(Adjusted\ Utility\ Rate + All\ Other\ Rates)$$

$$\times Predicted\ Square\ Feet$$

The Adjusted Utility Rate is 43.5 percent of the statewide infrastructure rate. The utility rate considers the percentage of infrastructure formula funds that institutions historically spent on utilities. A statewide utility rate is determined and then adjusted for each institution to consider utility costs relative to other institutions.

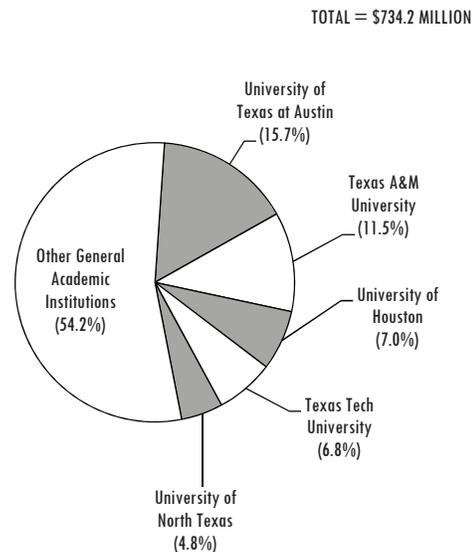
The All Other Rate is 56.5 percent of the statewide infrastructure rate and remains constant among institutions. It accounts for physical plant, grounds, maintenance, and custodial services.

THECB’s Space Projection Model for Higher Education Institutions in Texas (space model) estimates square footage for each institution. The objective of the space model projection is to calculate the amount of space an institution needs based on the following:

- number, program, and level of semester credit hours;
- number of faculty, nonfaculty, students, programs, and library holdings; and
- research and current educational and general expenditures.

**Figure 8** shows the Infrastructure Support formula allocation to institutions. The similarity of the allocation to the Instruction and Operations formula allocation shows the influence of enrollment on both formula allocations.

**FIGURE 8  
DISTRIBUTION OF TEXAS PUBLIC HIGHER EDUCATION  
INFRASTRUCTURE SUPPORT FORMULA AND SMALL  
INSTITUTION SUPPLEMENT, 2016–17 BIENNIUM**



SOURCE: Legislative Budget Board.

**SMALL INSTITUTION SUPPLEMENT**

Before 2009, general academic institutions with enrollments of less than 5,000 received a \$750,000 annual Small Institution Supplement. The Eighty-first Legislature, Regular Session, 2009, increased the enrollment threshold to 10,000 students and gradually implemented the supplement for the 2010–11 biennium. This methodology has been continued into each subsequent biennium. **Figure 9** shows 2016–17 biennial recipients. This supplement considers that institutions have a minimum cost of operation that may not be covered by funds generated through the formulas.

**NON-FORMULA FUNDING**

State appropriations for public general academic institutions that are allocated without following the previously discussed formulas and supplements are called non-formula funding.

**GENERAL REVENUE FUNDS**

Non-formula funding that is appropriated from General Revenue Funds may include special items, hold harmless funds, workers’ and unemployment compensation insurances, and other funding.

**FIGURE 9  
TEXAS PUBLIC HIGHER EDUCATION SMALL INSTITUTION SUPPLEMENT RECIPIENTS, 2016–17 BIENNIUM**

INSTITUTION	ENROLLMENT	SUPPLEMENT	INSTITUTION	ENROLLMENT	SUPPLEMENT
The University of Texas of the Permian Basin	5,937	\$1,332,000	University of North Texas at Dallas	2,488	\$1,500,000
The University of Texas at Tyler	8,500	\$589,200	Texas Southern University	8,965	\$230,100
Texas A&M University at Galveston	2,324	\$1,500,000	Angelo State University	8,452	\$1,083,300
Prairie View A&M University	8,268	\$497,100	Sul Ross State University	1,973	\$1,500,000
Texas A&M University – Central Texas	2,466	\$1,500,000	Sul Ross State University Rio Grande College	1,019	\$1,500,000
Texas A&M University – Kingsville	9,207	\$381,600	Texas State Technical College – Harlingen	4,789	\$716,250
Texas A&M University – San Antonio	4,564	\$1,500,000	Texas State Technical College – West Texas	1,211	\$750,000
Texas A&M International University	7,192	\$733,800	Texas State Technical College – Waco	3,790	\$750,000
West Texas A&M University	9,482	\$309,000	Texas State Technical College – Marshall	899	\$750,000
Texas A&M University – Texarkana	1,839	\$1,500,000	Lamar Institute of Technology	2,846	\$750,000
University of Houston – Clear Lake	8,906	\$400,500	Lamar State College – Orange	2,318	\$750,000
University of Houston – Victoria	4,152	\$1,500,000	Lamar State College – Port Arthur	1,802	750,000
Midwestern State University	5,734	\$1,323,300			

NOTES:

- (1) Enrollment based on certified fall 2015 headcount.
- (2) Small Institution Supplement funding for the University of North Texas at Dallas (UNT Dallas) was split between the institution and the University of North Texas System Administration to account for the UNT Dallas College of Law.

SOURCE: Legislative Budget Board.

**SPECIAL ITEMS**

Special item appropriations are direct appropriations to institutions for projects that are not funded by formula but are identified specifically by the Legislature as needing support. Special item appropriations to general academic institutions total \$586.5 million for the 2016–17 biennium. For the 2016–17 biennium, \$9.5 million was appropriated to system offices for special items. An institution is not required to spend the amount identified in a special item strategy for that particular project, but expenditure reports indicate that institutions often use an entire appropriation, along with additional funding, for the related project. Most special items are funded through General Revenue Funds, but a few items receive appropriations from General Revenue–Dedicated accounts or Other Funds.

The majority of special item funding is through the Institutional Enhancement strategy. This strategy is a direct appropriation to institutions and was established by the

Seventy-sixth Legislature, 1999, for the 2000–01 biennium. The first Institutional Enhancement appropriation was based on a consolidation of certain special item appropriations in 1999, and an additional \$1.0 million per year was appropriated for each institution. Examples of consolidated special items are items that could be funded through the formulas such as general institutional, academic, and research support.

For the 2002–03 biennium, an additional \$1.0 million increase was appropriated for most institutions, and a \$1.5 million increase was appropriated for selected institutions in South Texas and the border region. Institutions that benefited from the University Research and Texas Excellence funds (House Bill 1839, Seventy-seventh Legislature, 2001) or from the Permanent University Fund (PUF) excellence funding did not receive an increase in Institutional Enhancement funds for the 2002–03 biennium.

For the 2014–15 biennium, an additional \$1.0 million increase was appropriated for Institutional Enhancement to all institutions not classified as a research or emerging research university by the THECB Accountability System.

Other special items include the following: institutional and instructional support; public service items; research items other than general research support; funding for separate campuses; and accreditation program items.

**HOLD HARMLESS FUNDS**

In past sessions, the Legislature has appropriated hold harmless funding (General Revenue Funds) for institutions to ensure consistent biennial funding when there are reductions or reallocations to formula and special item funding. Decreases in formula funding could be caused by decreasing enrollment, a shift from upper-level or graduate semester credit hours to lower-level hours, a smaller increase in enrollment than other institutions, or a change in utility costs. When appropriated, hold harmless funding amounts have been calculated by considering either a decrease in formula funding only or due to total formula and non-formula appropriation reductions. The Eighty-fourth Legislature, 2015, did not appropriate hold harmless funding for the 2016–17 biennium.

**WORKERS’ COMPENSATION INSURANCE AND UNEMPLOYMENT COMPENSATION INSURANCE**

Many institutions receive appropriations from General Revenue Funds for workers’ compensation insurance and unemployment compensation insurance. (See the Benefits section.)

**OTHER NON-FORMULA FUNDING**

General academic institutions receive support from the following research funds: the Texas Research University Fund, the Core Research Support Fund, the Comprehensive Research Fund, the Texas Research Incentive Program, and the National Research University Fund. (See the Constitutional and Research Funds section.)

General academic institutions also receive capital funding from two constitutional funds, the Available University Fund and the Higher Education Fund. (See the Constitutional and Research Funds section.) In addition to the constitutional funds are two types of state appropriation for capital funds, tuition revenue bonds and lease payments. Almost all of the direct appropriations to institutions related to capital funds are for debt service on tuition revenue bonds. (See the Tuition

Revenue Bond Debt Service section.) General academic institutions previously were authorized to issue Skiles Act bonds, which were bonds backed by statutory tuition. This statutory authority was repealed in 1997, and all Skiles Act bonds have been completed.

General academic institutions also receive appropriations to help institutions cover the cost of health insurance premiums for institution employees whose salaries are paid from the General Revenue Fund, social security benefits, and retirement contributions. (See the Benefits section.)

**GENERAL REVENUE–DEDICATED FUNDS**

Texas’ public general academic institutions also may receive non-formula funding that is appropriated from General Revenue–Dedicated Funds.

**TEXAS PUBLIC EDUCATION GRANTS**

Pursuant to the Texas Education Code, Chapter 56, Subchapter C, and the Texas Education Code, Section 54.051, institutions must set aside a portion of tuition revenue for Texas Public Education Grants (TPEG). Fifteen percent of each resident student’s tuition and 3.0 percent of each nonresident student’s tuition are set aside for financial aid to students at the institution. The Texas Education Code, Section 56.033, provides guidelines regarding the allocation of TPEG revenue. The GAA includes an estimate of the amount of TPEG revenue each institution will generate. This estimated appropriation is considered General Revenue–Dedicated Funds, Other E&G Income.

**ORGANIZED ACTIVITIES**

Organized Activities are activities or enterprises connected with instructional departments whose primary function is training for students. Examples include a university farm, nursery or preschool programs, an optometry clinic, and lifeguard training. Revenue from Organized Activities is classified as General Revenue–Dedicated Funds, Other E&G Income.

**STAFF GROUP INSURANCE**

Institutions receive General Revenue–Dedicated Funds, Other E&G Income, in staff group insurance amounts for staff whose salaries are not paid with appropriations from General Revenue Funds. (See the Benefits section for more information.)

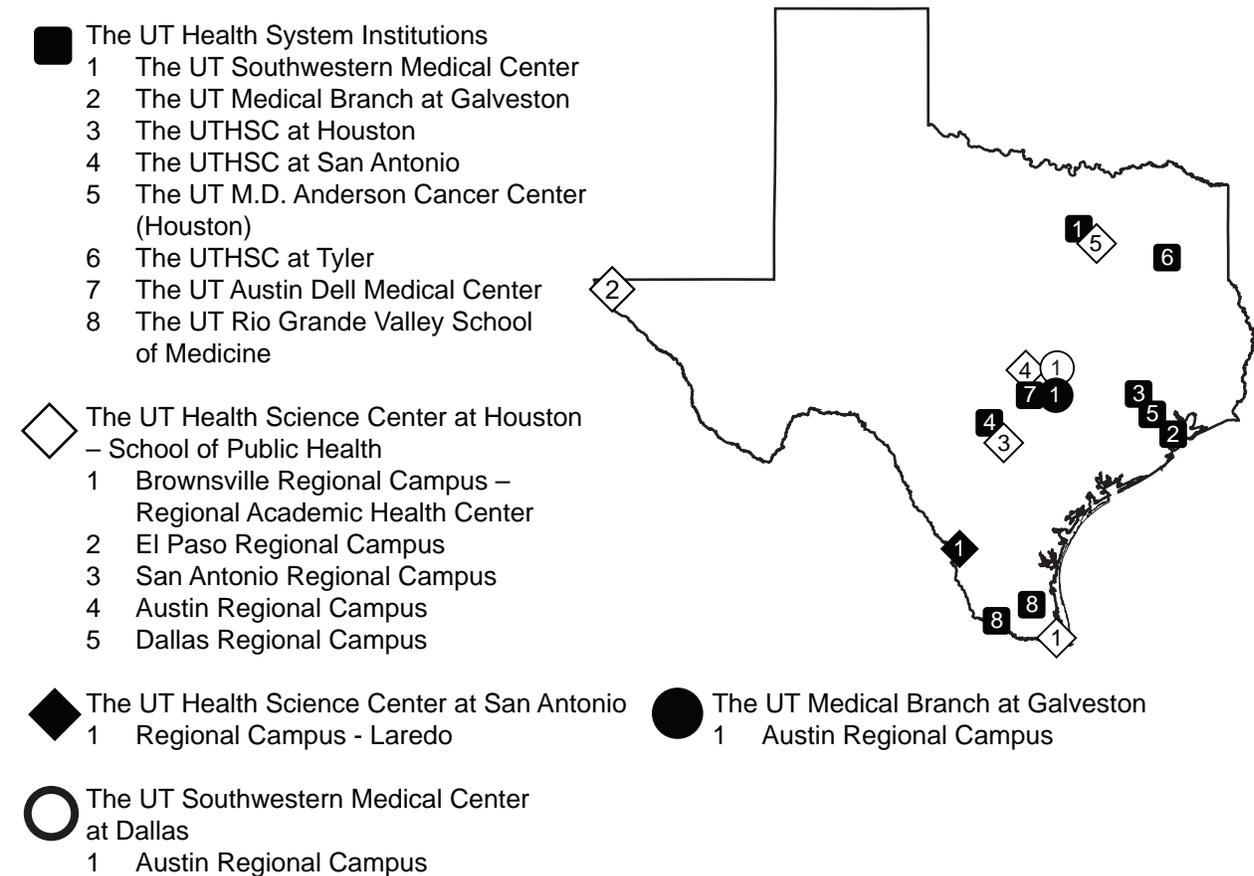
# FUNDING HEALTH RELATED INSTITUTIONS

Texas has four university health science systems, and within those systems, 12 health related institutions (HRI) are located across the state, operating 10 state medical schools, three dental schools, three pharmacy schools, and numerous other allied health and nursing units. Included within the 12 HRIs are two new state medical schools that will begin accepting students in fall 2016. **Figures 10 to 13** show the locations of the health related institutions and their regional campuses by the four university health science systems.

Appropriations for the health related institutions are similar in structure to the appropriations for general academic institutions. Formula and non-formula funding appropriations are made directly to the institutions.

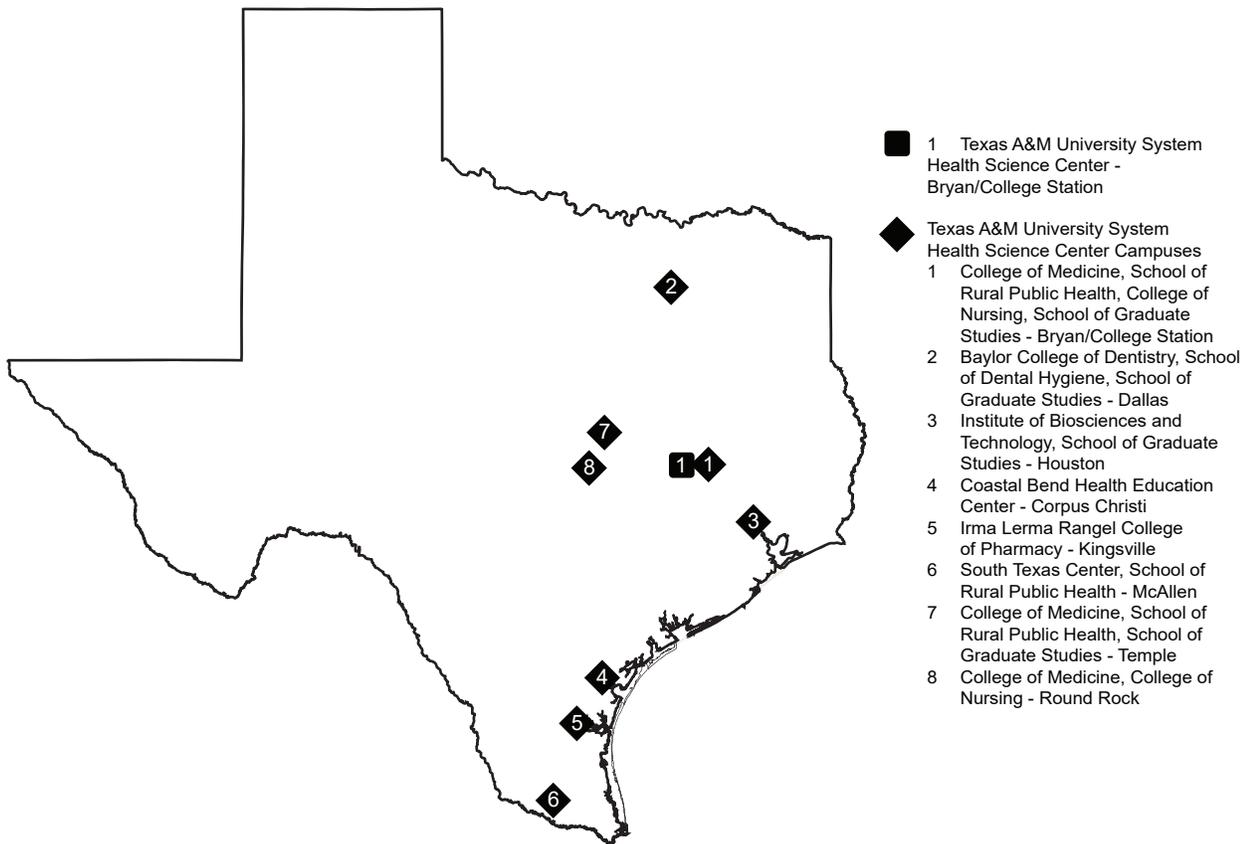
Appropriations also are made that benefit the institutions but are not included in their bill patterns, such as the Available University Fund, certain staff benefits, and funds trustee at the Texas Higher Education Coordinating Board (THECB). State funding for health related institutions include appropriations to 11 institutions. Included in these appropriations is funding through a new bill pattern for Texas Tech University Health Sciences Center (TTUHSC) at El Paso and funding appropriated to The University of Texas Rio Grande Valley for the establishment of a school of medicine. **Figure 14** shows the 10 health related institutions and their enrollment in fall 2015.

**FIGURE 10**  
**THE UNIVERSITY OF TEXAS SYSTEM HEALTH RELATED INSTITUTIONS, 2016–17**



SOURCE: The University of Texas System.

**FIGURE 11**  
**TEXAS A&M UNIVERSITY SYSTEM HEALTH SCIENCE CENTER, 2016–17 BIENNIUM**



SOURCE: Texas A&M University System.

Like other higher education institutions, the appropriations for health related institutions are lump sum, and funding strategies are presented for informational purposes in the General Appropriations Act (GAA). The funding strategies in a health related institution’s bill pattern represent how state funds are allocated but not how they must be spent. In addition, certain methods of finance in the appropriation are estimated.

Health related institutions have access to an estimated \$22.4 billion in addition to appropriations for the 2016–17 biennium. Examples include patient income, certain tuition revenue, indirect cost recovery, grants, and gifts.

