Formula Funding Recommendations for the 2006-2007 Biennium

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April 2004

Texas Higher Education Coordinating Board
P. O. Box 12788
Austin, Texas 78711
www.thecb.state.tx.us

Texas Higher Education Coordinating Board

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Coordinating Board Mission

The Texas Higher Education Coordinating Board's mission is to work with the Legislature, Governor, governing boards, higher education institutions and other entities to provide the people of Texas the widest access to higher education of the highest quality in the most efficient manner.

THECB Strategic Plan

Coordinating Board Philosophy

The Texas Higher Education Coordinating Board will promote access to quality higher education across the state with the conviction that access without quality is mediocrity and that quality without access is unacceptable. The Board will be open, ethical, responsive, and committed to public service. The Board will approach its work with a sense of purpose and responsibility to the people of Texas and is committed to the best use of public monies. The Coordinating Board will engage in actions that add value to Texas and to higher education; the agency will avoid efforts that do not add value or that are duplicated by other entities.

THECB Strategic Plan

Summary of Financial Implications Regarding Formula Funding Recommendations for the 2006-2007 Biennium

April 2004

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Executive Summary
Formula Advisory Committees

The following report contains the formula recommendations of the Coordinating Board. These recommendations were presented at the Board's April 2004 meeting and were forwarded to the Governor, the Legislature, and Legislative Budget Board in May 2004.

Community and Technical Colleges

The 2004-2005 biennial appropriations for the community and technical colleges are $1.60 billion.

- The Coordinating Board recommends adjusting this amount for known growth between the last two base periods and projected inflation between the current and next base periods, which would result in an increase of $279.9 million. The recommendation of the Community and Technical Colleges Formula Advisory Committee (CTCFAC) was based on 100 percent of the results of the *FY 2003 All Funds Expenditure Report*, which would have almost doubled CTC formula funding.

The Coordinating Board recommends the following:

- Funding dramatic growth ($20 million for the biennium).

- Providing results-based funding for increases in the number of degrees and certificates awarded and completers of core and field of study curricula ($20 million for the biennium).

- Funding for nursing growth ($13.2 million for the biennium). This recommendation is based upon data that were not available to the CTCFAC, which originally recommended a lower level of funding.

The Coordinating Board also recommends:

- Results-based funding for the number of nursing graduates ($8 million for the biennium) to address the current workforce shortage.

All together, the increase in funding from the recommendations contained in this report would result in $1.94 billion in funding for the community and technical colleges, or an overall increase of $341 million (21.3 percent) from the 2004-2005 biennium.

General Academic Institutions

The central recommendation of the Coordinating Board is to implement a cost-based methodology for determining the relative weights contained in the Instruction and Operations (I&O) matrix. This report contains the details of that work. An initial phase-in is also recommended such that no institution will lose more that 3 percent of its I&O funding in 2006-2007. The Coordinating Board further recommends that the full phase-in occur over three biennia.

The 2004-2005 biennial appropriations for general academic institutions are $3.6 billion. There are two formulas (Instruction and Operations and Infrastructure) and two supplements (Teaching Supplement and Small Institution Supplement) for general academic institutions. No change is being recommended for the Teaching Supplement. The Coordinating Board recommends the following:

- Adjust the I&O and Infrastructure formulas and the Small Institution Supplement for projected inflation between the current and next base periods, ($141.3 million for the biennium), and adjust the Small Institution Supplement for Lamar and TSTC ($5.6 million for the biennium) for a total adjustment of $146.9 million.

- Adjust for known growth between the last two base periods ($123 million for the biennium).

- Fund dramatic growth ($4.1 million for the biennium).

- Fund nursing dramatic growth ($5.3 million for the biennium).

- Provide results-based funding for increasing baccalaureate degrees ($4.1 million for the biennium).

- Reclassify architecture in the space model ($665,232 for the biennium).

- Provide funding for baccalaureate pilot programs being conducted at three community colleges (this is a budget neutral recommendation).

The Coordinating Board also recommends:

- Provide results-based funding for the number of nursing graduates ($8 million for the biennium) to address the current workforce shortage.

All together, the increase in funding from the recommendations contained in this report would result in $3.89 billion in funding for the general academic institutions, or an overall increase of $292.1 million (8.1 percent) from the 2004-2005 biennium.

Health-Related Institutions

Before any other funding recommendations are made, the Health-Related Institutions Formula Advisory Committee (HRIFAC) recommended restoration of formula values that existed in the 2002-2003 biennium. The Coordinating Board recommends that the appropriated amounts from the 2004-2005 biennium be used as the base and adjusted for projected inflation as well as for known growth. The following paragraph describes the Coordinating Board's recommendations for the 2006-2007 biennium.

The 2004-2005 biennial appropriations for Health-Related Institutions are $1.37 billion. There are four formulas (Instruction and Operations, Infrastructure, Research, and Mission Specific Support) and two supplements (Small Class Supplement and Multi-Campus Adjustment) for health-related institutions. No change is being recommended for the Small Class Supplement and Multi-Campus Adjustment. The Coordinating Board recommends the following:

- The four formulas be based on funding values from the 2004-2005 biennium (excluding Section 56 appropriations), adjusted for known growth between the last two base periods, and adjusted for projected inflation between the current and next base periods. This would result in an additional $79.4 million in funding.

The Coordinating Board also recommends the following:

- Increase in the graduate nursing weights ($1.4 million for the biennium).

- Change in the weight for Health Informatics ($262,674 for the biennium).
- Results-based funding for nursing growth ($5 million for the biennium).
- Results-based funding for recruiting and retaining Hispanic and African-American students ($31.1 million for the biennium).
- Results-based funding for the number of nursing graduates ($4 million for the biennium) to address the current workforce shortage.
- Results-based funding for research ($15 million for the biennium).

All together, the increase in funding from the recommendations contained in this report results in $1.51 billion in funding for the health-related institutions, or an overall increase of $136.2 million (9.9 percent) from the 2004-2005 biennium.

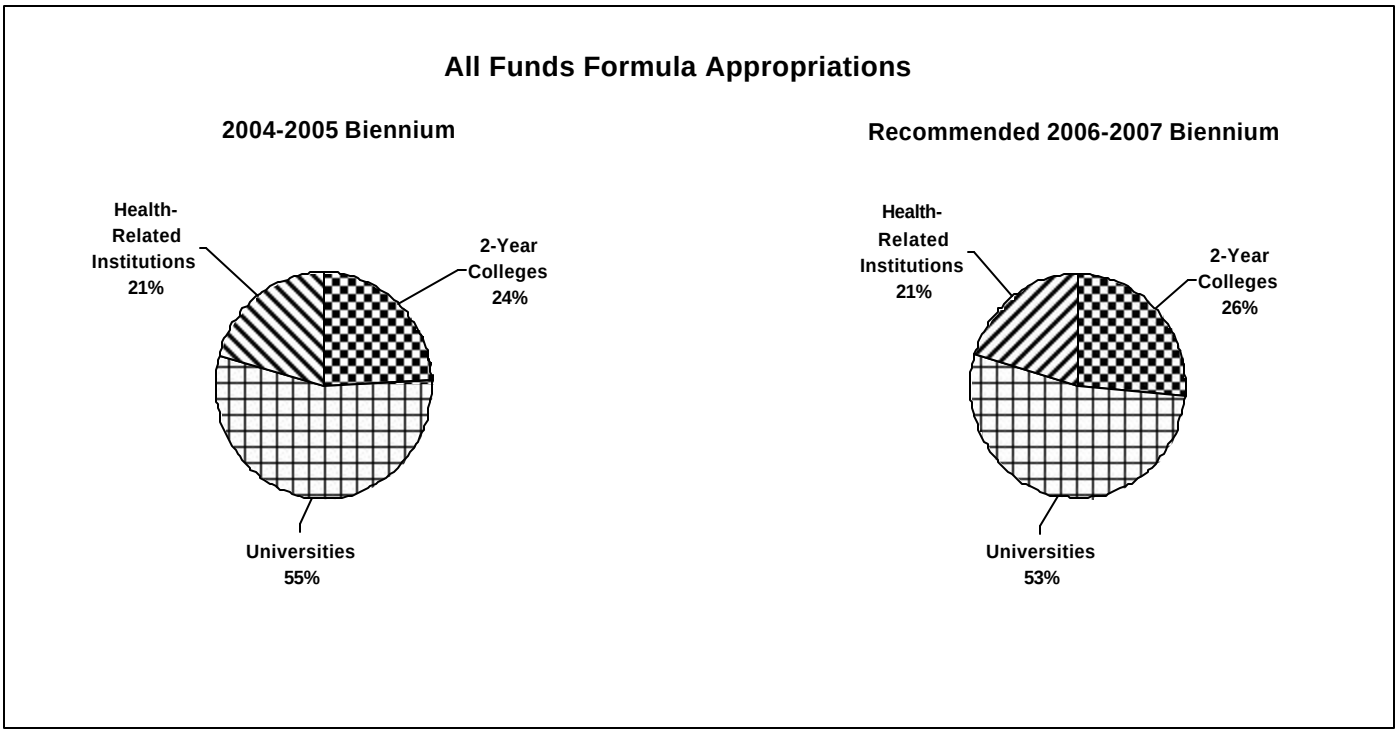
Texas Higher Education Coordinating Board

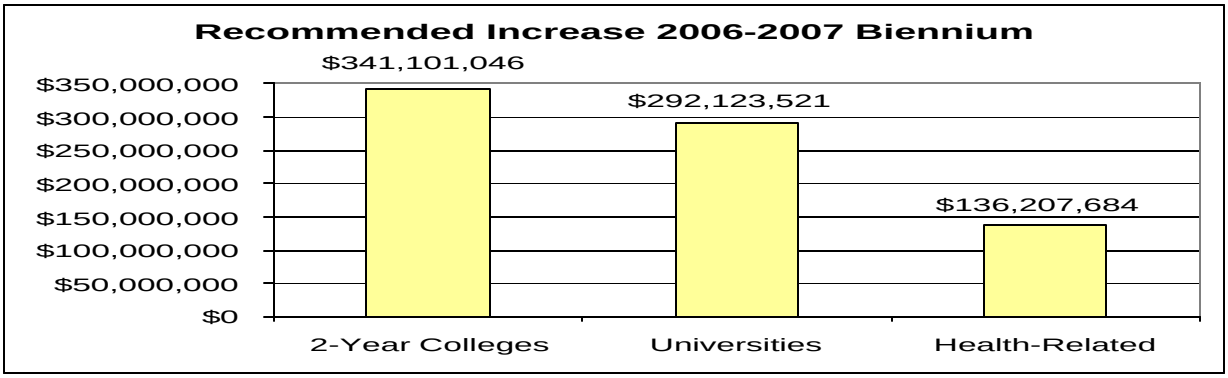
Formula Funding Recommendations
April 2004

Summary of Financial Implications

Sector	FY 2004-05 Appropriations	Recommended FY 2006-07 Appropriations	Percentage Increase
Community and Technical Colleges Base Values	$ 1,598 million	$ 1,878 million[1]	17.5%
Dramatic Growth		20 million	
Closing the Gaps Nursing Growth		13.2 million	
Closing the Gaps Increase in the Number of Degrees and Certificates Awarded, and Field of Study Completers and Core Curriculum Completers		20 million	
Closing the Gaps Nursing Degrees Awarded		8 million	
Total		$ 1,939 million	21.3%
Universities Base Values	$ 3,597 million	$ 3,861 million[1]	7.3%
Small School Supplement for Lamar and TSTC		5.6 million	
Dramatic Growth		4.1 million	
Closing the Gaps Nursing Growth		5.3 million	
Closing the Gaps Increase in Baccalaureate Degrees Awarded		4.1 million	
Closing the Gaps Nursing Degrees Awarded		8 million	
Re-classify Architecture in Space Model		665,232	
Total		$ 3,889 million	8.1%
Health-Related Institutions Base Values	$ 1,373 million	$ 1,453 million[1]	5.8%
Increase Nursing Weight		1.4 million	
Increase Health Informatics Weight		262,674	
Closing the Gaps Nursing Growth		5 million	
Closing the Gaps Nursing Degrees Awarded		4 million	
Closing the Gaps Enrollment of African American and Hispanic Students		31.1 million	
Increase Research Weight		15 million	
Total		$ 1,510 million	9.9%

[1] Includes historical growth and projected inflation.


All Funds Formula Appropriations
2004-2005 Biennium
Health-Related Institutions 21%
2-Year Colleges 24%
Universities 55%
Recommended 2006-2007 Biennium
Health-Related Institutions 21%
2-Year Colleges 26%
Universities 53%


Recommended Increase 2006-2007 Biennium
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
$341,101,046
$292,123,521
$136,207,684
2-Year Colleges
Universities
Health-Related

Community and Technical Colleges
Funding Formulas

Coordinating Board Recommendations
for the
2006-2007 Biennium

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Executive Summary
Community and Technical Colleges

Almost all of the state funds appropriated to community and technical colleges each biennium are distributed by the Legislature through funding formulas designed to allocate funds equitably. The Texas Education Code and General Appropriations Act direct the Texas Higher Education Coordinating Board to review and recommend changes to these formulas. The authority for reviewing formulas is reproduced in Appendix A.

The Commissioner of Higher Education appointed a Community and Technical College Formula Advisory Committee (CTCFAC) to assist in this process. Dr. Leonardo de la Garza, Chancellor of Tarrant County College District, chaired the CTCFAC; Dr. Gregory Williams, President of Western Texas College, chaired the Formula Subcommittee; Dr. Richard Rhodes, President of El Paso Community College, chaired the Growth Subcommittee; Mr. Ben Ferrell, Vice President for Business Services of Austin Community College, chaired the Distance Education Subcommittee; Dr. Linda M. Stegall, President of North Harris Montgomery Community College District-Kingwood College, chaired the Workforce Shortages Subcommittee. Members of the CTCFAC are listed in Appendix B. The meetings occurred in September through December 2003. Minutes of the meetings are available at http://www.thecb.state.tx.us/Advisory Committees/Fin/. The report as presented was approved by the Committee on Administration and Financial Planning in March 2004 for recommendation to the Board.

This report presents the recommendations of the Coordinating Board. The recommendations were approved by the Coordinating Board at its April 2004 meeting and were forwarded to the Governor, the Legislature, and the Legislative Budget Board in May 2004.

The three potential models for setting formula rates were proposed as follows:

- Model 1 has rates directly derived from the *FY 2003 All Funds Expenditure Report*. This model shows the effect if the State were to pay for the total costs of providing instructional and administrative programs at community colleges. This would include costs currently borne by state general revenue, but also some costs currently borne by tuition and fees, gifts and grants, local *ad valorem* tax supplements, and other sources of local funds. Fully funding this formula would require an increase in appropriations of approximately 95 percent. The CTCFAC recommends this model (estimated biennial cost is $1.5 billion).

- Model 2 uses the appropriated amounts from the 2002-2003 biennium as the base, adjusts for known growth between the 2002-2003 and 2004-2005 biennial periods, and adjusts for projected inflation (estimated biennial cost is $340 million). This model recommends funding at 62.2 percent of Model 1.

- Model 3 is identical to Model 2, but uses the appropriated amounts from the 2004-2005 biennium as the base (estimated biennial cost is $279.9 million). This model recommends funding at 60.3 percent of Model 1.

In addition to the structure of Model 1, the CTCFAC recommended participation and success results-based payments to further the goals of *Closing the Gaps by 2015,* the Texas higher education plan. In particular, CTCFAC recommended funding that would reward effort to reduce the workforce shortage areas of nursing and teaching.

The Coordinating Board recommends that Model 3 be used to set 2006-2007 rates and that additional participation and success payments be provided to further the goals of *Closing the Gaps*.

The funding formulas used for community colleges are also used to support the instructional and administrative costs of the Texas State Technical College System and the Lamar State Colleges. The infrastructure costs for these institutions have been supported using the infrastructure formulas used by general academic institutions. A continuation of that policy is recommended with some modifications described in the formula recommendations for general academic institutions.

To achieve the goals of *Closing the Gaps by 2015*, a significant financial investment will need to be made by the State of Texas. As stated in the plan:

> Population changes sweeping the state require creative solutions to sort out the subsequent educational challenges. The population projections of the state forecast the greatest growth to occur in urban areas and along the Texas border. By 2008, Texas is projected to become a minority-majority state. Hispanics will account for more than 40 percent of the state's population. Blacks will represent 11 percent, and Whites will be 45 percent. Other groups, including Asian-Americans, will represent 4 percent. The state's Hispanic and Black populations continue to enroll in higher education at rates below that of the White population. The educational enrollment and success rates for all Texans will have to rise more rapidly than ever to avoid a decline in educational levels.

The recommendations are summarized below under the *Closing the Gaps* objectives and expanded upon in subsequent sections of the report.

CTC Recommendations by *Closing the Gap* Goals:

Participation and Success

- Provide inflation adjustment to the various rates contained in the formulas. Estimated biennial cost is $59.3 million.
- Fully fund known enrollment growth that occurs between the base year and provide a results-based payment for dramatic growth. Estimated biennial cost is $240.6 million.
- Nursing growth should be fully funded with a funding source that is separate from the dramatic growth cited above. Estimated biennial cost is $13.2 million.
- Provide an incentive for completion of degrees and certificates awarded, and completion of core and field of study curricula. Estimated biennial cost is $20 million.
- Provide an incentive for completion of associate nursing degrees. Estimated biennial cost is $8 million.

The funding formulas would allocate **$1,598,276,137** of the appropriation for community and technical colleges for the 2004-2005 biennium. If the formula recommendations contained in this report are adopted and fully funded by the Legislature for the 2006-2007 biennium, the estimated formula appropriation would be **$1,878,180,438**, an increase of **$279,904,301** (**17.5** percent). Finally, recommended increases in non-formula items add **$61,196,745**. The result is a total increase in formula and non-formula items to **$1,939,377,183**, which is a **21.3** percent increase above current base year formula funding.

1. Background

Texas has 50 state-supported community college districts, each governed by a locally elected board of trustees with taxing authority. Each district is authorized to offer both academic and technical programs. State law precludes the use of state funds to support the physical plant and certain other expenses at these institutions. The appropriation to community college districts is a General Revenue-only appropriation, not an All Funds appropriation.

The Texas State University System has three two-year institutions offering technical degrees: Lamar Institute of Technology, Lamar State College-Orange, and Lamar State College-Port Arthur (collectively known as the Lamar State Colleges). The Texas State Technical College (TSTC) System has four colleges located in Harlingen, Marshall, Sweetwater, and Waco. The three Lamar institutions and the four TSTC institutions are state institutions. They have no local taxing authority, and their physical plants are state supported. Unlike the community colleges, the appropriations to the Lamar State Colleges and the Texas State Technical Colleges are All Funds appropriations; i.e., the Legislature appropriates locally collected tuition and fees to these institutions.