**Figure 15** shows the 2016–17 biennium methods of finance for \$3.0 billion in appropriations for health related institutions, excluding appropriations for employee benefits. This amount includes \$2.9 billion, or 96.4 percent, in General Revenue Funds and General Revenue–Dedicated Funds. General Revenue–Dedicated Funds include income

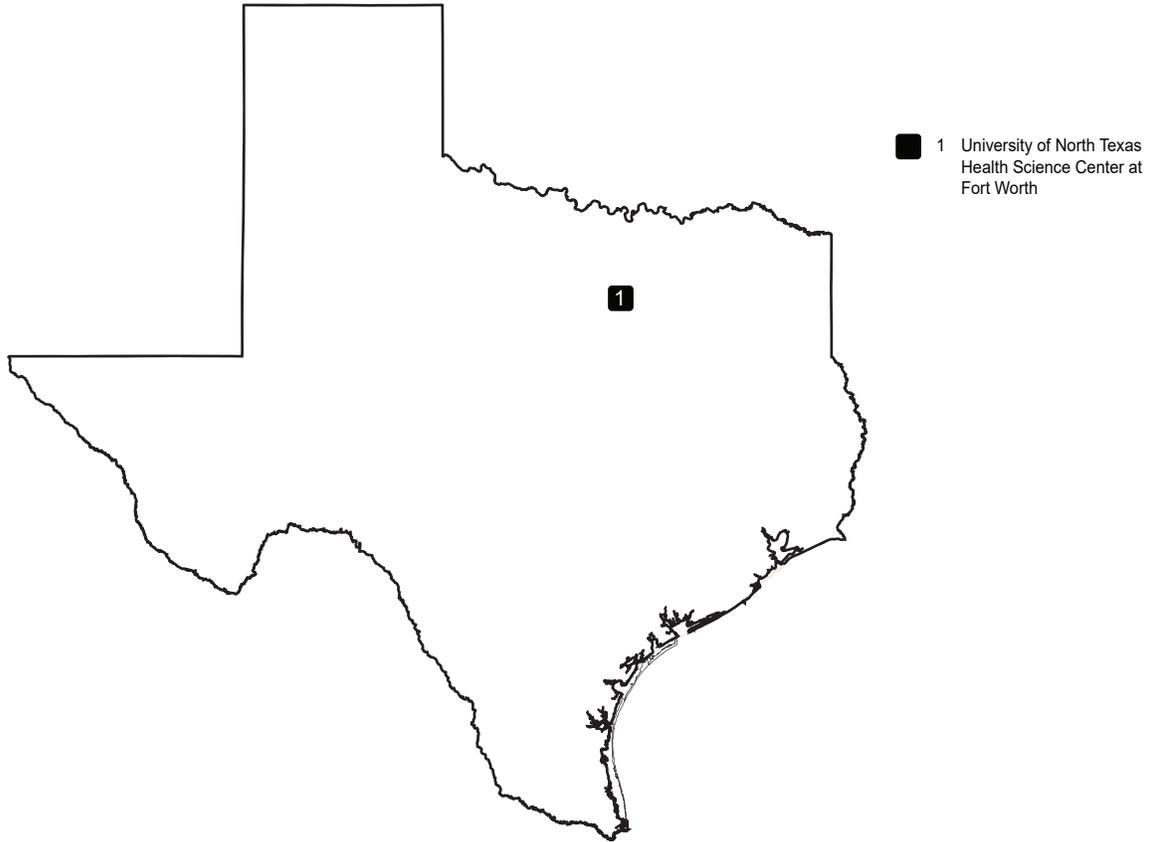
from tuition and student fees. The appropriations also include \$109.7 million in Other Funds. Patient income, which is revenue that an institution generates through the operation of a hospital, clinic, or dental clinic (inpatient and outpatient charges), is not appropriated to the health related institutions, but is shown in informational riders in the GAA for the affected institutions who receive this funding.

**FORMULA FUNDING**

The three primary funding formulas for health related institutions are Instruction and Operations Support, Infrastructure Support, and Research Enhancement. The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Science Center at Tyler have additional formula allocations to accommodate their unique missions. Each health related institution also receives formula funding for graduate medical education.

General Revenue Funds and certain General Revenue–Dedicated Funds (Other Educational and General Funds)

**FIGURE 12**  
**UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER AT FORT WORTH, 2016–17 BIENNIUM**



SOURCE: University of North Texas System.

support the formulas. Like general academic institutions, certain tuition revenue is used in the calculation of the Instruction and Operations and Infrastructure Support formulas. Of the \$1.6 billion that is allocated by the health related institutions' primary formulas, 90.9 percent is from General Revenue Funds, and the remaining 9.1 percent is from General Revenue–Dedicated Funds, which includes statutory tuition and fee and board-authorized tuition revenue.

Some tuition and fee income is set aside for specific purposes and is unavailable for formula purposes. For example, health related institutions set aside a portion of their tuition to provide Texas Public Education Grants (TPEG).

**INSTRUCTION AND OPERATIONS FORMULA**

The Instruction and Operations (I&O) formula represents nearly 78.1 percent of the primary formula funds for health related institutions (\$1,213.8 million for the 2016–17 biennium). It is intended to fund items such as faculty

salaries, departmental operating expenses, instructional administration, and libraries, and it is allocated per full-time-student equivalent (FTSE) with a funding weight predicated on the student's instructional program. This formula applies to all 10 operational health related institutions.

**Figure 16** shows the I&O Support formula allocation among the health related institutions that received such funding during the 2016–17 biennium.

The I&O Support formula is calculated as follows:

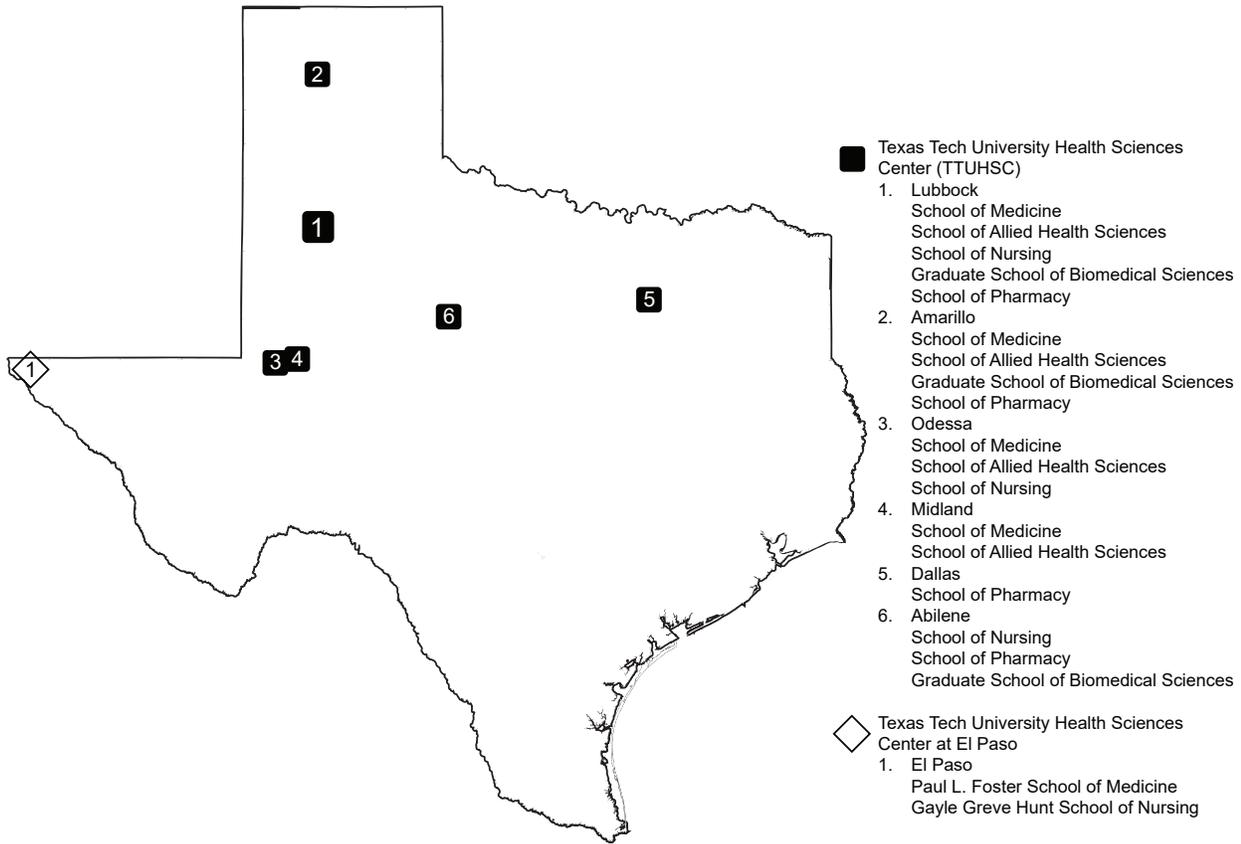
$$[FTSE \times Program \text{ Weight} \times Rate (\$9,829)]$$

$$+ \textit{Small Campus Supplement}$$

FTSE is weighted by discipline. For example, medicine (4.753) is weighted more than pharmacy (1.670), with allied health being assigned a base weight of 1.000.

The Legislature set the weights and the rate (\$9,829 for the 2016–17 biennium) in the Eighty-fourth Legislature, GAA,

**FIGURE 13**  
**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTERS, 2016–17 BIENNIUM**



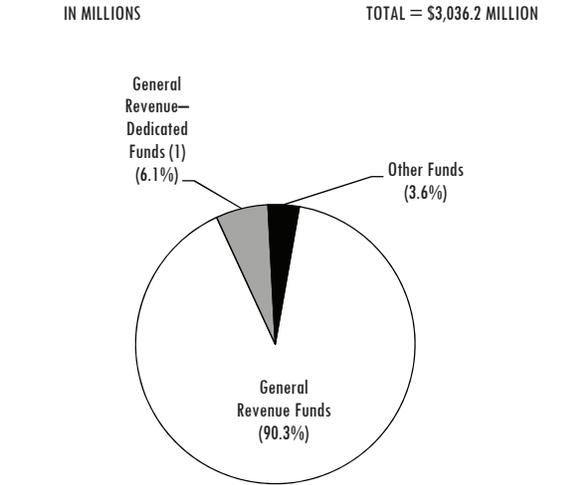
SOURCE: Texas Tech University System.

**FIGURE 14**  
**TEXAS PUBLIC HEALTH RELATED INSTITUTIONS, FALL 2015**

INSTITUTION	ENROLLMENT	INSTITUTION	ENROLLMENT
The University of Texas Southwestern Medical Center	2,262	Texas A&M University System Health Science Center	2,591
The University of Texas Medical Branch at Galveston	3,169	University of North Texas Health Science Center	2,362
The University of Texas Health Science Center at Houston	4,811	Texas Tech University Health Sciences Center	4,337
The University of Texas Health Science Center at San Antonio	3,130	Texas Tech University Health Sciences Center at El Paso	524
The University of Texas M.D. Anderson Cancer Center	320		
The University of Texas Health Science Center at Tyler	17	<b>Statewide Totals</b>	<b>23,523</b>

NOTE: Enrollment based on certified fall 2015 headcount.  
SOURCE: Texas Higher Education Coordinating Board.

**FIGURE 15  
METHODS OF FINANCE FOR TEXAS PUBLIC HEALTH  
RELATED INSTITUTIONS, 2016–17 BIENNIUM**



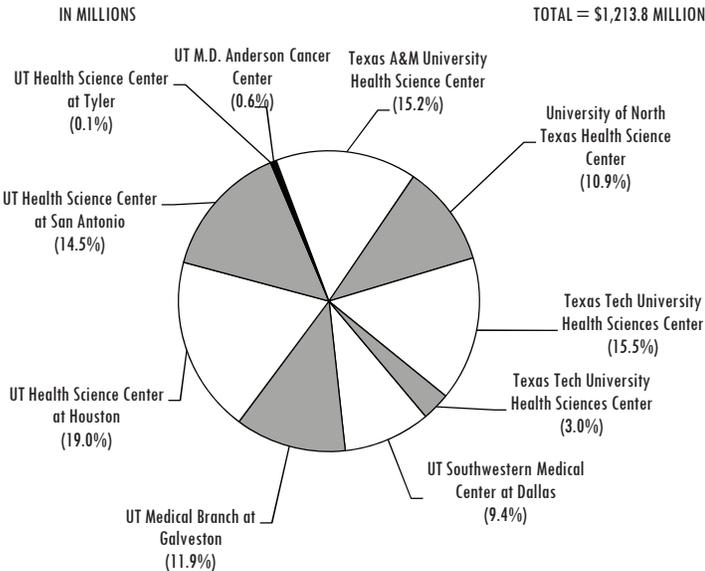
NOTE: General Revenue-Dedicated Funds include some tuition and fees.  
SOURCE: Legislative Budget Board.

2016–17 Biennium, Article III, Special Provisions, Section 28. The rate is calculated based on the available revenue for the formula and the number of FTSEs.

In addition, instructional programs with enrollments of less than 200 students at remote individual campuses receive a Small Campus Supplement, which is additional funding to compensate for diseconomies of scale. The additional funding per student is on a sliding scale, with programs that have small enrollments receiving more additional funding per student. The following institutions received the supplement for the 2016–17 biennium:

- 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 Health Science Center at Tyler;
- Texas A&M University Health Science Center; and
- Texas Tech University Health Sciences Center.

**FIGURE 16  
DISTRIBUTION OF INSTRUCTION AND OPERATIONS SUPPORT FORMULA TO TEXAS PUBLIC HEALTH RELATED INSTITUTIONS  
2016–17 BIENNIUM**



NOTE: UT = The University of Texas System.  
SOURCE: Legislative Budget Board.

**INFRASTRUCTURE SUPPORT FORMULA**

The Infrastructure Support formula is 17.1 percent of the health related institutions’ primary formula funding and is intended for utilities and physical plant support (\$265.4 million for the 2016–17 biennium). This formula calculation is similar to that for general academic institutions, but includes one rate (\$6.65) for all institutions except The University of Texas M.D. Anderson Cancer Center (UTMDACC) and The University of Texas Health Science Center at Tyler (UTHSC at Tyler), which have another rate (\$6.26). When the HRI infrastructure formula was established by the Legislature, a lower rate was set for UTMDACC and UTHSC at Tyler because these institutions did not contribute tuition and fees to the formula. UTMDACC has enrolled students since fiscal year 2002 and contributed tuition and fees in the method of finance for the infrastructure formula since fiscal year 2004. UTHSC at Tyler began enrolling students during fiscal year 2012 and will contribute tuition and fees to the formula in the 2016–17 biennium.

THECB’s infrastructural space model predicts square footage for each institution. The space model projection is based on the following:

- number and level of full-time-student equivalents (FTSE);
- number of faculty;
- single or multiple programs and campuses;
- actual clinical space; and
- research and current educational and general expenditures.

The Infrastructure Support formula is calculated as follows:

$$\text{Rate } (\$6.65 \text{ for HRIs except UTMDACC and UTHSC-Tyler; } \$6.26 \text{ for UTMDACC and UTHSC-Tyler}) \times \text{Predicted Square Feet}$$

The space projection model does not account for hospital space; therefore separate infrastructure funding for hospital space is included in the total funding for hospital and patient-care activities at the University of Texas Medical Branch at Galveston, UTMDACC, and UTHSC-Tyler.

**Figure 17** shows the Infrastructure Support formula allocation to the nine institutions that received infrastructure funding during the 2016–17 biennium.

**RESEARCH ENHANCEMENT FORMULA**

Health related institutions generate state appropriations to support research through General Revenue Funds in the Research Enhancement formula (\$74.6 million for the 2016–17 biennium). The Research Enhancement formula accounts for 4.8 percent of the primary formula funds and is funded entirely from General Revenue Funds.

The allocation is based on the amount of research generated by each institution.

$$\begin{array}{r}
 \$1,412,500 \\
 \\
 \textit{This amount provides a} \\
 \textit{base} \\
 \textit{for all institutions,} \\
 \textit{regardless of research} \\
 \textit{volume}
 \end{array}
 +
 \begin{array}{r}
 (1.23 \textit{ Percent X} \\
 \textit{Research Expenditures}) \\
 \\
 \textit{Institutions report} \\
 \textit{current research} \\
 \textit{expenditures} \\
 \textit{to THECB}
 \end{array}$$

**Figure 18** shows the Research Enhancement formula allocation to the 10 health related institutions that received Research Enhancement funding during the 2016–17 biennium.

**GRADUATE MEDICAL EDUCATION FORMULA**

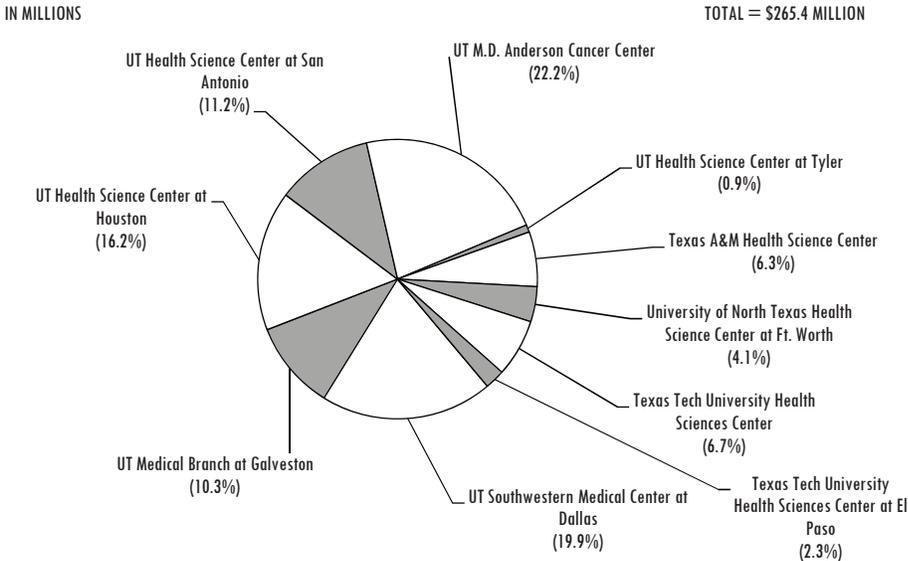
The Seventy-ninth Legislature, Regular Session, 2005, established a formula for funding graduate medical education during the 2006–07 biennium. For the 2016–17 biennium, the graduate medical education (GME) formula funding totals \$85.9 million in General Revenue Funds (including \$15.6 million that is appropriated to the Baylor College of Medicine through THECB) and provides \$6,266 per medical resident each year.