The Legislature generally uses the same formula for both community and technical colleges in appropriating funds for instructional and administrative expenditures. The formula consists of rates for 26 programs. The contact hours generated in each of these programs are multiplied by the corresponding rates, and the sum of these products forms the basis of the appropriation for each institution. In practice, the Legislature has not chosen to fund fully the Coordinating Board's formula recommendation in recent years, so each institution receives a percentage of the recommendation. The amount of the formula funded varied among the community colleges, the Texas State Technical Colleges, and the Lamar Colleges at the conclusion of the 77th Texas Legislature, Regular Session. New rates, based on the *All Funds Expenditure Report* described in Section 2 of this report, are determined each biennium. Appendix C contains the 26 program rates for each of the models.

Coordinating Board staff developed the formula recommendations with input from an advisory committee of community and technical college presidents, faculty, and citizens. This committee was appointed by the Commissioner of Higher Education, elected its own chair, and provided advice and guidance on a range of formula-related topics. Appendix B contains a roster of Community and Technical Colleges Formula Advisory Committee members.

State funds may not be used to support physical plant costs at community colleges, so no appropriation is made for that purpose. Consequently, the *All Funds Expenditure Report* and resulting formula address only the instructional and administrative costs of these two-year colleges.

The Texas State Technical Colleges and the Lamar State Colleges use the same formula as the community colleges for instruction and administration. Because they are state institutions, they are eligible for an appropriation for their physical plant costs, and they use the same physical plant (infrastructure) formula used by universities.

2. Community and Technical Colleges' *2003 All Funds Expenditure Report*

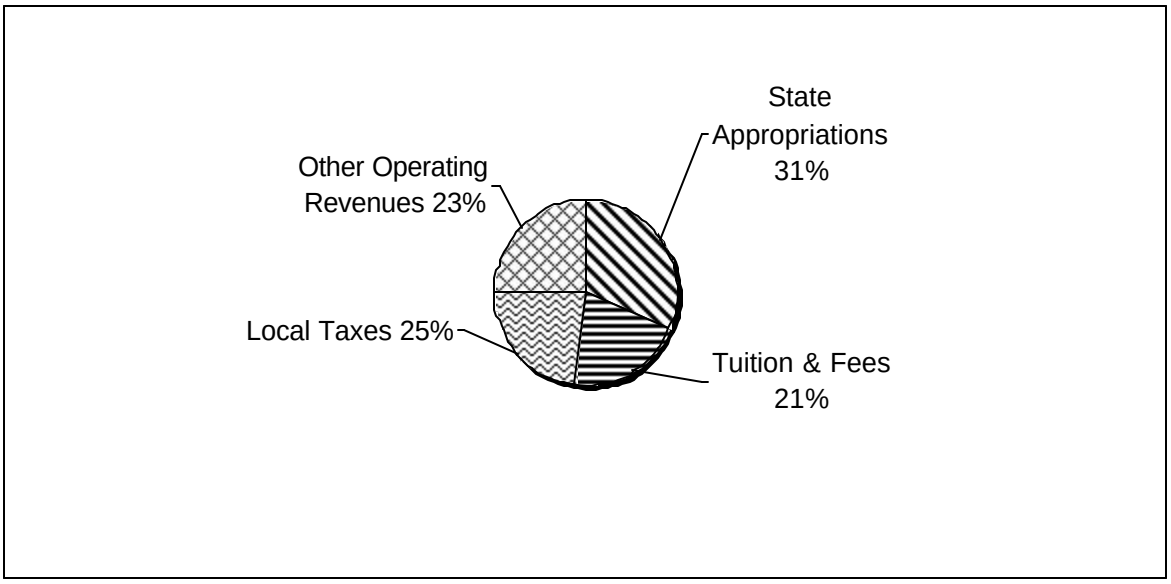
The community and technical college formula is based on a study intended to determine the instructional and administrative costs of offering programs in 26 different program areas.

Each community and technical college reports general administrative costs that apply to the institution as a whole, such as the Office of the President, Business Office, Admissions, Library, and Student Affairs. Direct instructional expenditures are also reported in each funding category.

Using the contact hours reported, a per-contact-hour cost of administration and a per-contact-hour cost of instruction in each funding discipline are calculated for each institution. The sum of the median per-contact-hour-costs of instruction for each funding discipline and the median per-contact-hour-costs of administration comprise the formula rate for that category.

2.1 Community College Revenues and Expenses

Chart 1 - Texas Public Community College Educational Revenues - FY 2003



The costs reported in the cost study reflect all unrestricted sources of funds used for instruction and administration. These sources include state general revenue appropriations, tuition and fees, gifts and grants, local *ad valorem* taxes, investment income, and other sources.

Based on audited annual financial reports filed by each community college district for FY 2003, primary[2] revenue funds were derived from the following sources in the amounts indicated:

Table 1 - Texas Public Community College Revenues by Source - FY 2003

Source	Amount
State Appropriations	$ 933,924,791
Tuition and Fees	$ 607,872,895
Other Revenues	$ 686,259,707
Local Taxes	$ 742,886,826
Total	$2,970,944,219

Districts have great flexibility in managing their financial resources, and individual districts may choose to spend their resources in different ways. For example, one institution may choose to service debt with local tax revenue and use tuition revenue to pay faculty salaries, while another institution with exactly the same resources might make the opposite decisions. Institutions may choose to maintain low tuition rates and subsidize the administrative and instructional program with local tax revenue. Institutions may also choose to subsidize administrative and instructional programs with local tax revenue to maintain a margin of excellence. The state appropriations amounts reported in the annual financial reports include the formula appropriation, state health insurance, state retirement matching, developmental education, and special item appropriations.

Based on FY 2003 audited Annual Financial Reports, total statewide expenditures on administrative and instructional costs at community colleges that are eligible for state funding included the amounts indicated:

Table 2 - Texas Public Community College Expenditures by Function - FY 2003

Expenditure	Amount
Instruction	$ 1,103,030,761
Academic Support	$ 182,151,316
Student Services	$ 218,218,950
Institutional Support	$ 376,715,870
Total	$ 1,880,116,897

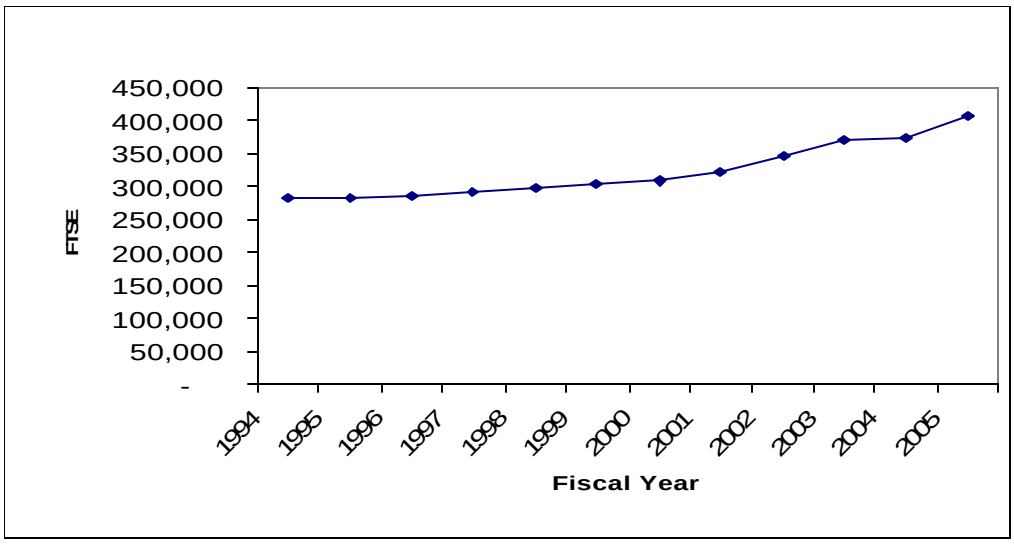
Thus, after using state appropriations and tuition and fees totaling $1.542 billion (refer to Table 1), community college districts used *ad valorem* tax collections or other revenues of $338.3 million to subsidize administrative and instructional costs. Only General Revenue funds are appropriated through the legislative process to the community colleges.

[2] Previous formula requests referenced the audited Annual Financial Reports amounts for unrestricted revenue. With the implementation of GASB Standard 34/35, the designation for unrestricted revenue is no longer available. Consequently, the revenue sources have been revised to indicate those directly related to the core educational function of community colleges.

2.2 Community Colleges FTSE

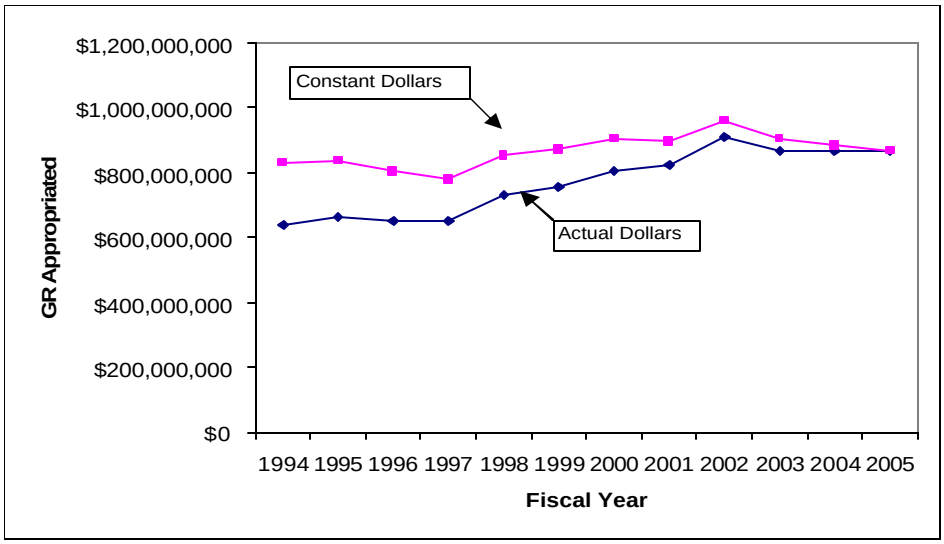
Community Colleges have experienced substantial student growth, and if projections for 2004 and 2005 are accurate, the number of students will have increased by 44.1 percent over the 11-year period, 1994-2005. To capture the growth accurately, the analysis presented below is in terms of Full-Time Student Equivalents (FTSEs). The following chart shows the growth since 1994, with projections for 2004 and 2005:

Chart 2 - Community Colleges FTSE by Fiscal Year



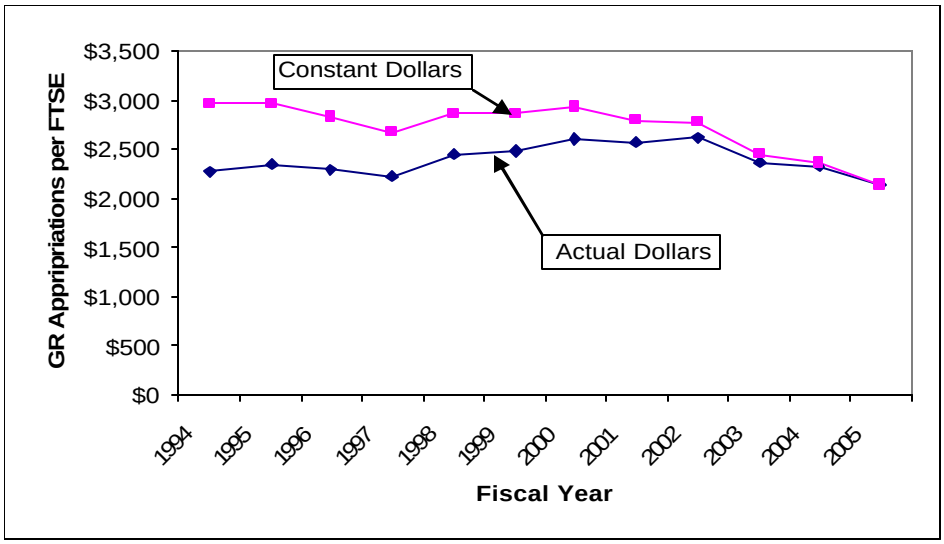
The General Revenue funding over the same time period, 1994-2005, has not kept pace with enrollment growth. The General Revenue constant dollar growth for community colleges over the 11-year period is 4 percent while actual dollar growth has been 35 percent.

Chart 3 - General Revenue Appropriations for Community Colleges by Fiscal Year



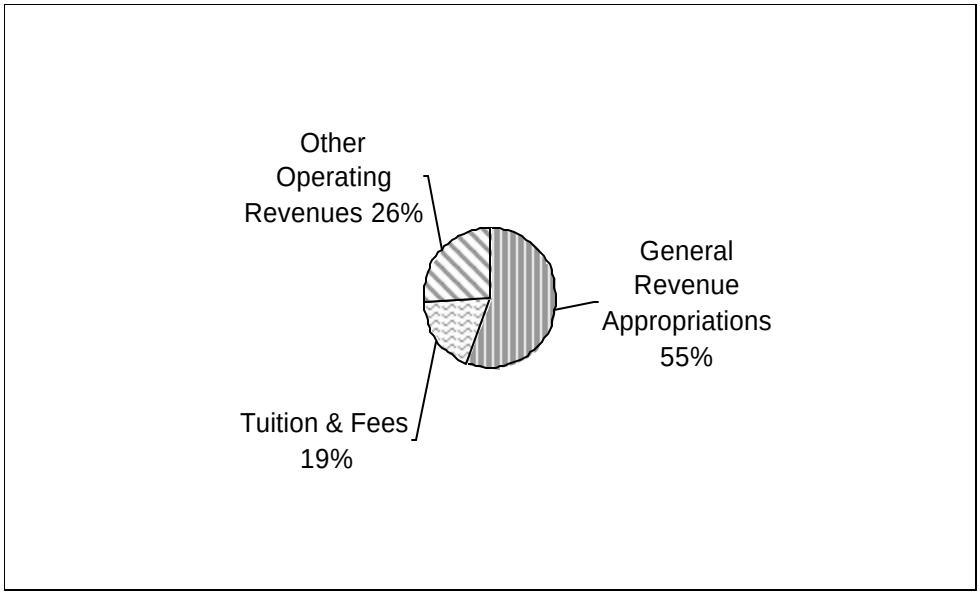
The resulting analysis of General Revenue per FTSE shows the impact of the student growth, and the corresponding General Revenue funding. The General Revenue per FTSE, using constant dollars, decreased by 28 percent over the 11-year period while actual dollars have decreased by 6 percent.

Chart 4 - General Revenue Appropriations for Community Colleges per FTSE, by Fiscal Year



2.3 Technical Colleges Revenues and Expenses

Chart 5 - Texas Technical Colleges[3] Educational Revenues - FY 2003



Based on annual financial reports filed by each two-year technical college for Fiscal Year 2003, primary revenue funds were derived from the following sources in the amounts indicated:

Table 3 - Texas Technical Colleges Revenue by Source - FY 2003

Source	Amount
General Revenue Appropriations	$ 106,378,246
Tuition and Fees	$ 22,417,544
Other Revenue	$ 49,245,628
Total	$ 178,041,418

The amounts listed above (and the annual financial statements of the technical colleges) include special item funding and the infrastructure funding for their physical plants and equipment. The formula amounts are not reported separately in the financial statements. The technical colleges do not have the same flexibility in managing their financial resources as the community colleges. The 78th Legislature gave state colleges and universities the authority to adjust their tuition rates with greater flexibility for the first time in FY 2004.

Based on FY 2003 Annual Financial Reports, total statewide expenditures on administrative and instructional costs that are eligible for state formula funding at the technical colleges included the amounts indicated:

Table 4 - Texas Technical Colleges Expenditures by Function - FY 2003

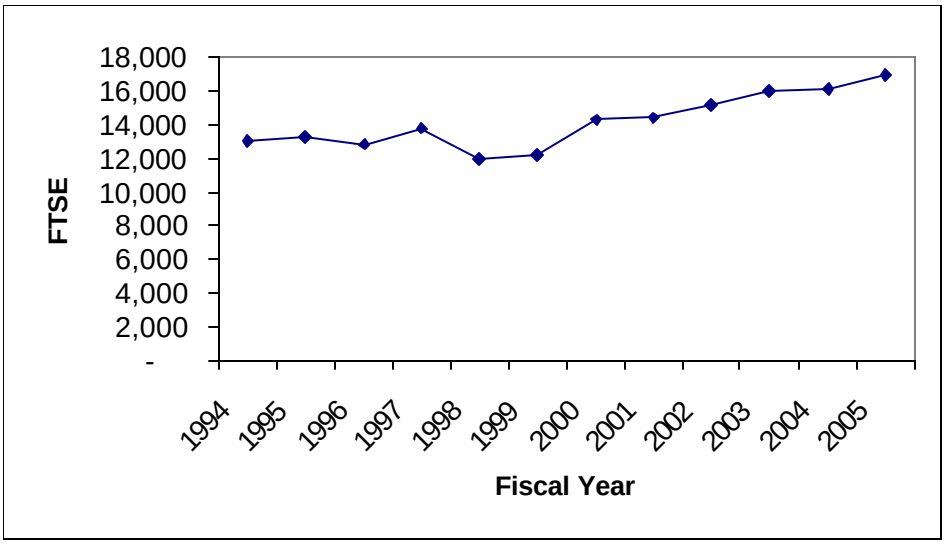
Expenditure	Amount
Instruction	$ 74,471,149
Academic Support	$ 13,778,667
Student Services	$ 12,601,769
Institutional Support	$ 21,578,082
Total	$ 122,429,667

[3] Includes the four Texas State Technical Colleges and three Lamar State Colleges.

2.4 Technical Colleges FTSE

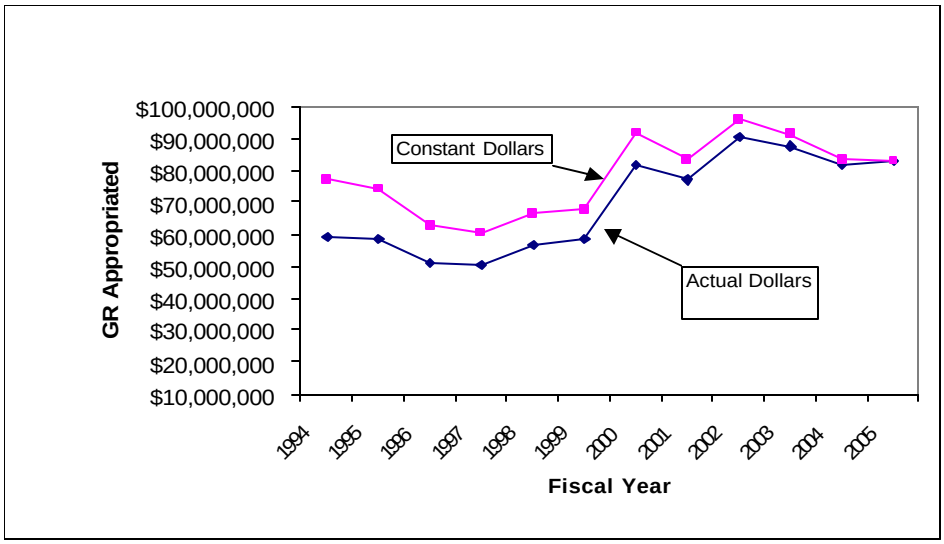
Technical colleges also have experienced substantial enrollment growth. If projections for 2004 and 2005 are accurate, the number of students will have increased by 30 percent over the 11-year period, 1994-2005. The following chart shows Full-Time Student Equivalent (FTSE) growth since 1994, with projections for 2004 and 2005:

Chart 6 - Technical Colleges FTSE by Fiscal Year



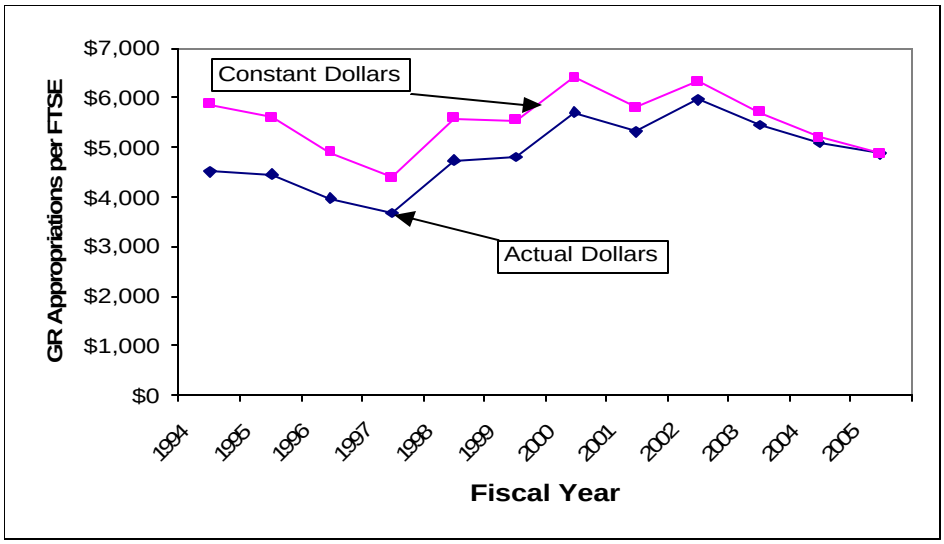
Growth in General Revenue funding over the same time period, 1994-2005, has not kept pace with enrollment growth. General Revenue constant dollar growth for the 11-year period was 8 percent, while actual dollar growth was 31 percent.

Chart 7 - General Revenue Appropriations for Technical Colleges by Fiscal Year



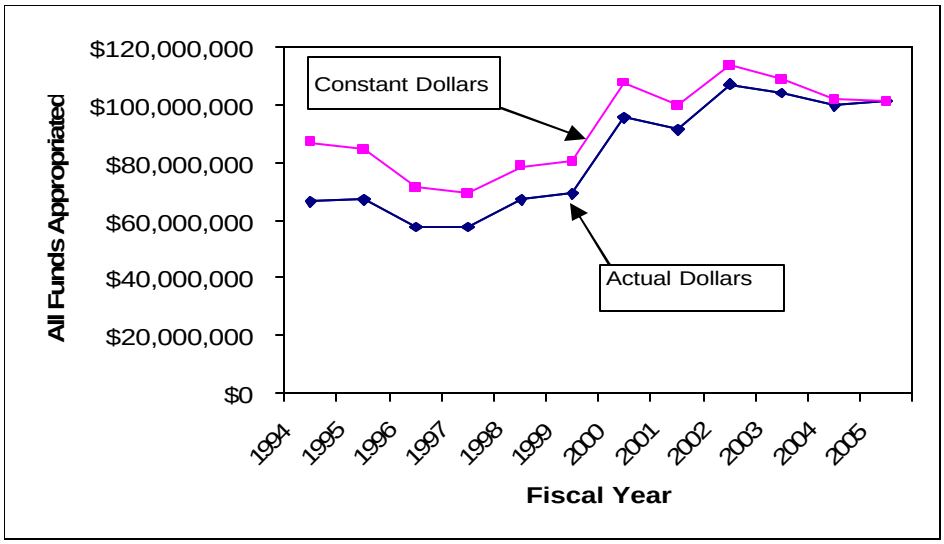
The General Revenue in constant dollars per FTSE decreased 17 percent over the 11-year period, while the actual dollar amount increased 8 percent.

Chart 8 - General Revenue Appropriations for Technical Colleges per FTSE, by Fiscal Year



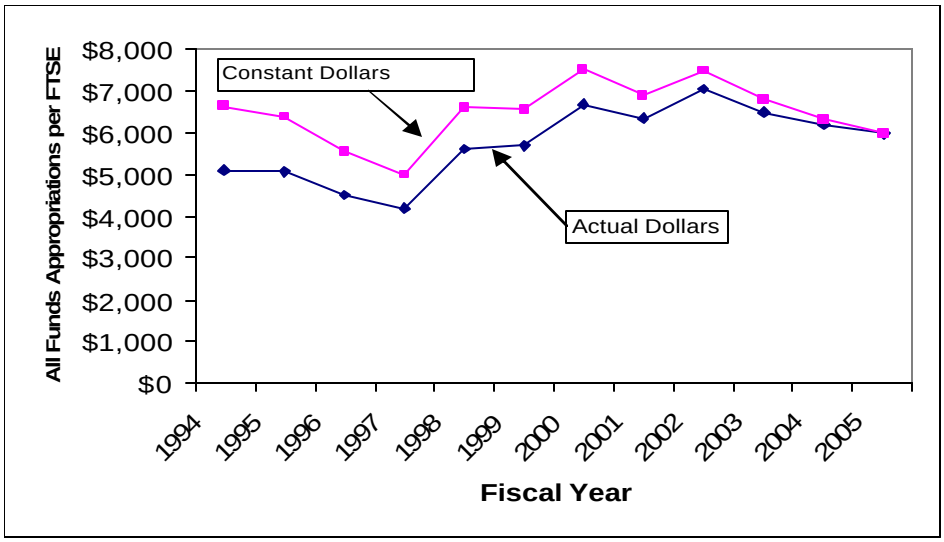
Unlike community colleges, technical colleges are state agencies. While the appropriations for community colleges only reflect the state General Revenue funds, the appropriations for the technical colleges include tuition and fees and other funding sources. All Funds appropriations in constant dollars increased 17 percent over the 11-year period, while the actual dollars increased 52 percent.

Chart 9 - All Funds Appropriations for Technical Colleges by Fiscal Year



The resulting All Funds appropriations in constant dollars per FTSE for technical colleges indicate a decrease of 10 percent over the 11-year period from 1994 to 2005, while actual dollars increased 17 percent.

Chart 10 - All Funds Appropriations for Technical Colleges per FTSE, by Fiscal Year



3. Three Models for Setting Administrative and Instructional Rates

The following paragraphs describe three models for setting formula rates for instruction and administration functions at two-year colleges.

3.1 Model 1 – Formula rates based on 100 percent of administration and instructional costs.

Model 1, which is recommended by the CTCFAC, is derived directly from the *FY 2003 All Funds Expenditure Report*. It assumes that the State of Texas would pay all of the administrative and instructional costs of two-year colleges. As described in Section 2, approximately 50 percent of these costs are currently paid from sources other than state General Revenue. These other sources include, among others, tuition and fees, gifts and grants, and local *ad valorem* taxes. If this model is selected and fully funded, two-year colleges could use those funds for other purposes, including supporting physical plant operations, enhancing and expanding instructional programs, reducing the local tax burden, and start-up funding for new programs.

Fully funding the formula using 100 percent of the results of the *FY 2003 All Funds Expenditure Report* would require an increase in formula funding from $1,598,276,137 to $3,115,308,525, a 95 percent increase. The rates that would result from this model are provided in Appendix C.

3.2 Model 2 – Formula rates based on 62.2 percent of the FY 2003 All Funds Expenditure Report.

Model 2 uses the appropriated amounts from the 2002-2003 biennium as the base, adjusts for known growth between the 2002-2003 and 2004-2005 base periods (13.8 percent), and adjusts for projected inflation (3.7 percent) between 2004-2005 and 2006-2007.

This model would require an increase in appropriations of approximately 21.3 percent ($340 million for the biennium). The rates that would result from this model are provided in Appendix C.

3.3 Model 3 – Formula rates based on 60.3 percent of the FY 2003 All Funds Expenditure Report

Model 3 is identical to Model 2, but uses the appropriated amounts from the 2004-2005 biennium as the base. **The Coordinating Board recommends Model 3.**

This model would require an increase in appropriations of $279,904,301 or 17.5 percent for the biennium (to $1,878,180,438). The rates that would result from this model are provided in Appendix C.

4. Other Formula-Related Recommendations

A number of other issues were discussed by the CTCFAC and are presented below:

Dramatic Growth Supplement: The Coordinating Board recommends that the state provide a dramatic growth payment as a results-based reward for work toward achieving the participation goal of *Closing the Gaps* for colleges that exceed the threshold of 10 percent growth for the first year of the biennium when compared to the base year, and 20 percent for the second year of the biennium when compared to the base year. The dramatic growth payment would be approximately $10 million per year.

The largest growth in student populations has occurred in the two-year colleges as a result of their commitment to *Closing the Gaps*. State funding has failed to keep pace with the rate of growth, and funds intended for facilities and infrastructure are being diverted to cover the costs of instruction. The dramatic growth payment would recognize and reward this growth and meeting the goals of *Closing the Gaps*.