The GME formula is calculated as follows:

$$\text{Rate } (\$6,266) \times \# \text{ of Medical Residents}$$

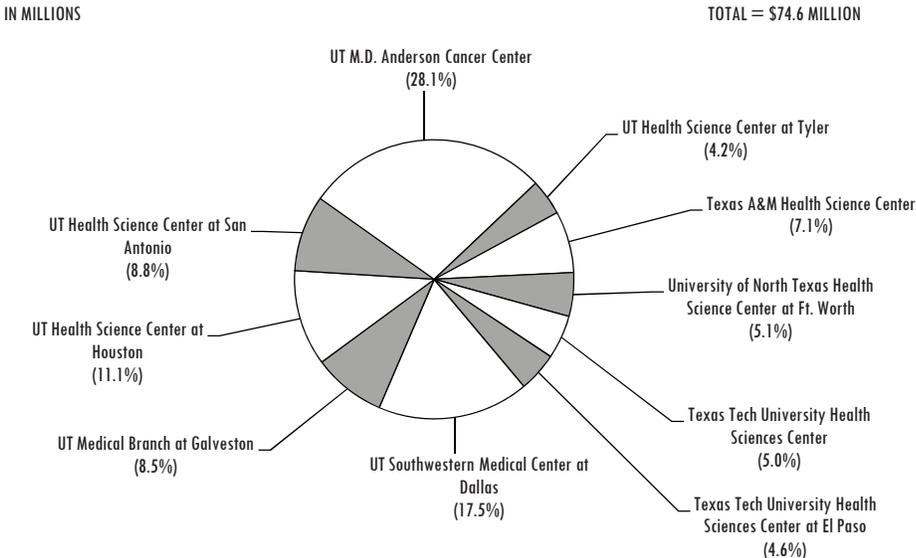
In addition to the GME formula funding, the Eighty-fourth Legislature, 2015, appropriated to THECB \$53.0 million in General Revenue Funds for the Graduate Medical Education Expansion program, an increase of \$38.8 million from the 2014–15 biennium. The GME Expansion program supports one-time graduate medical education planning and partnership grants, funding to enable new or existing GME programs to increase the number of first-year residency positions, funding for unfilled residency positions, and continuation awards for programs that received grant awards in fiscal year 2015. THECB was also appropriated \$16.8 million for the Family Practice Residency Program for the

**FIGURE 17**  
**DISTRIBUTION OF INFRASTRUCTURE SUPPORT FORMULA TO TEXAS PUBLIC HEALTH RELATED INSTITUTIONS**  
**2016–17 BIENNIUM**



NOTE: UT = The University of Texas System.  
 SOURCE: Legislative Budget Board.

**FIGURE 18**  
**DISTRIBUTION OF RESEARCH ENHANCEMENT FORMULA TO TEXAS HEALTH RELATED INSTITUTIONS**  
**2016–17 BIENNIUM**



NOTE: UT = The University of Texas System.  
 SOURCE: Legislative Budget Board.

2016–17 biennium, an increase of \$4.0 million. This appropriation includes \$12.8 million in General Revenue–Dedicated Trauma Facility and EMS Account No. 5111 and \$4.0 million in General Revenue Funds. THECB allocates the funds based on the certified number of residents training in each approved family practice residency program.

Figure 19 shows the GME formula allocation to 10 health-related institutions and Baylor College of Medicine.

**CHEST DISEASE CENTER OPERATIONS FORMULA**

The Chest Disease Center Operations formula, which was established during the 2010–11 biennium, applies only to The University of Texas Health Science Center at Tyler. UTHSC-Tyler has a statutory mission to conduct research, develop diagnostic and treatment techniques, provide training and teaching programs, and provide diagnosis and treatment of inpatients and outpatients with respiratory diseases. The formula is based on the number of primary chest disease patients the institution served. Approximately \$58.4 million in General Revenue Funds was appropriated for this formula in the 2016–17 biennium. Beginning in the 2016–17 biennium, the formula growth in funding may not exceed the average growth in funding for health related

institutions in the Instruction and Operations Support formula.

The Chest Disease Center Operations formula is calculated as follows:

$$\text{Rate } (\$215) \times \# \text{ of Primary Chest Disease Cases}$$

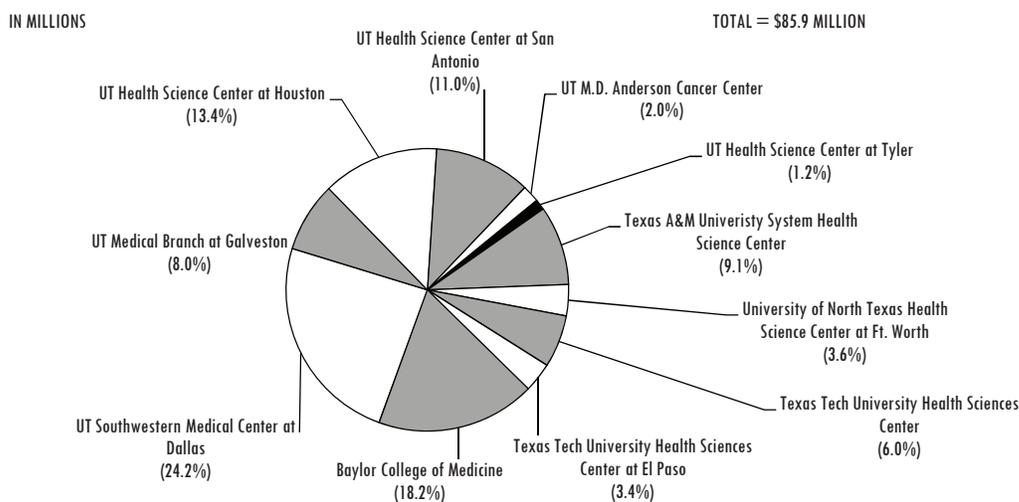
**CANCER CENTER OPERATIONS FORMULA**

The Eightieth Legislature, 2007, established in the GAA an operations formula for funding The University of Texas M.D. Anderson Cancer Center. UTMDACC has a statutory mission to eliminate cancer through patient care, research, education, and prevention. This Cancer Center Operations formula funding is based on the total number of Texas cancer patients the institution served. The formula growth in funding may not exceed the average growth in funding for health related institutions in the Instruction and Operations Support formula for the current biennium. For the 2016–17 biennium, \$264.8 million in General Revenue Funds was appropriated for this formula.

The Cancer Center Operations formula is calculated as follows:

$$\text{Rate } (\$1,877) \times \# \text{ of Texas Cancer Patients Served}$$

**FIGURE 19  
DISTRIBUTION OF GRADUATE MEDICAL EDUCATION FORMULA TO TEXAS HEALTH RELATED INSTITUTIONS  
2016–17 BIENNIUM**



NOTE: UT = The University of Texas System.  
SOURCE: Legislative Budget Board.

## **NON-FORMULA FUNDING**

State appropriations for public health related institutions that are allocated without following the previously described formulas and supplements are called non-formula funding.

### **SPECIAL ITEMS**

Special items are activities that are not funded through the formulas and typically represent an institution's special needs or areas of expertise. The \$458.9 million in General Revenue Funds appropriated to health related institutions for the 2016–17 biennium funds items such as: academic outreach programs, public service items, and research items other than general research support. Institutions propose and justify special items and request an appropriation amount for each on an individual basis.

Institutional Enhancement is an appropriation from General Revenue Funds that began in the 2000–01 biennium. It is intended to enable each institution to address its unique needs and diseconomies of scale at institutions with smaller campuses. The total Institutional Enhancement appropriation for health related institutions during the 2016–17 biennium is \$40.3 million in General Revenue Funds.

### **CONSTITUTIONAL FUNDS**

Health related institutions are eligible for funding from the Available University Fund (an estimated \$184.3 million in Other Funds allocated to these institutions by system offices for the 2016–17 biennium) and the Higher Education Fund (\$77.8 million in General Revenue Funds appropriated for the 2016–17 biennium). (See the Constitutional and Research Funds section.) These funds are not directly appropriated to institutions in the GAA, and therefore, are not found in a strategy within an institution's bill pattern.

### **CAPITAL FUNDS**

Similarly to funding for general academic institutions, tuition revenue bonds (\$168.4 million in General Revenue Funds for related debt service for the 2016–17 biennium) are also used to fund capital projects at health related institutions. In addition, \$3.9 million in General Revenue Funds is appropriated each fiscal year to Texas A&M University Health Science Center for debt service on its Round Rock facility. This appropriation began during the 2010–11 biennium.

### **EMPLOYEE BENEFITS**

Also like general academic institutions, health related institutions benefit from state appropriations related to

employee benefits. Indirect appropriations include Higher Education Employees Group Insurance (\$328.5 million in General Revenue Funds for the 2016–17 biennium), retirement contributions, and Social Security benefits; direct appropriations include staff group insurance, workers' compensation and unemployment compensation strategies. (See the Benefits section.)

### **TEXAS PUBLIC EDUCATION GRANTS**

Health related institutions, like the general academic institutions, are subject to the Texas Education Code, Section 56.031, et al., provision requiring a portion of tuition revenue to be set aside to fund Texas Public Education Grants (TPEG). For the 2016–17 biennium, the estimated TPEG appropriation is \$19.1 million. This revenue is considered Other Educational and General Funds, which is categorized as General Revenue–Dedicated Funds.

### **TOBACCO SETTLEMENT**

House Bill 1945, Seventy-sixth Legislature, 1999, established the Permanent Health Fund for health related institutions of higher education; the Permanent Fund for Minority Health Research and Education; the Permanent Fund for Higher Education Nursing, Allied Health, and Other Health-Related Programs; and 13 permanent endowments for individual institutions of higher education. The \$98.2 million in estimated interest earnings from the endowments for the 2016–17 biennium (based on estimated interest earnings of 6.0 percent each year) were appropriated to the health related institutions.

### **PATIENT CARE ACTIVITIES**

Some institutions conduct patient care activities, typically medical or dental services. For the 2016–17 biennium, the amount of patient income received by the institutions is estimated to be \$7.8 billion. Before the 2014–15 biennium, the hospital and clinic revenues earned through patient care activities were appropriated to the institutions and considered Other Funds. Patient income is no longer appropriated to these institutions in the GAA, but these institutions continue to receive this revenue.

### **BAYLOR COLLEGE OF MEDICINE**

The Sixty-first Legislature, Regular Session, 1969, authorized THECB to contract with the Baylor College of Medicine, a private institution, for the education of undergraduate medical students who are Texas residents. The amount that Baylor College of Medicine receives in state appropriations

trusted to THECB is, by statute, based on the average annual state tax support per undergraduate medical student at The University of Texas Medical Branch at Galveston and The University of Texas Southwestern Medical Center. The Eighty-fourth Legislature, 2015, provided Baylor College of Medicine \$78.0 million in General Revenue Funds for undergraduate medical education and \$15.6 million in General Revenue Funds from the health related institutions' GME formula.

# FUNDING TWO-YEAR PUBLIC INSTITUTIONS

Texas' public two-year, lower-level institutions include 50 community and junior college districts, six Texas State Technical College (TSTC) campuses, and three Lamar State Colleges. These institutions were appropriated \$2,031.5 million in state funding for the 2016–17 biennium. Fall 2015 enrollment at these institutions totaled 718,549.

**Figure 20** shows the funding mechanisms for these institutions. Community colleges accounted for 97.5 percent of this enrollment total, and the Texas State Technical and Lamar State colleges composed the remaining portion.

**FIGURE 20**  
**TEXAS PUBLIC TWO-YEAR INSTITUTION FUNDING MECHANISMS, 2016–17 BIENNIUM**

COMMUNITY COLLEGES	TEXAS STATE TECHNICAL COLLEGES AND LAMAR STATE COLLEGES
<p><b>Instruction and Administration</b></p> <p>Tuition and fee revenues and local tax revenues augment state General Revenue Funds for these costs.</p> <p>General Revenue Funds from the state are allocated by an outcomes-based model that includes three components:</p> <ul style="list-style-type: none"> <li>• Core Operations—each community college district receives \$1.0 million for the biennium;</li> <li>• Student Success Points—10.0 percent of the remaining formula funding is allocated based on a three-year average of student success points metrics; and</li> <li>• Contact Hour Funding—90.0 percent of the remaining formula funding is allocated based on contact hours.</li> </ul>	<p><b>Instruction and Administration</b></p> <p>General Revenue Funds from the state are based on formulas for two-year institutions allocated by either contact hours or returned value to the state of Texas. Tuition and fee revenues augment General Revenue Funds for these costs.</p>
<p><b>Developmental Education Courses</b></p> <p>Approximately 5.0 percent of the total contact hours funded by General Revenue Funds are developmental education courses.</p>	<p><b>Developmental Education Courses</b></p> <p>Approximately 2.7 percent at the Lamar State Colleges and 2.0 percent at Texas State Technical Colleges (TSTC) of the total contact hours funded by General Revenue Funds are developmental education courses.</p>
<p><b>Physical Plant</b></p> <p>The state provides no funding for physical plant operations and maintenance. Local taxing districts are expected to provide support for physical plant needs. Community colleges are projected to receive approximately \$1.8 billion in tax income for fiscal year 2015.</p>	<p><b>Physical Plant</b></p> <p>State funding is based on the formula for general academic institutions. The Lamar State Colleges will receive approximately \$7.7 million, and TSTC will receive \$12.5 million in General Revenue Funds for physical plant and utilities for the 2016–17 biennium.</p>
<p><b>Facilities</b></p> <p>Local communities must provide facilities. Community colleges are not eligible to receive Higher Education Fund (HEF) allocations, Available University Fund allocations, or state tuition revenue bonds.</p>	<p><b>Facilities</b></p> <p>The Lamar colleges receive approximately \$4.2 million annually from HEF funds, and TSTC receives almost \$5.8 million annually. The HEF monies are used to acquire land, construct and equip buildings, provide major building repair or rehabilitation, and acquire capital equipment and library materials.</p>
<p><b>Employee Benefits</b></p> <p>While community college employees are locally employed, community colleges participate in the Employee Retirement System (ERS) Group Benefits Program for health benefits and the Teacher Retirement System (TRS) and Optional Retirement Program (ORP) for retirement benefits. The state makes General Revenue Funds contributions for the health and retirement benefits.</p>	<p><b>Employee Benefits</b></p> <p>Both the Lamar colleges and TSTC institutions participate in ERS' Group Benefits Program for health benefits and the TRS and ORP programs for retirement benefits. The state makes General Revenue Funds contributions for the health and retirement benefits of those employees whose salaries are paid with General Revenue Funds.</p>

**FIGURE 20 (CONTINUED)**  
**TEXAS PUBLIC TWO-YEAR INSTITUTION FUNDING MECHANISMS, 2016–17 BIENNIUM**

COMMUNITY COLLEGES	TEXAS STATE TECHNICAL COLLEGES AND LAMAR STATE COLLEGES
<p><b>Tuition Fee Revenues</b></p> <p>Tuition and fee revenues are considered institutional funds and are not appropriated by the state. Tuition rates vary by institution. For fiscal year 2015, the statewide tuition rates in addition to fees averaged \$82 per semester credit hour, but varied from \$39 to \$138 per semester credit hour.</p>	<p><b>Tuition Fee Revenues</b></p> <p>Certain tuition revenue is appropriated by the state. For fiscal year 2015, resident students’ average tuition in addition to fees was \$139 per semester credit hour at the Lamar colleges and \$143 per semester credit hour at TSTC.</p>
<p><b>Local Tax Revenue</b></p> <p>Community colleges are projected to receive approximately \$1.8 billion in tax income for fiscal year 2015. Local tax revenues are expected to provide support for physical plant needs and augment appropriations from General Revenue Funds for instruction and administration costs.</p>	
<p>NOTES:                      (1) Student success points measure student completion of 11 metrics, calculated by the Texas Higher Education Coordinating Board.                      (2) A student contact hour measures an hour of scheduled academic and technical instruction given to students during a semester.                      SOURCES: Legislative Budget Board; Texas Higher Education Coordinating Board; Texas Association of Community Colleges.</p>	

**PUBLIC COMMUNITY COLLEGES**

The Texas Education Code, Section 130.003(a), directs state appropriations to public community colleges to supplement local funds for “support, maintenance, operation, and improvement.” Section 130.003(c) directs that state funds must be used for paying instructional and administrative salaries and purchasing instructional supplies and materials.

Consistent with statute, community colleges are funded primarily through an outcomes-based model that includes three funding components: core operations, student success, and contact hours. Unlike general academic institution formulas, this formula does not include tuition and fee revenue as part of the method of finance.

No state funding is provided for physical plant operations and maintenance or for facilities, whose funding is supported by local tax effort.

**FORMULA FUNDING**

More than 97.9 percent of the direct appropriations to community colleges are from General Revenue Funds and are generated through a funding formula. For the 2016–17 biennium, community colleges were appropriated \$1,741.7 million in General Revenue Funds through formula funding. Beginning in the 2014–15 biennium, the Legislature implemented a new outcomes-based model for the Instruction and Administrative formula that includes three funding components: core operations, student success, and contact hours. Each community college district receives \$1.0 million in General Revenue Funds for core operations to help cover basic operating costs, regardless of the district’s

geographic location or institutional size. Core operations funding replaced the small institution supplement these colleges formerly received. After core operations are funded, the remaining funds are allocated to the two remaining funding components: 10.0 percent of the remaining funds are distributed based on student success points; and 90.0 percent of the remaining funds are distributed based on the number of contact hours. The Legislature determines the amount of the appropriations.

The student success points formula allocates funding based on student completion of 11 metrics, shown in **Figure 21**. The Texas Higher Education Coordinating Board (THECB) calculates the number of success points achieved by each community college district per fiscal year. To account for fluctuations in annual points, the total number of points used in the formula is based on a three-year average of the points earned by each community college district. The appropriation is allocated to the colleges according to each district’s pro-rata share of the total number of success points, resulting in a funding rate of \$172.58 per success point for the 2016–17 biennium. The student success points formula funding for each district is calculated as follows:

$$\textit{Student Success Points} \times \textit{Rate} (\$172.58)$$

The basis of the contact hour formula is THECB’s Report of Fundable Operating Expenses (RFOE) (formally called the All Funds Expenditure Report). The report includes all expenditures for instruction and administration (facilities costs are not included) in 26 program areas. THECB uses the expenditure data to determine the median costs in the

**FIGURE 21**  
**TEXAS COMMUNITY COLLEGES STUDENT SUCCESS POINTS FOR OUTCOMES-BASED MODEL OF INSTRUCTION AND ADMINISTRATION FUNDING, 2016–17 BIENNIUM**

METRIC	POINTS
Student completes developmental education in mathematics	1.0
Student completes developmental education in reading	0.5
Student 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 completes first 15 semester credit hours at the institution	1.0
Student completes first 30 semester credit hours at the institution	1.0
Student transfers to a general academic institution after completing at least 15 semester credit hours at the institution	2.0
Student receives from the institution an associate’s degree, bachelor’s degree, or certificate recognized for this purpose by THECB in a field other than science, technology, engineering, or mathematics (STEM), or allied health	2.0
Student receives from the institution an associate’s degree, bachelor’s degree, or certificate recognized for this purpose by THECB in STEM fields or allied health	2.25

NOTE: THECB = Texas Higher Education Coordinating Board.  
 SOURCE: Eighty-fourth Legislature, General Appropriations Act, 2016–17 Biennium.

program areas, which are referred to as the rates for contact hours in those disciplines. THECB then recommends funding based on the rates. THECB has used various methodologies as the basis for its funding recommendations. Because the RFOE takes into account all funding (state appropriations, and tuition and tax revenue, which are not appropriated), THECB’s recommendation for state funding typically has not equaled 100 percent of the rates. The amount of the appropriation is a legislative decision based on available funding that considers enrollment changes and other factors. The appropriation is allocated to the colleges according to each district’s pro-rata share of the THECB recommendations. Contact hours for academic courses represent approximately 66.0 percent of total contact hours for all of the community college districts. The remaining contact hours are generated from technical courses. The contact hours are calculated as follows:

$$\text{Contact Hours} \times \text{Rate} (\$2.69)$$

Three community colleges also receive weighted semester credit hour formula funding for Bachelor of Applied Technology degree programs.