Nursing Growth Supplement: The CTCFAC recommended that the state should fund approximately $5 million per year for nursing growth at the two-year institutions. This amount of funding was based on a preliminary analysis. These funds would be maintained separately from the other growth funding and institutions receiving them would be required to show how the funding was spent. The nursing growth funds would be divided into an RN allocation and an LVN allocation by calculating a weighted average for each program type. (This weighted average is calculated by multiplying the contact hours by the funding rate for each of the programs, and then proportionately allocating the $5 million per year between the RN and LVN programs.) The CTCFAC recommended that the state use the threshold of 3 percent growth for the first year of the biennium and 6 percent growth for the second year of the biennium as the threshold for dramatic nursing growth. The state would provide Unexpended Balance authority for these funds.

The Coordinating Board recommends biennial funding of approximately $13.2 million for nursing growth at the two-year institutions. This amount of funding is based upon additional analysis of historical levels of participation in the RN and LVN professional nursing programs that was not available to the CTCFAC.

Nursing Success Payment: The Coordinating Board recommends that results-based funding be provided to the Coordinating Board for distribution based on the number of RN nursing graduates. The total biennial funding recommended for all institutions of higher education is $20 million. Distribution to each sector would be based on the relative percentages of the sector. For fall 2002, the community colleges supplied approximately 40 percent of total RN graduates, which would result in $8 million in results-based payment for the biennium.

Success Payment: The Coordinating Board recommends that results-based funding be provided to the Coordinating Board for distribution based on an increase in the number of degrees and certificates awarded, the number of curriculum completers, and the number of field of study completers. Biennial cost would be $20 million.

Alternative Teacher Certification Supplement: Coordinating Board staff, at the direction of the CTCFAC, reviewed three different options for funding Alternative Teacher Certification (ATC) Programs at community colleges and universities. These options were not available for discussion while the formula advisory committees were meeting. At issue is whether the state should provide funding for alternative teacher certification programs at community colleges. The Coordinating Board would develop a funding and reporting mechanism for two-year institutions and other appropriate delivery agents. Below are the three funding options that the staff reviewed.

1. Reimbursement Method – Program providers request amount of funding following the year that

successful applicants are certified.

2. Annual or Biennial Competition Method – Program providers file competitive proposals requesting the funds. Criteria for award could be based upon number of students in the program or other objectives determined.

3. Formula Award Basis – Program providers are paid a flat rate for each successful completer. The colleges and universities may not report the students who become successful completers for any other formula funding. The state pays only a portion (to be determined) of the cost of preparing the alternatively-certified teachers.

The Coordinating Board does not recommend any of the above, in part, because the programs are fully subscribed and often have waiting lists. Current charges for these programs vary significantly with a variety of different subsidies typically available to students.

The Coordinating Board recommends that additional funding for alternative teacher certification be made available by increasing support for either the Teach for Texas Alternative Teacher Certification program (a student loan forgiveness program), or the State Board for Educator Certification (SBEC), the state agency that approves Alternative Teacher Certification programs.

Distance Education: Overall, the current structure of distance education is adequate and serves the purpose for which it is intended. However, because it is still an emerging instructional delivery mode in two-year institutions, it is important for the state to monitor its growth and development. Incentives may be appropriate in the future.

5. Cost Summary

The following tables summarize projected annual appropriations for instruction and administration at both community colleges and technical colleges for each of the proposals.

Table 5
Model 1: CTC Formula Advisory Committee Proposal
Formula rates based on 100 percent of *FY 2003 All Funds Expenditure Report*

Objective/Goal	Description	Community Colleges	TSTC and Lamar State Colleges	Total
Participation and Success	2006-2007 projected appropriations, based on 100 percent of *FY 2003 All Funds Expenditure Report*	$2.94 billion	$177.7 million	$3.12 billion
Participation and Success	2006-2007 appropriations for dramatic growth payment			$20 million
Participation and Success	2006-2007 appropriations for RN and LVN nursing growth			$10 million
Success	2006-2007 appropriations for Success Goal (increase in # of degrees and certificates awarded and # of core curriculum and field of study completers)			$20 million
	Proposal Total			$3.17 billion

Table 6
Model 2: Formula rates based on 62.2 percent of the *FY 2003 All Funds Expenditure Report*

Objective/Goal	Description	Community Colleges	TSTC and Lamar State Colleges	Total
Participation and Success	2006-2007 projected appropriations, based on 62.2 percent of the *FY 2003 All Funds Expenditure Report*	$1.83 billion	$110.1 million	$1.94 billion
Participation and Success	2006-2007 appropriations for dramatic growth payment			$20 million
Participation and Success	2006-2007 appropriations for RN and LVN nursing growth			$13.2 million
Success	2006-2007 appropriations for Success Goal (increase in # of degrees and certificates awarded and # of core curriculum and field of study completers)			$20 million
Success	2006-2007 appropriations for Success Goal (results-based funding for # of associate nursing degrees awarded)			$8 million
	Proposal Total			$2 billion

.

Table 7
Model 3: Formula rates based on 60.3 percent of the *FY 2003 All Funds Expenditure Report*

The Coordinating Board recommends Model 3.

Objective/Goal	Description	Community Colleges	TSTC and Lamar State Colleges	Total
Participation and Success	2006-2007 projected appropriations, based on 60.09 percent of *FY 2003 All Funds Expenditure Report* plus known growth and inflation	$1.77 billion	$110.1 million	$1.88 billion
Participation and Success	2006-2007 appropriations for dramatic growth payment			$20 million
Participation and Success	2006-2007 appropriations for RN and LVN nursing growth			$13.2 million
Success	2006-2007 appropriations for Success Goal (increase in # of degrees and certificates awarded and # of core curriculum and field of study completers)			$20 million
Success	2006-2007 appropriations for Success Goal (results-based funding for # of associate nursing degrees awarded)			$8 million
	Proposal Total			$1.94 billion

Appendix A

Authority for Funding Formula Development

Texas Education Code, Section 61.002

> In the exercise of its leadership role, The Texas Higher Education Coordinating Board shall be an advocate for the provision of adequate resources . . . to institutions of higher education, to the end that the State of Texas may achieve excellence for college education of its youth. . .

Texas Education Code, Section 61.059(b)

> The board shall devise, establish, and periodically review and revise formulas for the use of the governor and the Legislative Budget Board in making appropriations recommendations to the Legislature for all institutions of higher education, including the funding of postsecondary vocational-technical programs. As a specific element of the periodic review, the board shall study and recommend changes in the funding formulas based on the role and mission statements of institutions of higher education. In carrying out its duties under this section, the board shall employ an ongoing process of committee review and expert testimony and analysis.

.Appendix B

PUBLIC COMMUNITY AND TECHNICAL COLLEGES
FORMULA ADVISORY COMMITTEE FOR THE 2006-2007 BIENNIUM

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Note: *Terms end August 31 in the year indicated in parenthesis*

Appendix C
Administrative and Instructional Rates for the 2004-2005 and 2006-2007 Biennia

Model 1 – Formula Advisory Committee Proposal – Formula rates based on 100 percent of *FY 2003 All Funds Expenditure Report*

Funding = Base Period Contact Hours x Rates

Funding Code	Funding Discipline	Rates per Base Period Contact Hour: 2004-2005 Biennium	Rates per Base Period Contact Hour: 2006-2007 Biennium
1	Agriculture	$ 4.94	$ 7.27
2	Architecture and Precision Production Trades	5.33	7.30
3	Biology, Physical Sciences, and Science Technology	4.16	5.85
4	Business Management, Marketing, and Administrative Services	4.28	6.68
5	Career Pilot	11.31	13.76
6	Communications	4.93	7.20
7	Computer and Information Sciences	4.72	6.93
8	Construction Trades	4.32	7.35
9	Consumer and Homemaking Education	3.89	5.48
10	Engineering	8.10	8.91
11	Engineering Related	4.64	7.22
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	4.05	5.82
13	Foreign Languages	4.18	6.13
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.86	8.89
15	Health Occupations - Dental Hygiene	8.31	12.52
16	Health Occupations – Other	4.72	6.77
17	Health Occupations - Respiratory Therapy	7.21	10.02
18	Health Occupations - Vocational Nursing	4.65	6.53
19	Mathematics	3.80	5.55
20	Mechanics and Repairers - Automotive	5.46	7.04
21	Mechanics and Repairers - Diesel, Aviation Mech., and Transport. Workers	5.23	8.29
22	Mechanics and Repairers - Electronics	5.23	7.13
23	Physical Education and Fitness	4.92	6.87
24	Protective Services and Public Administration	4.16	6.21
25	Psychology, Social Sciences, and History	3.72	5.35
26	Visual and Performing Arts	5.31	7.17

Notes:
Base period contact hours for semester length courses are for Summer Session 2002, Fall Semester 2002, and Spring Semester 2003.

Base period contact hours for non-semester length courses are for quarterly periods March – May 2002, June – August 2002, September – November 2002, and December 2002 – February 2003.

The formula rates include the direct cost of each program for faculty salaries and departmental operating expense. Administrative cost includes instructional administration, organized activities, institutional support, student services, library, and staff benefits (except for group insurance premiums and retirement contributions paid by the state).

Those courses recommended to the Commissioner with which he agrees will be designated as priority technologies, and will be subject to increased formula funding by 10 percent. The High Tech Study Group made its recommendations on the revisions to the priority technologies following the completion of the work of the CTCFAC. At its final meeting, the CTCFAC asked the Coordinating Board staff to take the recommendations of the High Tech Study Group and, if the Commissioner agreed, apply them to the formula calculation to arrive at the full cost reimbursement of the formula.