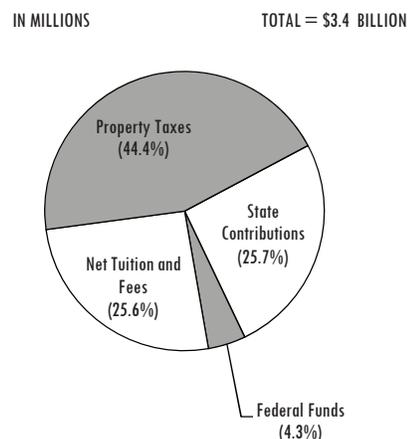
**NON-FORMULA FUNDING**

The remaining appropriations for community colleges are for isolated special items. Similar to funding for general academic institutions, these direct appropriations to community colleges are for projects that are not funded by a formula but

are specifically identified by the Legislature as needing support. Special item funding includes appropriations for the Southwest Collegiate Institute for the Deaf, which is part of the appropriation for Howard College.

In addition to state appropriations, local property taxes, tuition, and fees are other major sources of revenue for community colleges. **Figure 22** shows the estimated sources of funding for community colleges. The state appropriations shown in the figure include all formula, special item, Higher

**FIGURE 22**  
**MAJOR SOURCES OF TEXAS COMMUNITY COLLEGES’ OPERATING REVENUE, FISCAL YEAR 2015**



SOURCE: Texas Higher Education Coordinating Board.

Education Employees Group Insurance appropriations, and retirement benefit appropriations.

**OTHER TRUSTEED FUNDS**

Students at community colleges also benefit from Texas Educational Opportunity Grants, the student financial aid program appropriation that is allocated by THECB.

**TEXAS STATE TECHNICAL COLLEGES AND LAMAR STATE COLLEGES**

The Texas State Technical Colleges (TSTC) are two-year institutions of higher education offering courses of study in technical and vocational education. TSTC offers occupationally oriented programs with supporting academic course work, emphasizing technical and vocational areas for certificates or associates degrees. The three Lamar State Colleges are lower-division institutions of higher education within the Texas State University System. Lamar State College – Port Arthur and Lamar State College – Orange offer freshman and sophomore courses, and the primary focus of the Lamar Institute of Technology is to teach technical and vocational courses. The TSTCs and Lamar State Colleges receive funding through state appropriations (both formula and non-formula funding), but, unlike the community colleges, do not have local taxing authority.

**FORMULA FUNDING**

The TSTC institutions and Lamar State Colleges are allocated a majority of their appropriations via two formulas: an Instruction and Administration formula (I&A) and the Infrastructure formula for general academic institutions. Similarly to general academic institutions, tuition revenue for these colleges is included in the appropriations bill.

The Lamar State Colleges and TSTC institutions each have a separate I&A formula for operations. The Lamar State Colleges I&A formula is based on contact hours. For the 2016–17 biennium, the Lamar colleges were appropriated \$26.1 million in General Revenue Funds through I&A formula funding. The formula is calculated as follows:

$$\text{Contact Hours} \times \text{Rate} (\$3.53)$$

The Legislature sets the rate in the GAA, Article III, Special Provisions. In practice, each Legislature sets the rate based on available funding, considering enrollment changes, and other factors.

The TSTC I&A formula funding totals \$94.0 million in General Revenue Funds for the 2016–17 biennium. Before

the 2014–15 biennium, the TSTC I&A formula was based on student contact hours. The Eighty-third Legislature, Regular Session, 2013, modified the calculation of the I&A formula to base it on the returned value to the state generated by the TSTC System. The formula compares average student wages upon completion of nine semester credit hours or more at a TSTC institution to minimum wage to determine the additional estimated direct and indirect 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. The TSTC I&A formula is calculated as follows:

$$\text{Returned Value} \times \text{Percentage} \\ \text{Allocated to TSTC (35.5 \%)}$$

Contact hours for vocational and technical courses represent approximately 63.7 percent of total contact hours at the Lamar State Colleges and 74.4 percent of contact hours at TSTC institutions. The remaining contact hours are generated from academic and continuing education courses.

**NON-FORMULA FUNDING**

The TSTC institutions and Lamar State Colleges are appropriated non-formula funding from General Revenue Funds. Specifically, facilities funding is available from HEF allocations for both the TSTCs and the Lamar State Colleges, and both have received Tuition Revenue Bond authorizations previously. In addition, the TSTC institutions and Lamar State Colleges are appropriated special items and unemployment and workers’ compensation insurance consistent with the methodology used for general academic institutions. The TSTC System administration also receives General Revenue Funds for system operations.

The TSTC institutions and Lamar State Colleges are appropriated non-formula General Revenue–Dedicated Funds for Texas Public Education Grants and staff group insurance consistent with the methodology used for general academic institutions.

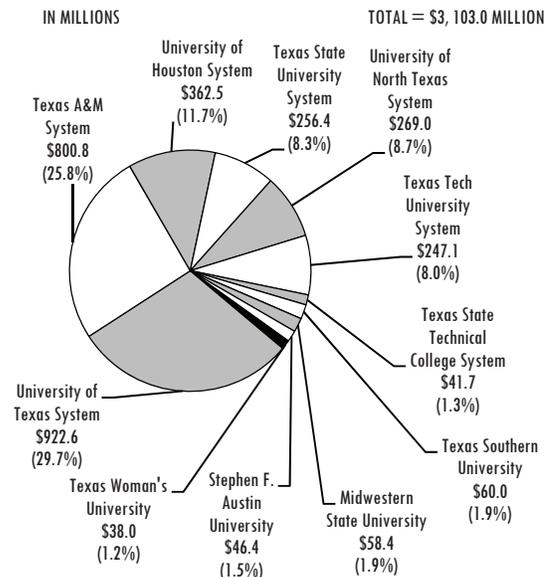
# TUITION REVENUE BOND DEBT SERVICE

Tuition revenue bonds in Texas must be authorized in statute. When an authorization is made, public institutions of higher education or the Texas Public Finance Authority (on behalf of certain institutions) may issue the bonds. Legislative practice has been to use General Revenue Funds to reimburse institutions for the costs related to this debt service.

The Legislature first authorized tuition revenue bonds in 1971. In some instances, the authorization was a lump sum for the benefit of specific institutions. Within the last 10 years, the Legislature has passed several tuition revenue bond authorizations bills. The Seventy-ninth Legislature, Third Called Session, 2006, passed House Bill 153, which authorized the issuance of \$1.9 billion in tuition revenue bonds for 44 institutions. Only one tuition revenue bond was adopted by the Eightieth Legislature, 2007, for a \$13.0 million nursing building at Stephen F. Austin State University. The Eighty-first Legislature, Regular Session, 2009, authorized \$150.0 million in tuition revenue bonds for the University of Texas Medical Branch at Galveston and \$5.0 million in tuition revenue bonds for Texas A&M University at Galveston for damages caused by Hurricane Ike. The Eighty-second Legislature, 2011, and Eighty-third Legislature, 2013, did not authorize any new tuition revenue bonds.

The Eighty-Fourth Legislature, 2015, passed House Bill 100, which authorized \$3.1 billion in new tuition revenue bond projects for institutions of higher education. Appropriations to reimburse institutions for debt service associated with the new tuition revenue bonds authorized by House Bill 100 total \$240.0 million in fiscal year 2017. This appropriation was trusteeed to THECB, which will develop rules for allocating to the institutions that had projects authorized by the legislation. **Figure 23** shows the distribution of these projects across system offices and independent institutions. An appropriation of \$587.7 million in General Revenue Funds was made for tuition revenue bond debt service for previously authorized tuition revenue bonds for the 2016–17 biennium.

**FIGURE 23**  
**HOUSE BILL 100 TUITION REVENUE BOND PROJECTS,**  
**2016–17 BIENNIUM**



SOURCE: Legislative Budget Board

## OTHER CAPITAL FUNDING

Two institutions receive appropriations from General Revenue Funds for projects that were not authorized as tuition revenue bonds. The University of Texas System Office receives a \$6.5 million appropriation per year for debt service for the Natural Science and Engineering Building at The University of Texas at Dallas. The Texas A&M University System Health Science Center receives a \$3.9 million debt service appropriation for the institution's facility in Round Rock.



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## CONSTITUTIONAL AND STATUTORY FUNDS

Texas public institutions of higher education may receive funding from sources set by statute and from funds intended to promote research at Texas general academic institutions.

### CONSTITUTIONAL FUNDS

Two constitutionally authorized funds provide funding for new construction and excellence enhancement for Texas public institutions of higher education: the Permanent University Fund (PUF) and the Higher Education Fund (HEF). These funds are appropriated separately in the General Appropriations Act (GAA) and not directly appropriated to the institutions (see Appendix D). The HEF and income from the PUF, which is deposited into a separate Available University Fund (AUF) (Other Funds), may be used to acquire land; construct, equip, repair, or rehabilitate buildings; and acquire capital equipment and library books and materials. Institutions may use a portion of the funds for payment of debt service on bonds issued for authorized purposes. Income from the PUF may also be used for support and maintenance programs at certain institutions.

All institutions, whether in accordance with PUF or HEF, remain eligible to receive General Revenue Funds for capital equipment and for library books and materials. However, pursuant to the Texas Constitution, Section VII, no institution may receive General Revenue Funds for land acquisition, new construction, or major repairs and rehabilitations, with two exceptions: (1) General Revenue Funds may be used to replace uninsured losses caused by fire or natural disaster; and (2) these funds may be used if adopted by a two-thirds vote of the Legislature for projects that have a demonstrated need.

To assure efficient use of construction funds and the orderly development of physical plants, the Texas Constitution also authorizes the Legislature to approve or disapprove all new construction projects undertaken by institutions except The University of Texas at Austin, Texas A&M University, and Prairie View A&M University.

### PERMANENT UNIVERSITY FUND AND AVAILABLE UNIVERSITY FUND

The PUF is a public endowment contributing to the support of most institutions in The University of Texas (UT) System

and the Texas A&M University (TAMU) System. The Texas Constitution of 1876 established the PUF by appropriating land grants previously given to UT, plus 1.0 million acres. In 1883, the PUF received another land grant of an additional one million acres. The fund now contains approximately 2.1 million acres located in 24 West Texas counties. The PUF's 2.1 million acres produce two lines of income: surface and mineral. The Texas Constitution requires all surface lease income to be deposited to the AUF. Mineral income and income from the sale of PUF lands remain in the PUF and are invested in equity, fixed-income, and derivative securities. Proposition 17, passed by Texas voters in 1999, amended the Texas Constitution to authorize the UT Board of Regents to use a total return on investment assets from the PUF to be distributed to the AUF.

Surface and investment income from the PUF is placed into the AUF for use by the TAMU and UT systems. The Texas Constitution requires that the annual AUF distribution, as determined by The UT Board of Regents, must provide the AUF with a stable annual income stream while maintaining the purchasing power of the PUF.

The total estimated appropriation for the 2016–17 biennium to the AUF is \$1,690.5 million. The Texas Constitution designates two-thirds of the AUF to the UT System and one-third to the TAMU System. The first obligation of any income earned by the PUF is to pay the debt service (both principal and interest) on extant PUF bonds. The residual income, after debt service, is dedicated to system office operations and support and to maintenance programs at UT at Austin, TAMU at College Station, and Prairie View A&M University. The systems' boards of regents determine allocations to individual institutions, including health related institutions, and the amounts for support and maintenance.

**Figure 24** shows the recipients and the type of support they received.

**FIGURE 24  
PARTICIPANTS IN THE TEXAS HIGHER EDUCATION AVAILABLE UNIVERSITY FUND**

<b>SUPPORT AND MAINTENANCE AND DEBT SERVICE FUNDS</b>	
The University of Texas System	Texas A&M University
Texas A&M University System	Prairie View A&M University
The University of Texas at Austin	
<b>DEBT SERVICE ONLY</b>	
The University of Texas System Components:	Texas A&M University System Components:
The University of Texas at Arlington	Texas A&M University at Galveston
The University of Texas at Dallas	Tarleton State University
The University of Texas at El Paso	Texas A&M University – San Antonio
The University of Texas of the Permian Basin	Texas A&M University – Central Texas
The University of Texas Rio Grande Valley (1)	Texas A&M University System Health Science Center
The University of Texas at San Antonio	Texas A&M AgriLife Research
The University of Texas at Tyler	Texas A&M AgriLife Extension Service
The University of Texas Southwestern Medical Center	Texas A&M Engineering Experiment Station
The University of Texas Medical Branch at Galveston	Texas A&M Engineering Extension Service
The University of Texas Health Science Center at Houston	Texas A&M Transportation Institute
The University of Texas Health Science Center at San Antonio	Texas A&M Forest Service
The University of Texas Health Science Center at Tyler	
The University of Texas M.D. Anderson Cancer Center	

NOTE: Senate Bill 24, Eighty-third Legislature, Regular Session, 2013, authorizes The University of Texas Rio Grande Valley to receive funding from the Available University Fund (Other Funds).  
SOURCE: Legislative Budget Board.

**HIGHER EDUCATION FUND**

The HEF was established by constitutional amendment as a counterpart to the PUF for those Texas public institutions of higher education not eligible for the AUF (see **Figure 25**). The HEF is supported by appropriations from General Revenue Funds totaling \$656.3 million for the 2016–17 biennium.

The distribution of appropriations from HEF to eligible institutions is provided for in statute (the Texas Education Code, Section 62.021) and is based on a formula allocation incorporating the following elements: (1) space deficit; (2) facilities condition; (3) institutional complexity; and (4) a separate allocation for the Texas State Technical College System. Although the Texas Constitution requires the Legislature to review the HEF’s formula allocation every 10 years, the Legislature may choose once every five years to adjust the amount and the allocation of the constitutional appropriation for the next five years. HEF funds must be used for capital purposes. Institutions may use HEF allocations for debt service on HEF bonds or as cash.

**RESEARCH FUNDS AND OTHER FUNDS**

Five separate funds are dedicated to fostering increased research capacity at eligible Texas general academic institutions: (1) the National Research University Fund (Other Funds); (2) the Comprehensive Research Fund; (3) the Texas Research Incentive Program; (4) the Core Research Support Fund; and (5) the Texas Research University Fund. (See Appendix D.) One additional fund, the Permanent Fund Supporting Military and Veterans Exemptions (Other Funds), provides funding to help offset the cost to higher education institutions of providing tuition exemptions to children of military veterans.

**NATIONAL RESEARCH UNIVERSITY FUND**

The National Research University Fund (NRUF) is a constitutionally authorized fund specifically dedicated to assisting certain emerging research universities attain national prominence as research universities. Funding for the NRUF resulted from the rededication of the Permanent Higher Education Fund (PHEF), a dedicated HEF corpus intended to become a permanent endowment to support non-PUF-eligible institutions. However, the PHEF corpus was

**FIGURE 25  
PARTICIPANTS IN THE TEXAS HIGHER EDUCATION FUND**

<p><b>Texas A&amp;M University System Components:</b></p> <p>Texas A&amp;M University – Corpus Christi</p> <p>Texas A&amp;M International University</p> <p>Texas A&amp;M University – Kingsville</p> <p>Texas A&amp;M University – Commerce</p> <p>West Texas A&amp;M University</p> <p>Texas A&amp;M University – Texarkana</p>	<p><b>Texas Tech University System Components:</b></p> <p>Texas Tech University</p> <p>Texas Tech University Health Sciences Center</p> <p>Texas Tech University Health Sciences Center at El Paso</p> <p>Angelo State University</p>
<p><b>University of Houston System Components:</b></p> <p>University of Houston</p> <p>University of Houston – Clear Lake</p> <p>University of Houston – Downtown</p> <p>University of Houston – Victoria</p>	<p><b>Texas State University System Components:</b></p> <p>Lamar University</p> <p>Sam Houston State University</p> <p>Texas State University</p> <p>Sul Ross State University</p> <p>Sul Ross State University Rio Grande College</p> <p>Lamar State College – Orange</p> <p>Lamar State College – Port Arthur</p> <p>Lamar Institute of Technology</p>
<p><b>Independent Institutions:</b></p> <p>Midwestern State University</p> <p>Stephen F. Austin State University</p> <p>Texas Southern University</p> <p>Texas Woman’s University</p>	<p><b>Texas State Technical College System Components:</b></p> <p>Texas State Technical College – Harlingen</p> <p>Texas State Technical College – West Texas</p> <p>Texas State Technical College – Marshall</p> <p>Texas State Technical College – Waco</p>
<p><b>University of North Texas System Components:</b></p> <p>University of North Texas Health Science Center</p> <p>University of North Texas</p> <p>University of North Texas at Dallas (2)</p>	
<p>NOTES:</p> <p>(1) The University of Texas Rio Grande Valley is eligible for funding through the Permanent University Fund. Therefore, The University of Texas System no longer receives appropriations from the Higher Education Fund.</p> <p>(2) The University of North Texas at Dallas receives its allocation through the University of North Texas.</p> <p>SOURCE: Legislative Budget Board.</p>	

rededicated with the voter passage of Proposition 4 in 2009, which amended the Texas Constitution, Article VII, to establish the NRUF. The \$515.9 million balance of the PHEF was transferred to the NRUF on January 1, 2010.

The Texas Constitution authorizes the Legislature to appropriate some or all of the return on all investment assets of the NRUF for the purposes of the fund, except for two caveats: (1) the Legislature may not increase distributions from the fund if the purchasing power of investment assets for any rolling 10-year period is not preserved; and (2) the amount appropriated from the proceeds from the NRUF corpus in any fiscal year must be capped at 7.0 percent of the investment assets’ average net fair market value.

Appropriations for the 2016–17 biennium total \$61.1 million in estimated NRUF proceeds to eligible institutions through the Available National Research University Fund (ANRUF). To be eligible to receive ANRUF appropriations,

an institution must meet two mandatory criteria and four out of six optional criteria. The mandatory criteria are that the institution is designated as an emerging research university within THECB’s Accountability System, and that the institution reported at least \$45.0 million in restricted research expenditures in each of the preceding two fiscal years. Optional criteria include the following: (1) possession of an endowment fund with a value of greater than \$400.0 million; (2) awarding more than 200 doctoral philosophy degrees per year; (3) having an entering freshman class of high academic achievement; (4) recognition of the institution’s research capability and scholarly attainment; (5) possession of a high-quality faculty; and (6) possession of high-quality graduate education programs. THECB evaluates the mandatory and optional criteria to determine whether an institution is eligible to receive ANRUF appropriations.

The distribution of ANRUF appropriations is set in the Texas Education Code, Section 62.148. Of the total annual ANRUF appropriations, each eligible institution is entitled to a distribution in an amount equal to the sum of: (1) one-seventh of the total amount appropriated; and (2) an equal share of the remaining appropriations, not to exceed an amount equal to one-fourth of the remaining amount. However, if more than four institutions are eligible in a fiscal year, each eligible institution is entitled to an equal share of the total amount appropriated from the ANRUF.

As of February 2016, Texas Tech University and University of Houston are the only emerging research universities eligible to receive ANRUF appropriations.

**COMPREHENSIVE RESEARCH FUND**

The Eighty-fourth Legislature, 2015 established the Comprehensive Research Fund (CRF), the purpose of which is to provide funding to promote increased research capacity at eligible general academic teaching institutions. The Texas Education Code, Section 62.092, establishes that general academic institutions are eligible to receive funding through the Comprehensive Research Fund if they are not (1) The University of Texas at Austin or Texas A&M University; or (2) designated an emerging research university within the Texas Higher Education Coordinating Board’s (THECB) accountability system.

Appropriations to the CRF for the 2016–17 biennium total \$14.3 million from General Revenue Funds. The distribution of CRF appropriations is apportioned among eligible institutions according to a formula based on each institution’s three-year average of restricted research expenditures (see **Figure 26**).

**TEXAS RESEARCH INCENTIVE PROGRAM**

The Eighty-first Legislature, Regular Session, 2009, established the Texas Research Incentive Program (TRIP), which is administered by THECB. Pursuant to Texas Education Code, Sections 62.121 to 62.124, TRIP shall provide matching funds to emerging research universities, designated within THECB’s accountability system, to assist institutions in leveraging private gifts for the enhancement of research productivity. Eight institutions receive funding through the program, including: Texas Tech University, The University of Texas at Arlington, The University of Texas at Dallas, The University of Texas at El Paso, The University of Texas at San Antonio, University of Houston, and University of North Texas. During early 2012, Texas State University was designated as an emerging research university. The Eighty-fourth Legislature, 2015, appropriated \$138.1 million for the 2016–17 biennium, which is an increase of \$102.5 million in All Funds. This increase includes \$9.0 million from the General Revenue–Dedicated Emerging Technology Fund.

**FIGURE 26  
TEXAS HIGHER EDUCATION COMPREHENSIVE RESEARCH FUND ALLOCATIONS, 2016–17 BIENNIUM**

INSTITUTION	ALLOCATION	INSTITUTION	ALLOCATION
The University of Texas Rio Grande Valley	\$2,339,296	University of Houston – Clear Lake	\$209,754
The University of Texas of the Permian Basin	\$99,900	University of Houston – Downtown	\$333,580
The University of Texas at Tyler	\$338,470	University of Houston – Victoria	\$2,632
Prairie View A&M University	\$1,649,382	Midwestern State University	\$81,786
Texas A&M University at Galveston	\$594,694	University of North Texas at Dallas	\$4,876
Tarleton State University	\$1,068,208	Stephen F. Austin State University	\$430,988
Texas A&M University – Corpus Christi	\$2,083,874	Texas Southern University	\$204,842
Texas A&M University – Kingsville	\$2,168,570	Texas Woman’s University	\$270,084
Texas A&M International University	\$426,618	Angelo State University	\$36,132
West Texas A&M University	\$443,390	Lamar University	\$422,184
Texas A&M University – Commerce	\$289,144	Sam Houston State University	\$511,562
Texas A&M University – Texarkana	\$12,976	Sul Ross State University	\$239,250
Texas A&M University – San Antonio	\$10,180	<b>TOTAL</b>	<b>\$14,272,374</b>

SOURCE: Legislative Budget Board.

**CORE RESEARCH SUPPORT FUND**

The Eighty-fourth Legislature, 2015, established the Core Research Support Fund to provide funding to promote increased research capacity at emerging research universities. The Texas Education Code, Section 62.132, provides that to be eligible for the Core Research Support Fund an institution must be defined as an emerging research university within THECB's accountability system. Funding for core research support is allocated based on a funding formula of eligible institutions' three-year average of total restricted research expenditures and total annual research expenditures.

Total appropriations for the Core Research Support Fund provide \$117.1 million in the 2016–17 biennium to the state's eight emerging research universities.

**TEXAS RESEARCH UNIVERSITY FUND**

The Eighty-fourth Legislature, 2015, established the Texas Research University Fund (TRUF), the purpose of which is to provide funding to eligible research universities to support faculty to ensure excellence in instruction and research. The Texas Education Code, Section 62.051, establishes that to be eligible for TRUF, an institution must be defined as a research university within THECB's accountability system and have total annual research expenditures in an average annual amount of no less than \$450.0 million for three consecutive fiscal years.

Total appropriations for TRUF are \$147.1 million in All Funds in the 2016–17 biennium. This amount includes \$8.0 million from the General Revenue–Dedicated Emerging Technology Account No. 5124. Eligible institutions for TRUF are The University of Texas at Austin and Texas A&M University.

**PERMANENT FUND SUPPORTING MILITARY AND VETERANS EXEMPTIONS**

The Eighty-third Legislature, Regular Session, 2013, established the Permanent Fund Supporting Military and Veterans Exemptions to help institutions of higher education offset the cost of tuition exemptions for dependents of military veterans. The exemption, as defined in the Texas Education Code, Section 54.341(k), and known as the Hazlewood Legacy Act, was implemented during fiscal year 2010. Money is transferred or appropriated to the fund by the Legislature, and gifts and grants are contributed to the fund. The fund's appropriations will be distributed to eligible institutions in proportion to each institution's respective

share of the aggregate cost to all institutions for the Hazlewood Legacy Act.



# HIGHER EDUCATION BENEFITS

Public institutions of higher education in Texas receive appropriations for health and retirement benefits in addition to other state appropriations. Institutions receive indirect state contributions for Higher Education Employees Group Insurance (HEGI), Social Security benefits, and retirement benefits managed by the Teacher Retirement System (TRS) and the Optional Retirement Program (ORP). Texas public institutions also receive direct state contributions for staff group insurance, workers' compensation insurance, and unemployment compensation insurance.

## HIGHER EDUCATION GROUP INSURANCE (HEGI)

Appropriations from General Revenue Funds for HEGI are not direct appropriations in the institutions' bill patterns. HEGI is appropriated in a separate section of the General Appropriations Act (GAA) entitled Higher Education Employees Group Insurance Contributions, which includes a line item for each institution. This indirect, sum-certain appropriation from General Revenue Funds is intended to cover a percentage of the cost of health insurance premiums for all active and retired employees whose salaries are paid from General Revenue Funds.

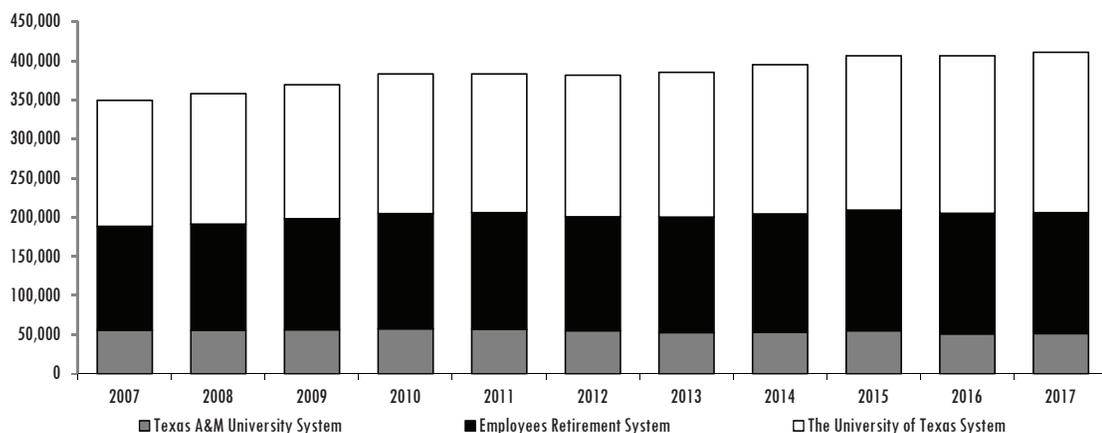
The University of Texas (UT) and Texas A&M University (TAMU) systems operate their own health insurance programs; therefore, each receives separate appropriations. The Employees Retirement System (ERS) Group Benefits Program serves the remaining institutions of higher education. **Figure 27** shows the total number of each system's participants (actives, retirees, and dependents) from fiscal years 2007 to 2017. Since 2007, the total number of participants increased by approximately 17.6 percent.

Legislative appropriations for HEGI for the 2016–17 biennium total \$1,377.9 million in General Revenue Funds, an increase of \$187.1 million from the 2014–15 biennium. The biennial appropriation for group health insurance is calculated as follows:

$$(Eligible\ Enrollees \times Premium\ Contribution\ Rates \times Annual\ Rate\ Increase)$$

HEGI premium contribution rates vary by insuring system and type of institution. State institutions of higher education are typically not funded at the full ERS premium rate. The Legislature determines the funding rate for state institutions of higher education, excluding community colleges. For the 2016–17 biennium, state institutions of higher education are funded at 86.8 percent to 89.2 percent of the full ERS

**FIGURE 27**  
TEXAS PUBLIC HIGHER EDUCATION EMPLOYEE HEALTH INSURANCE TOTAL PARTICIPATION, FISCAL YEARS 2007 TO 2017



NOTE: Totals for fiscal years 2016 and 2017 are estimated.  
SOURCES: The University of Texas System; Texas A&M University System; Employees Retirement System.

premium rate. Funding levels for community college benefits previously were discretionary, and state contribution rates fluctuated each biennium. With the enactment of Senate Bill 1812, Eighty-third Legislature, Regular Session, 2013, statute requires that community college districts are funded at 50.0 percent of the full ERS premium rate for eligible employees.

An institution’s allocation of General Revenue Funds is based on the number of employees at an institution who are enrolled in the health insurance program as of December 1 of the year preceding the legislative session. Funding is based on a sum-certain appropriations methodology in which state contributions to individual institutions are capped at the respective institution’s line-item amount, and where any additional costs must be funded by individual institutions out of other appropriated or local funds. However, the GAA also authorizes ERS and the UT and TAMU systems to transfer HEGI appropriations among institutions within their respective group insurance programs to address needs related to General Revenue Funds group insurance premiums.

For all institutions of higher education except community colleges, appropriations for HEGI provide state contributions to individual institutions’ costs of health insurance premiums in a manner prescribed by proportional cost-sharing requirements. Institutions are required to pay 100.0 percent of the health benefit costs for those employees whose salaries are paid from sources other than General Revenue Funds.

Unlike other institutions of higher education, state contributions for group health insurance for community colleges are based on the costs associated with eligible employees (instructional or administrative). Those employees’ salaries may be fully paid from funds appropriated pursuant to the GAA, regardless of whether such salaries are actually paid from appropriated funds. Contributions may not be adjusted in a proportion greater than the change in student enrollment, with the exception that a college experiencing a decrease in student enrollment may petition the Legislative Budget Board to maintain the number of eligible employees up to 98.0 percent of the prior biennium.

For the 2016–17 biennium, a stepped hold harmless appropriation was adopted through the benefits petition process for those colleges that experienced a decrease in enrollment, where the level of hold harmless for employee levels is based on the decrease in enrollment at each institution. **Figure 28** shows the employee hold harmless levels corresponding to each range of enrollment decrease in

**FIGURE 28  
COMMUNITY COLLEGE STEPPED EMPLOYEE HOLD  
HARMLESS LEVELS, 2016–17 BIENNIUM**

PERCENTAGE DECREASE IN CONTACT HOURS	EMPLOYEE LEVEL HOLD HARMLESS
2% to 5%	98% (2% reduction)
5% to 10%	95% (5% reduction)
10% to 15%	90% (10% reduction)
More than 15%	85% (15% reduction)

SOURCE: Legislative Budget Board.

contact hours. For example, a community college that experienced an 8.0 percent decrease in contact hours received a 95.0 percent employee hold harmless appropriation. Similarly, a community college that experienced a 4.0 percent decrease in contact hours received a 98.0 percent employee hold harmless appropriation.

The insurance contribution policy for ERS-covered institutions is the same as for non-higher education general state employees. For full-time employees, the state pays the employee-only premium in full and half the difference between the employee-only premium and the premium for dependent coverage. For full-time employees of the UT System, the state and the UT System also pay the employee-only premium in full and half the difference between the employee-only premium and the premium for dependent coverage. For full-time employees of the TAMU System, the state and the TAMU System pay about 98.2 percent of the employee-only premium and half of the difference between the employee-only premium and the premium for dependent coverage. Employees of the UT and TAMU systems receive an array of benefits similar to those offered to general state employees by ERS.

**SOCIAL SECURITY BENEFITS**

An appropriation for Social Security is included in the GAA at the end of Article III. It is an estimated appropriation from General Revenue Funds to provide the employer matching funds for institutions of higher education.

**RETIREMENT CONTRIBUTIONS**

Appropriations for retirement contributions are included in accordance with the Teacher Retirement System (TRS) and Optional Retirement Program (ORP) bill patterns. Some higher education employees, primarily faculty and top administrators, are eligible for ORP, a defined contribution plan similar to a 401(k) account. Other higher education

employees participate in TRS, a defined benefit plan. The state retirement contribution rate for TRS is equal to 6.8 percent of an employee's salary for the 2016–17 biennium. State contributions for ORP are equal to 6.6 percent of an employee's salary for fiscal years 2016 and 2017. For community colleges, statute limits the state contributions for community college employees participating in the state retirement program to 50.0 percent of the eligible compensation of employees whose duties are instructional or administrative. Beginning with the 2016–17 biennium, an additional limit to state retirement contributions applies for each community and junior college based on the growth in its number of employees in proportion to changes in student enrollment at the college.

### **STAFF GROUP INSURANCE**

Staff group insurance is for staff members of institutions of higher education, excluding community colleges, whose salaries are paid from Other Educational and General Funds, which is categorized as General Revenue–Dedicated Funds. This direct appropriation is based on the number of non-General Revenue Funds and non-locally funded employees at an institution as of December 1 of the year preceding the legislative session.

### **WORKERS' COMPENSATION INSURANCE**

Changes in the structure of the statewide workers' compensation system resulted in most institutions receiving appropriations from General Revenue Funds for workers' compensation insurance starting in the 2006–07 biennium. The UT and TAMU systems operate their workers' compensation pools, and all other institutions are part of the State Office of Risk Management's workers' compensation pool.

The appropriation for the 2016–17 biennium for general academic and health related institutions is approximately \$16.5 million in General Revenue Funds. TAMU System agencies also receive workers' compensation insurance from various methods of finance. The appropriation for workers' compensation insurance for the 2016–17 biennium for these agencies totals \$1.1 million.

### **UNEMPLOYMENT COMPENSATION INSURANCE**

Many components of the UT and TAMU systems receive appropriations from General Revenue Funds for unemployment compensation insurance because these two

systems operate their own risk pools. The appropriation for the 2016–17 biennium for the UT and TAMU systems' general academic and health related institutions is approximately \$1.0 million in General Revenue Funds. TAMU System agencies also receive unemployment compensation insurance through various methods of finance. The appropriation for unemployment compensation insurance for the 2016–17 biennium for these agencies totals \$0.5 million. The Texas Workforce Commission receives an appropriation to cover unemployment benefits for former state employees for all other higher education institutions.



# FUNDING TEXAS A&M SYSTEM AGENCIES

Seven research and service agencies are administered by the Texas A&M University (TAMU) System. The agencies provide an array of services to the state of Texas, including research, teaching, and public service. TAMU System agencies differ from other institutions of higher education in that each system agency focuses on one or more of four traditional missions of higher education institutions: research, extension, teaching and service (**Figure 29**). To address Texas' geographic diversity and provide an effective network of services, TAMU System agencies maintain various locations throughout the state (**Figures 30 and 31**). TAMU System agencies are authorized by the Texas Education Code, Title 3, Chapter 88.

In several ways, state funding for TAMU System agencies is similar to funding for higher education institutions. The agencies have considerable discretion in their budgeting and financial operations because they receive lump-sum

appropriations in the same manner as other institutions of higher education. With the exception of the Texas A&M Veterinary Medical Diagnostic Laboratory, TAMU System agencies are eligible to receive Permanent University Fund (PUF) proceeds for debt service only, and the agencies were allocated \$21.5 million from PUF toward debt service for the 2016–17 biennium. As is the case with all institutions, the agencies keep 100 percent of their respective indirect cost recovery income because this income is derived from earnings on federal grants and is held outside the Treasury. TAMU System agencies are also funded in the same manner as other institutions of higher education with regard to staff benefits, including employee group health insurance contributions.