Appendix C (Continued)

Model 2 – Formula rates based on 62.2 percent of the *FY 2003 All Funds Expenditure Report*

Funding = Base Period Contact Hours x Rates

Funding Code	Funding Discipline	Rates per Base Period Contact Hour 2004-2005 Biennium	Rates per Base Period Contact Hour 2006-2007 Biennium
1	Agriculture	$ 4.94	$ 4.52
2	Architecture and Precision Production Trades	5.33	4.54
3	Biology, Physical Sciences, and Science Technology	4.16	3.64
4	Business Management, Marketing, and Administrative Services	4.28	4.16
5	Career Pilot	11.31	8.56
6	Communications	4.93	4.48
7	Computer and Information Sciences	4.72	4.31
8	Construction Trades	4.32	4.57
9	Consumer and Homemaking Education	3.89	3.41
10	Engineering	8.10	5.54
11	Engineering Related	4.64	4.49
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	4.05	3.62
13	Foreign Languages	4.18	3.81
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.86	5.53
15	Health Occupations - Dental Hygiene	8.31	7.79
16	Health Occupations – Other	4.72	4.21
17	Health Occupations - Respiratory Therapy	7.21	6.23
18	Health Occupations - Vocational Nursing	4.65	4.06
19	Mathematics	3.80	3.45
20	Mechanics and Repairers - Automotive	5.46	4.38
21	Mechanics and Repairers – Diesel, Aviation Mech., and Transport. Workers	5.23	5.16
22	Mechanics and Repairers -Electronics	5.23	4.44
23	Physical Education and Fitness	4.92	4.27
24	Protective Services and Public Administration	4.16	3.86
25	Psychology, Social Sciences, and History	3.72	3.33
26	Visual and Performing Arts	5.31	4.46

Notes:
Base period contact hours for semester length courses are for Summer Session 2002, Fall Semester 2002, and Spring Semester 2003.

Base period contact hours for non-semester length courses are for quarterly periods March – May 2002, June – August 2002, September – November 2002, and December 2002 – February 2003.

The formula rates include the direct cost of each program for faculty salaries and departmental operating expense. Administrative cost includes instructional administration, organized activities, institutional support, student services, library and staff benefits (except for group insurance premiums and retirement contributions paid by the state).

Those courses recommended to the Commissioner with which he agrees will be designated as priority technologies, and will be subject to increased formula funding by 10 percent. The High Tech Study Group made its recommendations on the revisions to the priority technologies following the completion of the work of the CTCFAC. At its final meeting, the CTCFAC asked the Coordinating Board staff to take the recommendations of the High Tech Study Group and, if the Commissioner agreed, apply them to the formula calculation to arrive at the full cost reimbursement of the formula.

Appendix C (Continued)

Model 3 – Coordinating Board's Recommendation - Formula rates based on 60.3 percent of the *FY 2003 All Funds Expenditure Report*

Funding = Base Period Contact Hours x Rates

Funding Code	Funding Discipline	Rates per Base Period Contact Hour 2004-2005 Biennium	Rates per Base Period Contact Hour 2006-2007 Biennium
1	Agriculture	$ 4.94	$ 4.37
2	Architecture and Precision Production Trades	5.33	4.39
3	Biology, Physical Sciences, and Science Technology	4.16	3.52
4	Business Management, Marketing, and Administrative Services	4.28	4.01
5	Career Pilot	11.31	8.27
6	Communications	4.93	4.33
7	Computer and Information Sciences	4.72	4.16
8	Construction Trades	4.32	4.42
9	Consumer and Homemaking Education	3.89	3.29
10	Engineering	8.10	5.35
11	Engineering Related	4.64	4.34
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	4.05	3.50
13	Foreign Languages	4.18	3.68
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.86	5.34
15	Health Occupations - Dental Hygiene	8.31	7.52
16	Health Occupations – Other	4.72	4.07
17	Health Occupations - Respiratory Therapy	7.21	6.02
18	Health Occupations - Vocational Nursing	4.65	3.92
19	Mathematics	3.80	3.34
20	Mechanics and Repairers - Automotive	5.46	4.23
21	Mechanics and Repairers – Diesel, Aviation Mech., and Transport. Workers	5.23	4.98
22	Mechanics and Repairers -Electronics	5.23	4.28
23	Physical Education and Fitness	4.92	4.13
24	Protective Services and Public Administration	4.16	3.73
25	Psychology, Social Sciences, and History	3.72	3.22
26	Visual and Performing Arts	5.31	4.31

Notes:
Base period contact hours for semester length courses are for Summer Session 2002, Fall Semester 2002, and Spring Semester 2003.

Base period contact hours for non-semester length courses are for quarterly periods March – May 2002, June – August 2002, September – November 2002, and December 2002 – February 2003.

The formula rates include the direct cost of each program for faculty salaries and departmental operating expense. Administrative cost includes instructional administration, organized activities, institutional support, student services, library and staff benefits (except for group insurance premiums and retirement contributions paid by the state).

Those courses recommended to the Commissioner with which he agrees will be designated as priority technologies, and will be subject to increased formula funding by 10 percent. The High Tech Study Group made its recommendations on the revisions to the priority technologies following the completion of the work of the CTCFAC. At its final meeting, the CTCFAC asked the Coordinating Board staff to take the recommendations of the High Tech Study Group and, if the Commissioner agreed, apply them to the formula calculation to arrive at the full cost reimbursement of the formula.

General Academic Institutions
Funding Formulas

Coordinating Board Recommendations
for the
2006-2007 Biennium

April 2004

Texas Higher Education Coordinating Board
P. O. Box 12788
Austin, TX 78711

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Executive Summary
General Academic Institutions

Approximately 59 percent of the All Funds appropriations for general academic institutions in the 2004-2005 biennium are distributed through funding formulas designed to allocate funds equitably. The Texas Education Code and the General Appropriations Act give the Texas Higher Education Coordinating Board authority to review and recommend changes to these formulas (Appendix A). This document contains the results of that review.

The Commissioner of Higher Education appointed a University Formula Advisory Committee (UFAC) and two associated study committees to assist in this process. Dr. Jesse Rogers, President of Midwestern University, chaired the UFAC; Mr. Phil Diebel, Vice President of Finance and Business Affairs at the University of North Texas, chaired the Instruction and Operations Study Committee; and Mr. Bill Nance, Vice President of Finance and Support Services at Texas State University – San Marcos chaired the Infrastructure Study Committee. Members of the UFAC and two study committees are shown in Appendix B. The meetings occurred in September through December 2003, and the meeting minutes are available at: http://www.thecb.state.tx.us/AdvisoryCommittees/Fin/.

This report presents the recommendations of the Coordinating Board. These recommendations were approved by the Coordinating Board at its April 2004 meeting and were forwarded to the Governor, the Legislature, and the Legislative Budget Board in May 2004.

To achieve the goals of *Closing the Gaps by 2015*, the Texas higher education plan, a significant financial investment will need to be made by the State of Texas. As stated in the plan*:*

> "Population changes sweeping the state require creative solutions to sort out the subsequent educational challenges. The population projections of the state forecast the greatest growth to occur in urban areas and along the Texas border. By 2008, Texas will become a minority-majority state. Hispanics will account for more than 40 percent of the state's population. Blacks will represent 11 percent. Whites will be 45 percent. Other groups, including Asian-Americans, will represent 4 percent. The state's Hispanic and Black populations have enrolled in higher education at rates well below that of the White population. The educational enrollment and success rates for all Texans will have to rise more rapidly than ever to avoid a decline in educational levels" (p. 7).

The recommendations are summarized below under the *Closing the Gaps* objectives and expanded upon in subsequent sections of the report.

Much of the UFAC's time was spent considering the development and implementation of a cost-based Instruction and Operations matrix. The new methodology and resulting matrix will create a redistribution of Instruction and Operations (I&O) formula funding because the relative weights that comprise the I&O funding matrix would change.

General Academic Formula Recommendations by *Closing the Gap* Goals:

Participation and Success

- Provide inflation adjustment to the various rates contained in the formulas. Estimated biennial cost is $129.1 million.
- Modify the Small Institution Supplement for the Lamar State Colleges and the Texas State Technical Colleges. Estimated biennial cost is $5.6 million.
- Fully fund known enrollment growth that occurred between the 2002-2003 and 2004-2005 base periods. Estimated biennial cost is $123 million.
- Provide a results-based payment for dramatic growth. Estimated biennial cost is $4.1 million.
- Provide an incentive for completion of baccalaureate degrees. Estimated biennial cost is $4.1 million.
- Provide a results-based payment for nursing dramatic growth. Estimated biennial cost is $5.3 million.
- Provide an incentive for completion of all nursing baccalaureate degrees. Estimated biennial cost is $8 million.
- Re-classify areas of the space model. Estimated biennial cost is $665,232.

The funding formulas allocate **$3,596,877,770** of the appropriation for general academic institutions for the 2004-2005 biennium. If the formula recommendations contained in this report are adopted and fully funded by the Legislature for the 2006-2007 biennium, the estimated formula appropriation would be **$3,743,758,095**, an increase of **$146,880,325**, or 4.1 percent. Known enrollment increases between the 2002-2003 and 2004-2005 base periods of 10.6 percent, over the biennium, would add **$123,037,780**. Finally, recommended increases in non-formula items would add **$22,205,416**. The result is a total increase of **$3,889,091,291** in formula and non-formula items, which is an 8.1 percent increase overall.

1. Background

The funds appropriated to Texas public universities each biennium are allocated by means of funding formulas that until 1997 had been virtually unchanged for 40 years. However, the 75th Texas Legislature adopted a new set of university funding formulas that were fewer in number, simpler in design, and more incentive-based. The General Appropriations Act directs the Coordinating Board to review the formulas and to make recommendations to the Legislature in June of even-numbered years.