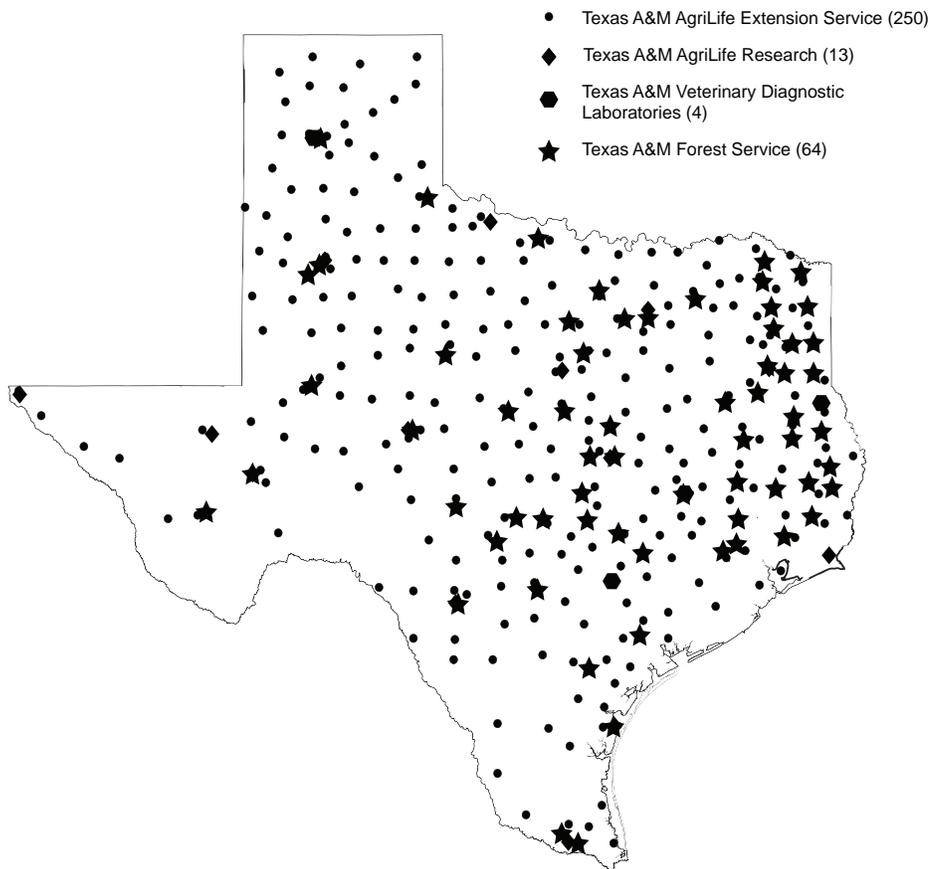
However, funding methods between the TAMU System agencies and other higher education institutions differ in two major ways. The first is that the agencies do not receive formula-based funding for operations. Also, although some

**FIGURE 29**  
**TEXAS A&M UNIVERSITY SYSTEM AGENCIES MISSIONS AND FUNCTIONS**

AGENCY	MISSION/FUNCTION
Texas A&M AgriLife Research	To promote agricultural competitiveness, environmental quality, agricultural product quality, and economic development. Conducts research on livestock, plants, crops, and processing techniques to ensure Texas' agricultural system is competitive.
Texas A&M AgriLife Extension Service	To convey scientific information and technology transfer programs to the public, addressing areas in agriculture and natural resources; youth, community, and leadership development; environmental quality; and food safety. Conducted through extension agents serving all Texas counties and supported by federal, state, and county funds.
Texas A&M Engineering Experiment Station	To conduct basic and applied research in engineering and related fields. Research highlights: energy independence, efficiency, and conservation; alternative energy; and national security.
Texas A&M Transportation Institute	To anticipate, identify, and solve transportation problems; disseminate the results of research to improve the overall transportation system; and enhance the quality of transportation education in Texas. Approximately 40.0 percent of research expenditures from interagency contracts are contracted from the Texas Department of Transportation.
Texas A&M Engineering Extension Service	To provide public and private-sector training, technology-transfer assistance, and emergency response. Operates the Brayton Fire Training Field and the Emergency Operations Training Center. Includes Texas Task Force 1, a National Urban Search and Rescue team coordinated by the Federal Emergency Management Agency, which is deployed for emergency response and search and rescue operations.
Texas A&M Forest Service	To provide professional assistance to ensure that the state's forest, tree, and related natural resources are conserved and protected. The Texas Wildfire Protection Plan is the agency's wildfire response model. Administers the Rural Volunteer Fire Department Assistance Program, which gives grants to local volunteer fire departments for equipment and training.
Texas A&M Veterinary Medical Diagnostic Laboratory	To perform veterinary diagnostic services, export testing, and disease surveillance. Responds to potential high-consequence or emerging disease events. Develops new diagnostic testing technologies.

SOURCE: Legislative Budget Board.

**FIGURE 30**  
**TEXAS A&M UNIVERSITY SYSTEM AGRICULTURAL AGENCY LOCATIONS, FISCAL YEAR 2016**



SOURCE: Texas A&M University System.

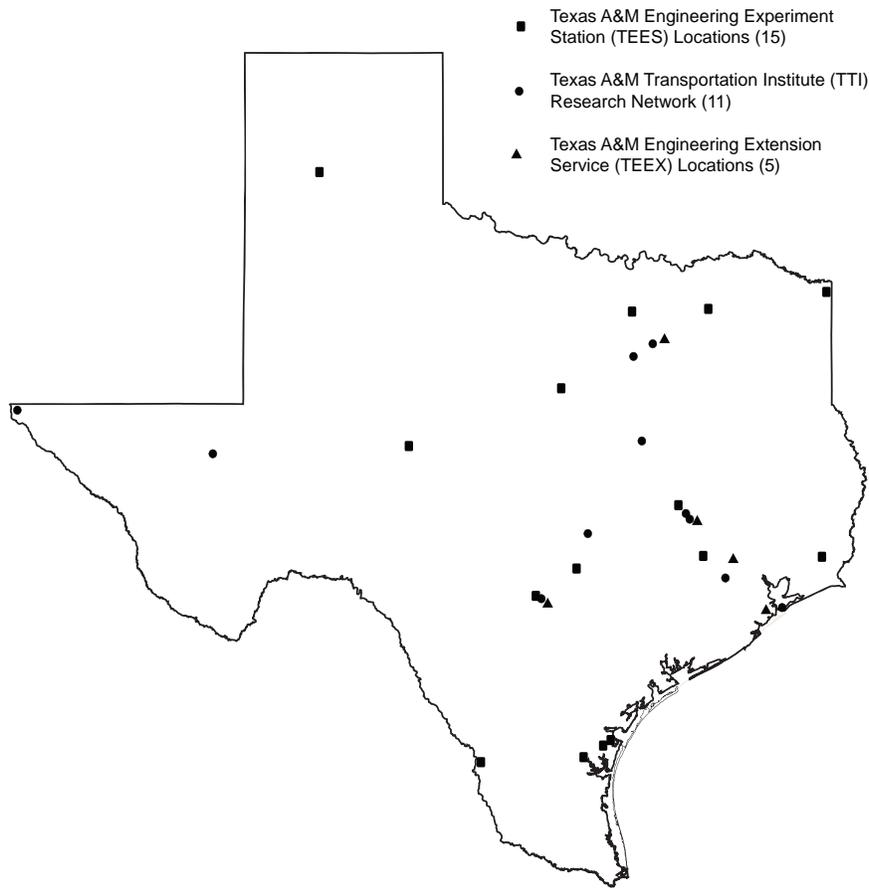
of the agencies charge fees for their services, they do not generate tuition and fees in the same manner or quantity as other institutions of higher education. However, the agencies generate fees in several ways, which range from providing apriary inspection services for Texas honey producers to conducting drug testing procedures for the animal racing industry. This fee revenue is appropriated on an estimated basis to the TAMU System agencies. **Figure 32** shows the funding similarities and differences.

The Eighty-fourth Legislature, 2015, maintained formula-based funding for the TAMU System agencies’ infrastructure inside Brazos County. This formula is based on the Texas Higher Education Coordinating Board’s Space Projection Model used by general academic institutions. TAMU System agencies receive funding commensurate with the rate per square foot that Texas A&M University receives for its infrastructure funding. In addition, the Eighty-fourth Legislature implemented a new methodology for

infrastructure support outside Brazos County that allocates to the TAMU System agricultural agencies proportionally by their percentages of total actual square footage.

The total direct appropriations for TAMU System agencies were \$973.0 million for the 2016–17 biennium. This amount includes \$423.7 million in General Revenue Funds and General Revenue–Dedicated Funds. In addition to state appropriations, the agencies receive some Federal Funds and private funds that are not included in the General Appropriations Act (GAA). Federal Funds within the GAA accounted for 21.0 percent of TAMU System agencies’ budgets for the 2016–17 biennium, with the majority of those funds allocated to the three engineering agencies (the Texas A&M Engineering Extension Service, the Texas A&M Engineering Experiment Station, and the Texas A&M Transportation Institute).

**FIGURE 31**  
**TEXAS A&M UNIVERSITY SYSTEM ENGINEERING AGENCY LOCATIONS, FISCAL YEAR 2016**



SOURCE: Texas A&M University System.

**FIGURE 32**  
**TEXAS A&M UNIVERSITY SYSTEM AGENCIES COMPARED TO INSTITUTIONS OF HIGHER EDUCATION**

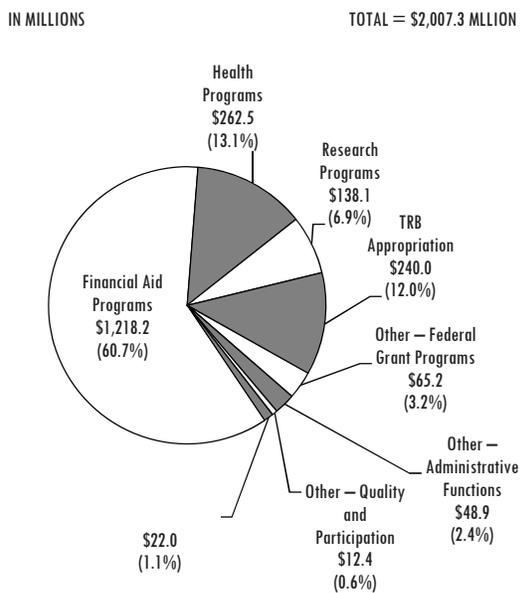
SIMILARITIES	DIFFERENCES
<p><b>Funding</b></p> <p>Both Texas A&amp;M University (TAMU) System agencies and institutions of higher education have considerable discretion in their budgeting and financial operations due to the receipt of lump sum appropriations.</p> <p>Both are eligible to receive proceeds from the Permanent University Fund for debt service.</p> <p>Both are considered to be institutions of higher education for purposes of employee group health insurance.</p> <p>Both generate and keep 100 percent of indirect cost recovery from research and other grants.</p>	<p><b>Funding</b></p> <p>General academic and health related institutions receive formula funding for operations, but TAMU System agencies do not.</p> <p>TAMU System agencies do not generate revenue in the same manner or amounts as other higher education institutions.</p>
<p><b>Performance Measures</b></p>	<p><b>Performance Measures</b></p> <p>Performance measures for TAMU System agencies are agency-specific, whereas performance measures for other higher education institutions are standardized.</p>
<p><b>Operations</b></p> <p>Like other institutions of higher education, TAMU System agencies are not required to submit operating budgets or strategic plans.</p> <p>Both are statutorily embedded within the TAMU System's institutional framework.</p> <p>SOURCE: Legislative Budget Board.</p>	<p><b>Operations</b></p>

# TEXAS HIGHER EDUCATION COORDINATING BOARD

The Texas Higher Education Coordinating Board (THECB) was established in 1965 to provide leadership and coordination of the public higher education system in Texas. THECB administers various student financial aid, federal grants, and state-funded trustee programs; establishes a master plan for higher education; prescribes the role and mission of public higher education institutions; reviews university academic programs, academic and vocational technical programs at the community and technical colleges, and health-related programs; and promotes access to and quality in higher education.

Appropriations for the 2016–17 biennium for the agency total \$2,007.3 million in All Funds. **Figure 33** shows the legislative appropriations to THECB by functional area. This amount includes \$1,885.2 million in General Revenue Funds and General Revenue–Dedicated Funds. The All Funds appropriation represents an increase of \$471.9 million, or 30.7 percent, from the 2014–15 biennial expenditure level.

**FIGURE 33**  
TEXAS HIGHER EDUCATION COORDINATING BOARD  
APPROPRIATIONS, 2016–17 BIENNIUM

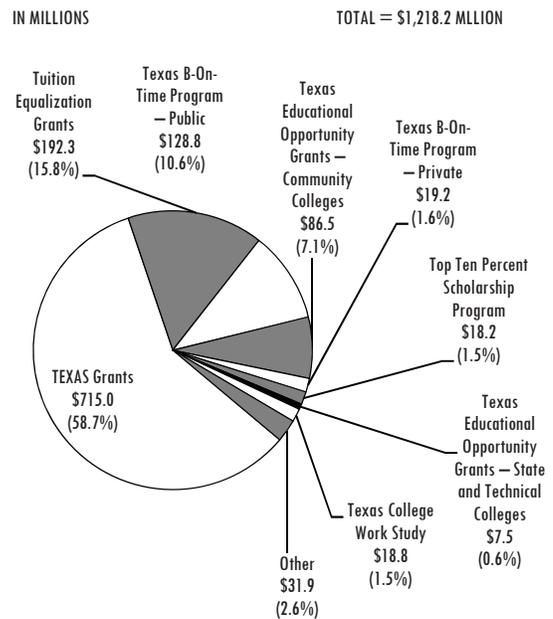


NOTE: Totals may not sum due to rounding.  
SOURCE: Legislative Budget Board.

## FINANCIAL AID PROGRAMS

Financial aid programs are included in the agency’s goal to Close the Gaps in Affordability, which constitutes 75.0 percent of the funding appropriated to THECB in All Funds. **Figure 34** shows the appropriations to these programs. The largest financial aid program is the Towards EXcellence, Access, and Success (TEXAS) Grant program. Appropriations for this program total \$715.0 million, a \$62.7 million increase in General Revenue Funds offset by a \$31.0 million decrease in donations that were received by the agency in the 2014–15 biennium. Appropriations to the B-On-Time-Public program total \$128.8 million, an increase of \$50.6

**FIGURE 34**  
TEXAS HIGHER EDUCATION COORDINATING BOARD  
FINANCIAL AID PROGRAMS, 2016–17 BIENNIUM



**NOTES:**

- (1) Totals may not sum due to rounding.
- (2) TEXAS Grants = Towards EXcellence, Access, and Success Grant program.
- (3) T-STEM Challenge Program = Texas Science, Technology, Engineering, and Math Challenge Scholarship Program.
- (4) Other category includes funding for the Border Faculty Loan Repayment Program, Educational Aide Program, Engineering Recruitment Program, and License Plate Programs.

SOURCE: Legislative Budget Board.

million in General Revenue–Dedicated Funds. The 2016–17 appropriation amount includes \$63.4 million to support renewal awards and \$65.3 million in designated tuition set-aside balances that will be returned to the public institutions of higher education in the 2016–17 biennium. The enactment of House Bill 700, Eighty-fourth Legislature, 2015, repeals the designated tuition set-aside and phases out the B-On-Time program across a five-year period.

Appropriations to the B-On-Time-Private program, which support students attending private institutions, total \$19.2 million in General Revenue Funds, a decrease of \$12.2 million, and will support renewal students only. Appropriations to the Tuition Equalization Grant Program total \$192.3 million in General Revenue Funds, an increase of \$12.2 million. **Figure 35** shows a comparison of these three programs.

**FIGURE 35**  
**TEXAS HIGHER EDUCATION COORDINATING BOARD FINANCIAL AID PROGRAMS, 2016–17 BIENNIUM**

CATEGORY	TEXAS GRANTS (1)	B-ON-TIME LOAN PROGRAM (2)	TUITION EQUALIZATION GRANTS
Eligible Institutions	Public universities	Public, private, or independent institutions that offer baccalaureate degrees	Private or independent institutions
Type of Financial Aid and Use	Grant can be used to pay any usual and customary cost of attendance.	Loan can be used to pay any usual and customary cost of attendance.	Grant can be used to pay any usual and customary cost of attendance.
Course Load	Three-fourths of a full course load	Full course load (12 semester hours)	Three-fourths of a full course load
Financial Need	Must show financial need	Must demonstrate eligibility to receive federal aid	Must show financial need
Residency	Texas resident	Texas resident	Texas resident or National Merit Finalists
Grade Point Average (GPA) (after first year)	Institution's GPA requirement	Institution's GPA requirement	Institution's GPA requirement
Grade Point Average (after second year)	GPA 2.5 on 4.0 scale	GPA 2.5 on 4.0 scale	GPA 2.5 on 4.0 scale
Loan Forgiveness	N/A	Yes, if 3.0 GPA on 4.0 scale and graduate within 4 to 5 years, depending on degree program or with no more than 6 credit hours more than degree requirements.	N/A
Grant/Loan Amount	Priority to students who demonstrate the greatest financial need and whose expected family contribution, as determined according to the methodology used for federal financial aid, does not exceed 60.0% of the average statewide amount of tuition and required fees that a resident student enrolled full-time in a baccalaureate degree program would be charged at a general academic teaching institution. Source: Texas Education Code 56.303(e) and 56.307(a).	Average statewide amount of tuition and required fees a resident student enrolled full-time in an undergraduate degree program would be charged at a general academic teaching institution.	Based on financial need but not to exceed a grant amount greater than 50.0% of the average state appropriation in the biennium preceding the biennium in which the grant is made for a full-time student, or the equivalent at public senior colleges and universities, as determined by the board, or not to exceed 150.0% of this calculated amount, if the student establishes exceptional need. Source: Texas Education Code 61.227(c) and (e).

NOTES:

- (1) Senate Bill 215, Eighty-third Legislature, Regular Session, 2013, made the Texas Grant Program a university-only program beginning in fiscal year 2015.
- (2) House Bill 700, Eighty-Fourth Legislature, 2015, phases out the B-On-Time Program during the next five years and abolishes the General Revenue–Dedicated Texas B-On-Time Account effective September 1, 2020. B-On-Time Loans will only be provided to students who received an initial loan before the 2015–16 academic year.

SOURCE: Texas Higher Education Coordinating Board.

Appropriations for the 2016–17 biennium to the Texas Educational Opportunity Grant–Public Community College Program and the Texas Educational Opportunity Grants–State and Technical Colleges Program are \$86.5 million and \$7.5 million, respectively. The Texas Educational Opportunity Grant–Public Community College Program awards grants to students attending public community colleges. The Texas Educational Opportunity Grants–State and Technical Colleges Program awards grants to students attending Lamar State College – Orange, Lamar State College – Port Arthur, Lamar Institute of Technology, and the Texas State Technical Colleges. These appropriations represent an increase of \$28.9 million from the previous biennium. Appropriations to the Work Study Program total \$18.8 million, which maintains 2014–15 biennial funding levels. The Top Ten Percent Scholarship program provides scholarships to qualifying students who graduate in the top 10 percent of their high school classes. Funding for the program is \$18.2 million, which is a decrease of \$21.4 million, and it supports renewal students in the program during the 2016–17 biennium. These programs are funded by General Revenue Funds.

The Other Programs shown in **Figure 34** include the Educational Aide Program (\$1.5 million), Engineering Recruitment Program (\$0.5 million), Border Faculty Loan Repayment Program (\$0.4 million), and License Plate Programs (\$0.2 million).

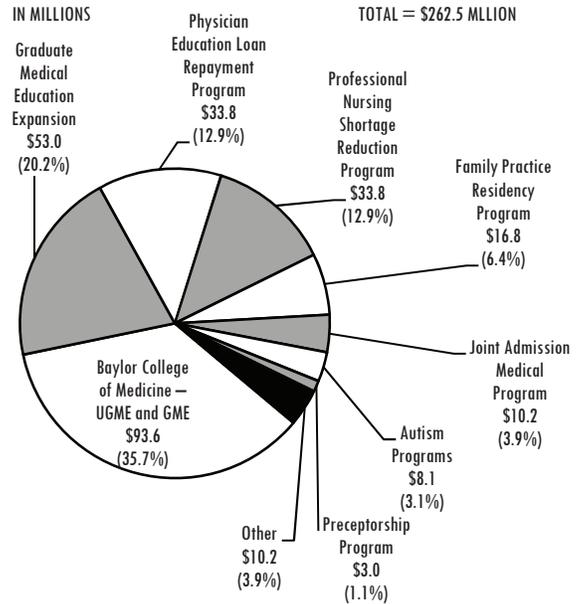
**RESEARCH PROGRAMS**

The 2016–17 appropriations to the Texas Research Incentive Program, which matches certain gifts at emerging research universities, total \$138.1 million, which is an increase of \$102.5 million in All Funds from the 2014–15 biennium. This increase includes \$9.0 million from the General Revenue–Dedicated Emerging Technology Fund. (See the Constitutional and Research Funds section.) Appropriations for the Advanced Research Program, which is a competitive peer-reviewed grant program, were discontinued in the 2016–17 biennium.

**HEALTH PROGRAMS**

Appropriations for THECB-administered health-related programs, which include funding for Baylor College of Medicine, total \$262.5 million for the 2016–17 biennium, shown in **Figure 36**. This amount is an increase of \$57.7 million in All Funds from the 2014–15 biennial spending levels, primarily due to increased funding for the Graduate

**FIGURE 36**  
**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
**HEALTH-RELATED PROGRAM FUNDING**  
**2016–17 BIENNIUM**



NOTE: Totals may not sum due to rounding.  
 SOURCE: Legislative Budget Board.

Medical Education (GME) Expansion program. Total funding for the program is \$53.0 million, which is an increase of \$38.8 million. GME Expansion supports one-time graduate medical education planning and partnership grants, funding to enable new or existing GME programs to increase the number of first-year residency positions, funding for unfilled residency positions, and continuation awards for programs that received a grant in fiscal year 2015. THECB was appropriated \$16.8 million for the Family Practice Residency Program for the 2016–17 biennium, an increase of \$4.0 million. This appropriation includes \$12.8 million in General Revenue–Dedicated Trauma Facility and EMS Account No. 5111 and \$4.0 million in General Revenue Funds. THECB allocates the funds based on the certified number of residents training in each approved family practice residency program.

Appropriations for the Preceptorship Program total \$3.0 million in General Revenue Funds. This program was last funded by the Legislature in the 2010–11 biennium. The program provides stipends to medical students who participate in the program as incentive for them to pursue careers in the primary care field. Appropriations for Autism Programs total \$8.1 million, and support autism research

centers at institutions of higher education that provide evidence-based behavioral services and training.

In 1969, the Sixty-first Legislature, Regular Session, authorized THECB to contract with the Baylor College of Medicine, a private institution, for the education of undergraduate medical students who are Texas residents. The amount that Baylor College of Medicine receives is based on the average annual state tax support per undergraduate medical student at The University of Texas Medical Branch at Galveston and The University of Texas Southwestern Medical Center at Dallas. The Eighty-fourth Legislature, 2015, provided Baylor College of Medicine \$78.0 million in General Revenue Funds for the 2016–17 biennium, an increase of \$4.3 million. Baylor College of Medicine also received funding for GME totaling \$15.6 million in General Revenue Funds for the 2016–17 biennium, an increase of \$3.7 million.

Appropriations to the Physician Education Loan Repayment Program (PELRP) total \$33.8 million out of General Revenue–Dedicated PELRP Account No. 5144. The program provides loan repayment assistance to qualified physicians for up to \$160,000 over a four-year commitment period. House Bill 7, Eighty-fourth Legislature, 2015, amended the Texas Tax Code, Chapter 155. The legislation redirects the smokeless tobacco products allocation deposited to the General Revenue–Dedicated PELRP Account No. 5144 to the General Revenue Fund, if the Comptroller of Public Accounts determines that the unencumbered beginning balance in the PELRP account is sufficient to fund appropriations to existing and expected physician education loan repayment commitments during the current state fiscal biennium.

Appropriations to the Joint Admission Medical Program (JAMP) total \$10.2 million in General Revenue Funds. JAMP provides assistance to select economically disadvantaged undergraduate students at general academic institutions for preparation for medical school. Funding for the 2016–17 biennium for the Professional Nursing Shortage Reduction Program is \$33.8 million in General Revenue Funds. The Professional Nursing Shortage Reduction Program provides funding to institutions based on several graduation-based incentives. The Other trustee programs shown in **Figure 36** include the Physician and Nursing Trauma Care Program (\$4.5 million), Mental Health Care Professionals Loan Repayment Program (\$2.1 million), Primary Care Innovation Grant Program (\$2.1 million),

Other Loan Repayment Programs (\$1.3 million) and the Dental Education Loan Repayment Program (\$0.2 million)

## TUITION REVENUE BOND APPROPRIATION

Appropriations to reimburse institutions for debt service associated with new tuition revenue bonds authorized by House Bill 100, Eighty-fourth Legislature, 2015, total \$240.0 million in fiscal year 2017. This appropriation was trustee to THECB, which will develop rules for allocating to the institutions that had projects authorized by the legislation.

## OTHER PROGRAM AREAS

Appropriations to the Developmental Education Program total \$4.0 million in General Revenue Funds. Of this amount, \$2.4 million will be transferred to The University of Texas at Austin for the Mathways project, which is a partnership between the university and community colleges aimed at improving student success. Appropriations to the Centers for Teacher Education, Texas Teacher Residency Program, and Accelerate Community College Grants total \$3.0 million, \$1.3 million and \$4.0 million respectively, which equals the 2014–15 expenditure levels.

## FEDERAL GRANT PROGRAMS

The largest of the federal programs is the Technical Vocational Education Program, which accounts for \$55.2 million. This program is funded by the federal Carl D. Perkins Vocational and Technical Education Act for the improvement of vocational and technical programs at postsecondary institutions. The funding is trustee to THECB from the State Board of Education through the U.S. Department of Education.

## TOBACCO FUNDS

Legislation passed by the Seventy-sixth Legislature, 1999, established the Permanent Health Fund for Higher Education; permanent endowments for each of the individual health related institutions; the Permanent Fund for Higher Education Nursing, Allied Health, and Other Health-related Programs; and the Permanent Fund for Minority Health Research and Education. THECB provides grants from the Permanent Fund for nursing, allied health, and other health-related programs to Texas higher education institutions that offer upper-level instruction and training in those fields.

THECB provides grants from the Permanent Fund for Minority Health Research and Education to institutions that

conduct research or educational programs that address minority health issues or that form partnerships with minority organizations, colleges, or universities to conduct research and educational programs to address minority health issues. The total funding for these two programs is \$15.3 million.

Additionally, THECB is trustee of Baylor College of Medicine's endowment fund and Baylor College of Medicine's share of the Permanent Health Fund. Appropriations for these two funds total \$6.7 million for the 2016–17 biennium.

### **ADMINISTRATIVE FUNCTIONS**

THECB has two administrative goals: to coordinate higher education and conduct indirect administration, which are shown in **Figure 33** as the combined Administrative Functions. The goal to coordinate higher education includes funding for such activities as the College for Texans campaign, which provides financial aid information to students and parents, administration research programs, and reviews of degree programs. The goal for indirect administration includes the Commissioner of Higher Education's Office, accounting services, and network operations. Total funding for these goals for the 2016–17 biennium is \$48.9 million in All Funds, a decrease of \$1.0 million compared to the 2014–15 biennium.



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## APPENDIX A: FREQUENTLY ASKED QUESTIONS

***Q: Would an increase in tuition revenue replace a corresponding amount in General Revenue Funds, or would the revenue remain within the institution?***

A: The result depends on how the Texas Legislature responds.

For instance, assume that the Eighty-fourth Legislature, 2015, changed the statute to require institutions to charge nonresident tuition in circumstances where they had previously waived the nonresident tuition rate. For the 2016–17 biennium, institutions would benefit fully from the increase in tuition revenue. (This example assumes the formula calculation would not include a projected increase in tuition.)

For the 2018–19 biennium, assuming the same number of students (semester credit hours) enroll regardless of changes in tuition policy and that the result of charging nonresident tuition generated \$100.0 million in additional tuition revenue, three options are available to the Eighty-fifth Legislature, 2017:

- reduce General Revenue Funds in the formulas by \$100.0 million: In this scenario, the formula rate stays the same, and every dollar increase in tuition revenue results in a dollar decrease in General Revenue Funds; therefore, institutional funding does not increase;
- keep General Revenue Funds the same and run the additional tuition revenue through the formulas: The formula funding rate would increase, and every institution would receive more funds, including those institutions that generated no additional tuition revenue; or
- keep General Revenue Funds formula appropriations at the same level, and let individual institutions keep the additional tuition revenue they generate outside the formula allocation.

***Q: Are all tuition and fee revenues collected by institutions of higher education included in the appropriations bill?***

A: No. None of the tuition and fee revenues collected by community colleges are appropriated.

For general academic institutions, an estimate of the revenue from certain tuitions and fees, such as statutory tuition (the Texas Education Code, Section 54.051), board-authorized tuition (the Texas Education Code, Section 54.008), laboratory fees (the Texas Education Code, Section 54.501), and certain other fees are appropriated in the General Appropriations Act (GAA) as General Revenue–Dedicated Funds, specifically estimated Other Educational and General Income. Other tuition and fees are not included in the GAA and, therefore, are not referred to as state funding. These amounts include designated tuition (the Texas Education Code, Section 54.0513) and incidental fees (the Texas Education Code, Section 54.504). Federal Funds are also not appropriated to the general academic and health related institutions.

***Q: Is a decrease in enrollment the only reason an institution would be eligible for hold harmless formula funding?***

A: No. Each session, the Legislature makes a determination of whether it will make an appropriation for hold harmless formula funding. A decrease in total enrollment is one reason an institution could be eligible for the funding. Because the semester credit hours (at general academic institutions) and full-time student equivalents (at health related institutions) used in the formulas are based on weights (discipline, program, and course level), a change in the type of student enrollment, regardless of total enrollment, could also make an institution eligible for hold harmless funding.

***Q: What does it mean to be a Tier One institution?***

A: The Tier One reference is often derived from the Carnegie Foundation for the Advancement of Teaching's previous system for classifying institutions of higher education. As part of the 1994 version of the Carnegie Classification, doctorate granting institutions consider four categories: Research Universities I; Research Universities II; Doctoral Universities I; and Doctoral Universities II. Tier One was synonymous with Research Universities I. Such institutions had to offer a full range of baccalaureate programs, award 50 or more doctoral degrees each year, and receive annually at least \$40.0 million or more in federal research funds. Two public institutions in Texas (The University of Texas at Austin and Texas A&M University) met these criteria. The

2000 version of the Carnegie Classification collapsed the categories for doctorate granting institutions from four to two: Doctoral/Research Universities—Extensive and Doctoral/Research Universities—Intensive. Six public institutions in Texas (Texas A&M University, Texas Tech University, University of Houston, University of North Texas, The University of Texas at Arlington, and The University of Texas at Austin) meet the criteria for Doctoral/Research Universities—Extensive. In 2005, however, the classification structure returned to a more restricted top tier of institutions classified as Research Universities (very high research activity). Both The University of Texas at Austin and Texas A&M University are now counted in this category, but any reference to Tier One usually refers to the 1994 Carnegie Classification.

***Q: What is the space model?***

A: In 1992, the Texas Higher Education Coordinating Board approved the Space Projection Model for Higher Education Institutions in Texas for public universities to assess the net assignable square feet (NASF) of educational and general space an institution needs. Five categories are incorporated into the model: teaching, library, research, office, and support space. Space needs for auxiliary purposes such as dormitories or athletics are not included in the model. Square footage amounts are assigned based on a number of elements within each category, including the number of students and their program levels, and the amount of research expenditures. The space model was first incorporated into the funding formulas for general academic institutions in 1997.

***Q: What are Organized Activities?***

A: General academic institutions have a funding strategy called Organized Activities. These activities or enterprises are connected with instructional departments. They are intended primarily to give training to students. Examples include a university farm, nursery/preschool programs, an optometry clinic, and lifeguard training.

***Q: What Is Proportionality?***

A: Pursuant to the Eighty-fourth Legislature, GAA, 2016–17 Biennium, Article IX, Section 6.08, the legislative intent of proportionality is to “maximize balances in the General Revenue Fund” by harmonizing salary funding sources with benefits funding sources. This effectively means that the Legislature limits contributions from General Revenue Funds for benefits only to those employees whose salaries are paid with General Revenue Funds. As such, proportionality

requires employee health and retirement benefits to be paid in proportion to the funding source of those salaries. To this end, institutions are obligated to submit an accounting policy statement for Benefits Proportional by Fund (APS 011) to the Texas Comptroller of Public Accounts. This document provides a structure by which state and local contributions are adjusted to achieve the fiscal year’s fund proportionality.

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## APPENDIX B: TUITION AND FEE PROVISIONS

The Texas Education Code, Section 54.003, states:

No institution of higher education may collect from students attending the institution any tuition, fee, or charge of any kind except as permitted by law...

The laws governing tuition and fees at institutions of higher education are found in the Texas Education Code, Section 54, including a limited number of rules that relate to tuition and fees charged by community and technical colleges. Section 54 includes statutes regarding statewide tuition and fee authority, rules regarding residency for tuition and fee purposes, and various exemptions for tuition and fees from non-residency status. The statute includes specific fee authority for individual institutions. **Figure B1** shows various tuition and fee authorizations in Section 54, but the figure does not include the items presented in the following sections, or the various exemption and waiver provisions. (Details about each provision can be found at <http://www.statutes.legis.state.tx.us/DOCS/ED/htm/ED.54.htm#00>.) Isolated instances outside this statute authorize boards of regents to charge for specific services provided to students.

This section highlights some of the more prominent tuition and fee provisions and indicates whether the related revenue is or is not included in the General Appropriations Act (GAA).

### INCLUDED IN THE GENERAL APPROPRIATIONS ACT

Tuition and fee revenue included in the GAA as General Revenue Dedicated—Funds is referred to as Other Education and General Income. The amounts are estimated, so the amount of revenue generated is the actual amount available to the institution to spend:

- **The Texas Education Code, Section 54.051, Tuition Rates** (statutory tuition): In conjunction with Section 54.0512, Interim Tuition Rates, resident tuition for undergraduate students reached \$50 per semester credit hour for the 2005–06 academic year. Tuition for nonresident students at general academic, medical, and dental institutions is based on the average of nonresident tuition rates in the five most populous states other than Texas. The Texas Higher

Education Coordinating Board must make this computation each academic year;

- **The Texas Education Code, Section 54.008, Tuition Rate Set by Governing Board** (board-authorized tuition): Applies to graduate programs. Subsection (d) specifies that the rate is not to be used in the GAA as an offset to General Revenue Funds. It is distributed across formula strategies after the formula calculation; and
- **The Texas Education Code, Section 54.501 Laboratory Fees:** The fee amount must be sufficient to cover the general costs of laboratory materials and supplies used by a student. It is not to be less than \$2 or more than \$30 per semester, and it must not exceed the actual cost of materials and supplies.

### NOT INCLUDED IN THE GENERAL APPROPRIATIONS ACT

- **The Texas Education Code, Section 54.0513, Designated Tuition:** Statute defines designated tuition as an institutional fund, which means the revenue is not considered part of Educational and General Funds. The governing board can waive designated tuition for a student (Section 54.261). Statute specifies that this revenue is not to be used in the GAA as a way to offset General Revenue Funds;
- **The Texas Education Code, Section 54.503, Student Services Fees:** These are fees intended for activities that are separate from the regularly scheduled academic functions of the institution, and directly involve or benefit students. Except for The University of Texas at Austin (Section 54.513) and components of the University of Houston System (Section 54.5061), the maximum of all compulsory student services fees cannot exceed \$250 per semester. The revenue is kept separate from Educational and General Funds;
- **The Texas Education Code, Section 54.504, Incidental Fees:** The governing board sets the fee, which must reasonably reflect the actual cost of the

materials or services for which the fee is collected. Examples of unearned fees include late registration, library fines, microfilming fees, thesis or doctoral manuscript reproduction or filing fees, and bad check charges; and

- **The Texas Education Code, Section 55.16, Board Responsibility:** The governing board is authorized to “fix and collect rentals, rates and charges.”

**FIGURE B1**  
**THE TEXAS EDUCATION CODE, CHAPTER 54 – TUITION AND FEE PROVISIONS, JANUARY 2016**

SECTION	CATEGORY	SECTION	CATEGORY
54.006	Refund or Adjustment of Tuition and Mandatory Fees for Dropped Courses and Student Withdrawals	54.512	Shuttle Bus Fee; The University of Texas at Arlington
54.0065	Tuition Rebate for Certain Undergraduates	54.5121	Intercollegiate Athletic Fee; The University of Texas at Arlington
54.007	Option to Pay Tuition by Installment	54.5122	Recreational Facility Fee; The University of Texas at Arlington
54.0071	Authority of Institution to Provide Payment Options for Student with Delayed Financial Aid	54.513	Student Service Fees; The University of Texas at Austin
54.009	Increase in Tuition Rate or Fees	54.5131	International Education Fee; The University of Texas at Austin
54.010	Reduction in Tuition	54.5132	International Education Fee
54.011	Tuition Limit in Cases of Concurrent Enrollment	54.5133	Martin Luther King, Jr., Statue Fee; The University of Texas at Austin
54.012	Tuition Rates for Certain Doctoral Students	54.5134	Washington, D.C., Internship Education Fee
54.014	Tuition for Repeated or Excessive Undergraduate Hours	54.5135	Barbara Jordan and Cesar Chavez Statues Fee; The University of Texas at Austin
54.015	Billing and Notification for Tuition	54.515	Student Union Fee
54.016	Fixed Tuition Rate Program for Certain Transfer Students at General Academic Teaching Institutions	54.518	University Center Fee; Midwestern State University
54.017	Fixed Tuition Price Plan for Undergraduate Students at Certain General Academic Teaching Institutions	54.519	Student Union Fee; North Texas State University
54.052–54.057	Residency Provisions	54.5191	Intercollegiate Athletics Fee; University of North Texas
54.2001	Continued Receipt of Exemptions or Waivers Conditional	54.520	University Center Student Fee; Stephen F. Austin State University
54.2031	Dependent Children of Residents Who Are Members of Armed Forces Deployed on Combat Duty	54.5201	Recreational Sports Fee; Stephen F. Austin State University
54.206	Foreign Service Officers	54.5222	Medical Services Fee; Texas Southern University
54.211	Faculty and Dependents	54.5241	Student Union Fees; Texas Tech University System
54.212	Teaching and Research Assistant	54.525	Fees for Student Centers; Texas Woman's University
54.213	Scholarship Student	54.5251	Student Fitness and Recreational Fee; Texas Woman's University
54.214	Biomedical Research Program; Scholarship Student	54.526	Student Fees for University Centers; the University of Houston
54.221	The University of Texas System; Science and Technology Development, Management, and Transfer	54.527	Student Fees for University Center Facilities; the University of Houston – Downtown College
54.222	Economic Development and Diversification	54.528	Recreational Facility Fee; the University of Houston
54.223	Tuition Rates for Olympic Athletes	54.529	Student Union Fee; The University of Texas at Arlington

**FIGURE B1 (CONTINUED)**  
**THE TEXAS EDUCATION CODE, CHAPTER 54 – TUITION AND FEE PROVISIONS, JANUARY 2016**

SECTION	CATEGORY	SECTION	CATEGORY
54.231	Resident of Bordering State or Nation or Participant in Student Exchange Program: Tuition	54.530	Student Union Fees; The University of Texas at Austin
54.232	NATO Agreement	54.531	Student Union Building Fees; The University of Texas at Dallas
54.233	Academic Common Market	54.5311	Transportation Fee; The University of Texas at Dallas
54.241	Military Personnel and Dependents	54.5312	Student Services Building Fee; The University of Texas at Dallas
54.331	Students from other Nations of the American Hemisphere	54.5313	Intramural and Intercollegiate Athletics Fee; The University of Texas at Dallas
54.341	Veterans and Other Military Personnel: Dependents	54.532	Student Union Building Fees; The University of Texas at San Antonio
54.3411	Permanent Fund Supporting Military and Veterans Exemptions	54.5321	Transportation Fee; The University of Texas at San Antonio
54.342	Prisoners of War	54.533	Student Union Fees; The University of Texas of the Permian Basin
54.343	Children of Prisoners of War or Persons Missing in Action	54.5331	Intercollegiate Athletic Fee; The University of Texas of the Permian Basin
54.344	Participants in Military Funerals	54.5332	Fees for Student Services Building; The University of Texas of the Permian Basin
54.345	Assistance for Tuition and Fees for Members of State Military Forces	54.534	Arts and Performance Center Fee; The University of Texas at Tyler
54.351	Children of Disabled Firefighters and Law Enforcement Officers	54.5341	Student Recreational Facility Fee; The University of Texas at Tyler
54.352	Disabled Peace Officers, Optional Exemption	54.5342	Intercollegiate Athletics Fee; The University of Texas at Tyler
54.353	Firefighters Enrolled in Fire Science Courses	54.5343	Student Union Fee; The University of Texas at Tyler
54.3531	Peace Officers Enrolled in Certain Courses	54.535	Student Union Fee; The University of Texas at El Paso
54.354	Education Benefits for Certain Survivors	54.536	Fees for Student Health Services Building; The University of Texas at Austin
54.355	Children of Professional Nursing Program Faculty	54.537	Fees for Student Services Building; The University of Texas at Austin
54.356	Preceptors for Professional Nursing Education Programs	54.5371	Gregory Gymnasium Renovation Fee; The University of Texas at Austin
54.363	Educational Aids	54.5372	Aquatics Center Fee; The University of Texas at Austin
54.364	Blind, Deaf Students	54.538	Recreational Sports Fee; Texas State University System
54.365	Senior Citizens, Optional Benefit	54.5381	Intercollegiate Athletics Fee: Certain Institutions in Texas State University System
54.5011	Charges and Fees for Certain Payments	54.5382	Intercollegiate Athletics Fee: Texas State University
54.502	General Deposits	54.539	Recreational Sports Fee; the Texas A&M University System
54.5021	Student Deposit Fund; Composition and Uses	54.5391	Intercollegiate Athletics Fee; Texas A&M University – Corpus Christi
54.5025	Proration of Fees	54.5392	Intercollegiate Athletics Fee; Texas A&M University – Kingsville

**FIGURE B1 (CONTINUED)**  
**THE TEXAS EDUCATION CODE, CHAPTER 54 – TUITION AND FEE PROVISIONS, JANUARY 2016**

<b>SECTION</b>	<b>CATEGORY</b>	<b>SECTION</b>	<b>CATEGORY</b>
54.5031	Student Fee Advisory Committee	54.5393	Intercollegiate Athletics Fee: Prairie View A&M University
54.5032	Student Fee Advisory Committee; the Texas A&M University System	54.5394	Intercollegiate Athletics Fee: Tarleton State University
54.5041	Environmental Service Fee	54.5395	Intercollegiate Athletics Fee; Texas A&M International University
54.505	Vehicle Registration Fees and Other Fees Related to Parking and Traffic	54.5396	Intercollegiate Athletics Fees; West Texas A&M University
54.506	Fees and Charges for Services to the Public; the University of Houston System	54.5397	Intercollegiate Athletics Fees; Texas A&M University – Commerce
54.5061	Student Services Fees; the University of Houston System	54.53975	Intercollegiate Athletics Fees; Texas A&M University –Texarkana
54.5062	Student Fees Advisory Committee; the University of Houston System	54.5398	Student Endowment Fund Fee; Texas A&M University – Corpus Christi
54.507	Group Hospital and Medical Services Fees; Texas A&M University System	54.540	Student Center Fee, University of Houston – Clear Lake
54.508	Medical Services Fee; Texas Tech University System Components	54.541	Recreational Facility Fee; The University of Texas at El Paso
54.5085	Medical Services Fee; Texas Woman’s University	54.543	Recreational Facility Fee; The University of Texas at San Antonio
54.5089	Medical Services Fee; Texas State University System Components	54.544	Recreational Facility Fee; The University of Texas at Dallas
54.50891	Medical Services Fee; The University of Texas System Components	54.5441	Student Recreational and Health Facilities Fee; Midwestern State University
54.509	Student Recreation Fee; Texas Tech University System Components	54.5442	Intercollegiate Athletics Fee; Midwestern State University
54.5091	Student Recreational Facility Fee; University of North Texas	54.545	Fees for Continuing Education Courses

SOURCE: The Texas Education Code.

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## APPENDIX C: GLOSSARY

### APPROPRIATION METHODOLOGIES

**Direct Appropriation:** The actual appropriation, either estimated or sum certain, listed in an institution's bill pattern in the General Appropriations Act (GAA).

**Indirect Appropriation:** An appropriation made on behalf of an institution but not listed in that institution's bill pattern in the GAA. Examples include appropriations to the Available University Fund, the Higher Education Fund, and the Permanent Fund Supporting Military and Veterans Exemptions, all of which are ultimately allocated to institutions.

**Estimated Appropriation:** An appropriation that provides authority to a state agency or institution of higher education for actual expenditures to vary from the appropriation amount in the GAA. For example, if the actual amount of revenue supporting an appropriation is less than the estimated appropriated amount, the agency or institution is limited to the lesser amount. If more revenue is generated than the estimated appropriated amount, the agency or institution has the authority to spend the greater amount.

**Sum-Certain Appropriation:** A sum-certain appropriation in the GAA limits the appropriation to the fixed amount noted in the institution's bill pattern in the GAA.

**Lump Sum Appropriation:** The Texas Education Code, Section 61.059(k), calls for discretion in funds appropriated to higher education institutions. A lump sum appropriation is a single amount that is unrestricted, which means that it can be used for any variety of purposes. The GAA provides an Informational Listing of Appropriated Funds describing each institution's lump sum appropriation. Higher education institutions are not required to spend their appropriations within specified strategies. One exception to this is the Tuition Revenue Bond strategy, which represents the appropriation related to debt service on related bonds and must be spent as appropriated or it is lapsed back to the Treasury.

### METHODS OF FINANCE

**General Revenue Funds:** The non-dedicated portion of the General Revenue Fund is the state's primary operating fund.

Most state tax revenue, many state fees, and various other sources of revenue are deposited as non-dedicated General Revenue Funds.

**General Revenue–Dedicated Funds:** The funds within General Revenue Funds that are dedicated and may only be appropriated for specific items. For higher education institutions, the bulk of appropriations from General Revenue–Dedicated Funds consists of tuition and fee revenue generated by the institutions. These revenues include the tuition and fee revenue included as Other Educational and General Income (defined subsequently in this section) and board-authorized tuition (the Texas Education Code, Section 54.008).

**Federal Funds:** Appropriations include grants, allocations, payments, or reimbursements received from the federal government by institutions. In higher education, only Federal Funds received by THECB and the Texas A&M University (TAMU) System agencies are appropriated in the GAA.

**Other Funds:** State funds not included in General Revenue Funds or General Revenue–Dedicated Funds. For institutions of higher education, these include appropriations from the Available University Fund.

### FUND TYPES

**Educational and General Funds (E&G):** The Texas Education Code, Section 51.009(c), definition for E&G includes: (a) net tuition; (b) special course fees charged pursuant to the Texas Education Code, Sections 54.051(e) and (l); (c) lab fees; (d) student teaching fees; (e) hospital and clinic fees; (f) organized activity fees; and (g) proceeds from the sale of educational and general equipment.

**Institutional Funds:** The Texas Education Code, Section 51.009(b), defines institutional funds as those that are not Educational and General Funds. An example of an institutional fund is designated tuition (the Texas Education Code, Section 54.0513). These funds are not included in the GAA.

**Local Funds:** The Texas Education Code, Section 51.009(a), defines local funds as net tuition, certain special course fees,

lab fees, student teaching fees, hospital and clinic fees, organized activity fees, proceeds from the sale of educational and general equipment, and indirect cost recovery fees. This revenue is accounted for as educational and general funds and is included in the GAA.

**Other Educational and General Income (or Funds)**

**(Other E&G):** The GAA includes some tuition and fees collected by institutions of higher education (General Revenue–Dedicated Funds). The revenue from tuition and fees such as statutory tuition (the Texas Education Code, Section 54.051), board-authorized tuition (Section 54.008), laboratory fees (Section 54.501), and certain other fees are considered Other E&G and are appropriated in the GAA as General Revenue–Dedicated Funds. Other E&G is a subset of Educational and General Funds.

**Patient Income:** Health related institutions that operate hospitals or dental clinics generate patient income from services rendered. The revenue is not appropriated to the health related institutions, but it is shown in informational riders in the GAA for the affected institutions.

**OTHER ITEMS**

**Indirect Cost Recovery:** Indirect costs, as defined by the Texas Comptroller of Public Accounts, are incurred for a common or joint purpose that benefit more than one cost objective. Institutions negotiate a percentage of a grant with the federal government for Indirect Costs. A number of factors affect the calculation, including building and equipment use allowance; operations and maintenance; general, departmental, and sponsored projects administration; and library costs.

# APPENDIX D: CONSTITUTIONAL AND RESEARCH FUNDS, 2016–17 BIENNIUM

**FIGURE D1  
COMPARISON OF CONSTITUTIONAL AND RESEARCH FUNDS, 2016–17 BIENNIUM**

FUND	2016–17 APPROPRIATIONS	FUNCTION/PURPOSE	ELIGIBILITY	LEGAL BASIS	ALLOCATION METHODOLOGY
Available University Fund (AUF)	\$1,690.5 million (estimated)	<p>The Texas Constitution: For debt service for eligible entities "...for the purpose of acquiring land... constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under this Section..."</p> <p>Also: "...for the support and maintenance" of the Texas A&amp;M University (TAMU) System administration, Texas A&amp;M University, Prairie View A&amp;M University, The University of Texas (UT) at Austin, and The University of Texas System administration.</p>	<p>The Texas Constitution: For "support and maintenance": UT Austin, TAMU, Prairie View University, UT System, and TAMU System.</p> <p>For debt service: All UT System institutions; and all TAMU System components that are not eligible to receive Higher Education Fund support, including the TAMU System agencies, except Texas Veterinary Medical Diagnostic Laboratory, which was not statutorily established within AUF eligibility criteria.</p>	<p>The Texas Constitution, Article VII, Section 18(a–j)</p> <p>General Appropriations Act</p>	<p>The Texas Constitution requires one-third of the annual AUF proceeds to be appropriated to the TAMU System, and two-thirds to be appropriated to the UT System. Each System office determines how to apportion its share of the AUF between debt service and "support and maintenance," within guidelines specified by the Texas Constitution.</p>
Higher Education Fund (HEF)	\$656.3 million	<p>To support institutions ineligible for AUF support.</p> <p>The Texas Constitution, Article VII, Section 17(a): "...for the purpose of acquiring land... constructing and equipping buildings...major repair of buildings...acquisition of capital equipment...other permanent improvements, or capital equipment used jointly for educational and general activities...."</p>	<p>The Texas Constitution, Article VII, Section 17(b) identifies 26 specific eligible institutions, and Section 17(c) provides an allowance to add a new institution by a two-thirds vote of both houses of the Legislature if the new institution is outside the UT and TAMU systems.</p>	<p>The Texas Constitution, Article VII, Section 17(a–l)</p> <p>The Texas Education Code, Subchapters A and B</p> <p>General Appropriations Act</p>	<p>The Texas Constitution, Article VII, Section 17(d) requires the HEF to be allocated using an "equitable formula," which is defined in the Texas Education Code, Section 62.021, as: "The allocation of funds under this subsection is made in accordance with an equitable formula consisting of the following elements: space deficit, facilities condition, institutional complexity, and a separate allocation for the Texas State Technical College System."</p> <p>The Texas Higher Education Coordinating Board (THECB) administers the HEF formula reallocation advisory process pursuant to the Texas Education Code, Section 62.022.</p> <p>The Texas Education Code, Section 62.021 includes fiscal year HEF appropriations by institution.</p>

**FIGURE D1 (CONTINUED)**  
**COMPARISON OF CONSTITUTIONAL AND RESEARCH FUNDS, 2016–17 BIENNIUM**

FUND	2016–17 APPROPRIATIONS	FUNCTION/PURPOSE	ELIGIBILITY	LEGAL BASIS	ALLOCATION METHODOLOGY
National Research University Fund (NRUF)	\$61.1 million (estimated)	<p>The Texas Constitution, Article VII, Section 20(a): "...for the purpose of providing a dedicated, independent, and equitable source of funding to enable emerging research universities in this state to achieve national prominence as major research universities."</p> <p>The Texas Constitution, Article VII, Section 20(h): "...only for the support and maintenance of educational and general activities that promote increased research capacity at the university."</p>	<p>The Texas Constitution indicates UT and TAMU are not eligible, and requires eligibility criteria to be established, which is in the Texas Education Code, Section 62.145: Designated an emerging research university by THECB. Reports at least \$45.0 million in restricted research expenditures in each of the last two years. And four of the following additional criteria:</p> <ol style="list-style-type: none"> <li>(1) Endowments of \$400.0 million or greater;</li> <li>(2) Produces 200 or more PhDs per year;</li> <li>(3) Selective entering freshmen class;</li> <li>(4) Member of Phi Beta Kappa or equivalent;</li> <li>(5) Possesses high-quality faculty; and</li> <li>(6) Demonstrated commitment to high-quality graduate education.</li> </ol>	<p>The Texas Constitution, Article VII, Section 20(a–h)</p> <p>The Texas Education Code, Subchapter G</p> <p>General Appropriation Act</p>	<p>The Texas Education Code, Section 62.148(c): "...of the total amount appropriated from the fund for distribution in a state fiscal year, each eligible institution is entitled to a distribution in an amount equal to the sum of:</p> <ol style="list-style-type: none"> <li>(1) one-seventh of the total amount appropriated; and</li> <li>(2) an equal share of any amount remaining after distributions are calculated under Subdivision (1), not to exceed an amount equal to one-fourth of that remaining amount." <p>The Texas Education Code, Section 62.148(e): "If the number of institutions that are eligible for distributions in a state fiscal year is more than four, each eligible institution is entitled to an equal share of the total amount appropriated from the fund for distribution in that fiscal year."</p> </li></ol>
Comprehensive Research Fund	\$14.3 million	The Texas Education Code, Section 62.091: "...to promote increased research capacity at eligible general academic teaching institutions."	The Texas Education Code, Section 62.092: " 'Eligible institution' means a general academic teaching institution, as defined by Section 61.003, other than The University of Texas at Austin or Texas A&M University."	The Texas Education Code, Section 62.091.	The Texas Education Code, Section 62.095: "The amount shall be apportioned among the eligible institutions based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years."
Core Research Support Fund	\$117.1 million	The Texas Education Code, Section 62.131: "...to provide funding to promote increased research capacity at emerging research universities."	The Texas Education Code, Section 62.132: "Eligible institution means an institution of higher education that is designated an emerging research university under the coordinating board's accountability system."	The Texas Education Code, Section 62.131	The Texas Education Code, Section 62.134: "...amounts shall be appropriated to eligible institutions as follows: <ol style="list-style-type: none"> <li>(1) 50 percent based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years; and</li> <li>(2) 50 percent based on the average amount of total research funds expended by each institution per year for the three preceding state fiscal years."</li> </ol>

**FIGURE D1 (CONTINUED)**  
**COMPARISON OF CONSTITUTIONAL AND RESEARCH FUNDS, 2016–17 BIENNIUM**

<b>FUND</b>	<b>2016–17 APPROPRIATIONS</b>	<b>FUNCTION/PURPOSE</b>	<b>ELIGIBILITY</b>	<b>LEGAL BASIS</b>	<b>ALLOCATION METHODOLOGY</b>
Texas Research University Fund	\$147.1 million	The Texas Education Code, Section 62.052: "...to provide funding to eligible research universities to support faculty to ensure excellence in instruction and research."	The Texas Education Code, Section 62.051: "Eligible institution" means an institution of higher education designated as a research university within THECB's system and, for any three consecutive state fiscal years made total annual research expenditures in an average annual amount of not less than \$450 million.	The Texas Education Code, Section 62.051	The Texas Education Code, Section 62.053: "The amount shall be apportioned among the eligible institutions based on the average amount of total research funds expended by each institution per year for the three preceding state fiscal years."
Texas Research Incentive Program	\$138.1 million	The Texas Education Code, Section 62.122: "... to provide matching funds to assist eligible institutions in leveraging private gifts for the enhancement of research productivity and faculty recruitment."	The Texas Education Code, Section 62.121: "Eligible institution" means an institution of higher education designated as an emerging research university within THECB's accountability system.	The Texas Education Code, Section 62.121 (House Bill 51, Eighty-first Legislature, Regular Session, 2011)	The Texas Education Code, Section 62.123: "...is entitled to receive, out of funds appropriated for the purposes of the program for that fiscal year, a matching grant in an amount determined according to the following rates: (1) 50 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$100,000 or more but not more than \$999,999; (2) 75 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$1 million or more but not more than \$1,999,999; or (3) 100 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$2 million or more."