In response to that mandate, the Commissioner of Higher Education appointed an advisory committee and two study committees to assist in conducting this review. The University Formula Advisory Committee (UFAC) was comprised of university administrators, faculty members, and citizens. Each of the two study committees was assigned to review and make recommendations to the UFAC on one of two major sections of the formula.

The Instruction and Operations Committee reviewed the part of the formula that provides support for ongoing academic and administrative programs at the universities. The Infrastructure Study Committee reviewed the part of the formula that provides support for university maintenance and operations, including utilities.

The UFAC made its recommendation to the Commissioner in January 2004. The formal report of the UFAC is available at the Coordinating Board's website at: http://www.thecb.state.tx.us/AdvisoryCommittees/Fin/.

2. General Academic Institution Formula Funding

2.1 Funding Formulas Used for the 2004-2005 Biennium

The funding formulas adopted by the Legislature for the 2004-2005 biennium and found in the General Appropriations Act, Article III, page III-265, are reproduced below.

Section 32. General Academic Funding. Funding for general academic institutions will consist of four formulas and supplemental items.

1. **Instruction and Operations Formula**. The Instruction and Operations Formula shall provide funding for faculty salaries including nursing, departmental operating expense, library, instructional administration, research enhancement, student services, and institutional support. These funds are distributed on a weighted semester credit hour basis. The rate per weighted semester credit hour for the 2004-05 biennium is $51.25.

   Weighting is determined by the matrix within the following table:

	Lower Division	Upper Division	Masters	Doctoral	Special Professional
Liberal Arts	1.00	1.96	3.94	12.04	
Science	1.53	3.00	7.17	19.29	
Fine Arts	1.85	3.11	6.51	17.47	
Teacher Education	1.28	1.96	3.23	9.95	
Agriculture	2.05	2.54	6.64	16.37	
Engineering	3.01	3.46	8.20	21.40	
Home Economics	1.58	2.12	4.34	10.79	
Law					3.22
Social Services	1.64	1.84	5.80	11.92	
Library Science	1.45	1.52	4.22	12.26	
Vocational Training	1.45	2.59			
Physical Training	1.36	1.36			
Health Services	2.87	3.46	6.47	15.98	
Pharmacy	4.00	4.64	9.00	19.11	9.00
Business Admin.	1.41	1.59	4.59	13.91	
Optometry			5.46	19.12	7.00
Teacher Ed. Practice	2.43	2.57			
Technology	1.99	2.56	6.61		
Nursing	4.91	5.32	6.49	16.32	
Developmental Ed.	1.00				
Veterinary Medicine					16.72

2. **Teaching Experience Supplement**. For the 2004-2005 biennium, an additional weight of 10 percent is added to lower-division and upper-division semester credit hours taught by tenured or tenure-track faculty. Furthermore, it is the intent of the Legislature that the weight shall increase by 10 percent per biennium, up to 50 percent.

3. **Infrastructure Support Formula**. Funding associated with plant-related formulas and utilities shall be distributed by the infrastructure support formula, which is driven by the predicted square feet for universities' educational and general activities produced by the Space Projection Model developed by the Coordinating Board. The portion of the formula related to utilities is adjusted to reflect differences in unit costs for purchased utilities, including electricity, natural gas, water and wastewater and thermal energy. The average rate per square foot is $5.95.

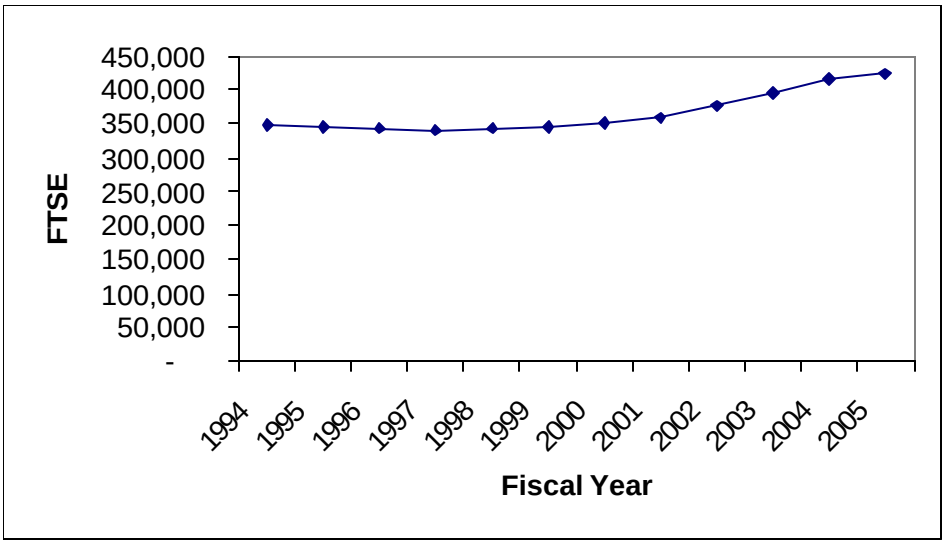
4. **Supplemental Non-formula Items**. Institutions should receive a direct reimbursement as applicable for staff group insurance (other educational and general income portion), workers' compensation insurance, unemployment compensation insurance, public education grants, 50 percent of indirect research costs recovered on grants, organized activities, scholarships, tuition revenue bond payments, Skiles Act bond payments, and facility lease charges. Institutions may receive an appropriation for special items. Revenue derived from board authorized tuition would still be appropriated to the institutions levying the additional charges.

   These formulas and supplemental items shall be reviewed and updated by study committees appointed by the Higher Education Coordinating Board and the recommended changes forwarded to the Legislature, Legislature Budget Board, and Governor's Office of Budget and Planning by June 1, 2004.

2.2 General Academic Institutions FTSE

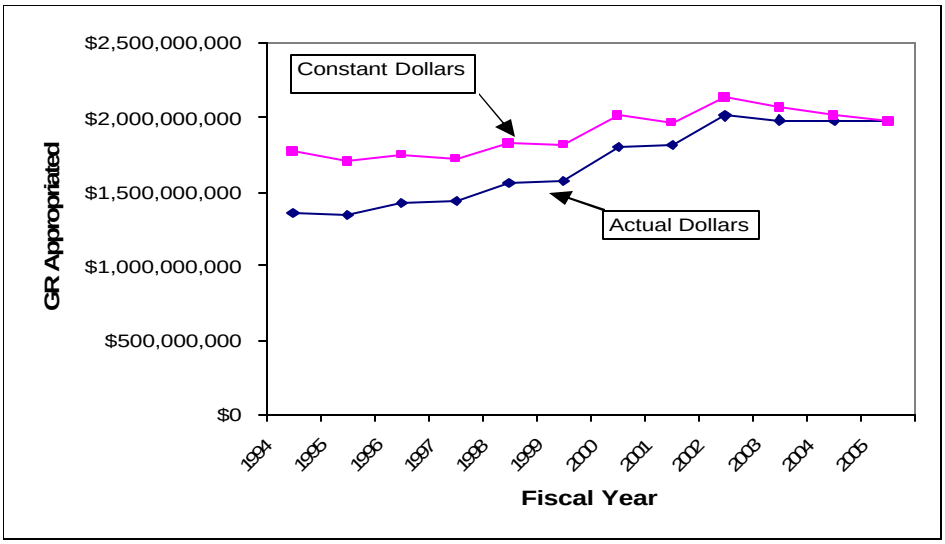
General academic institutions have experienced consistent enrollment growth. If projections for 2004 and 2005 are accurate, enrollment grew by 21 percent over the past 11-year period. To capture the growth in a more meaningful way, headcount figures were converted to Full-Time Student Equivalent (FTSE) figures.

Chart 1 - General Academic Institutions FTSE by Fiscal Year



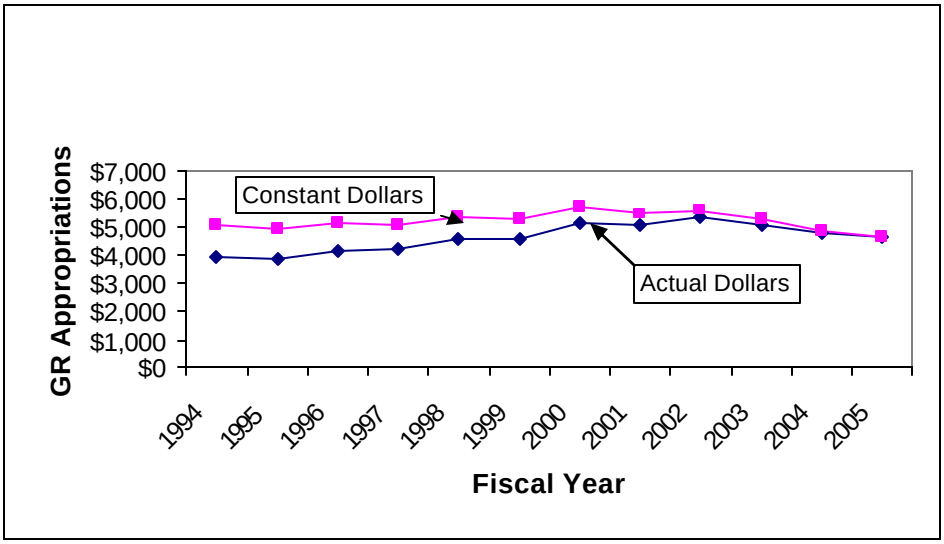
Growth in General Revenue funding over the same time period, 1994-2005, has not kept pace with the enrollment growth. General Revenue constant dollar growth for general academic universities over the 11-year period is 11 percent, while actual dollar growth is 45 percent.

Chart 2 - General Revenue Appropriations for General Academic Institutions by Fiscal Year



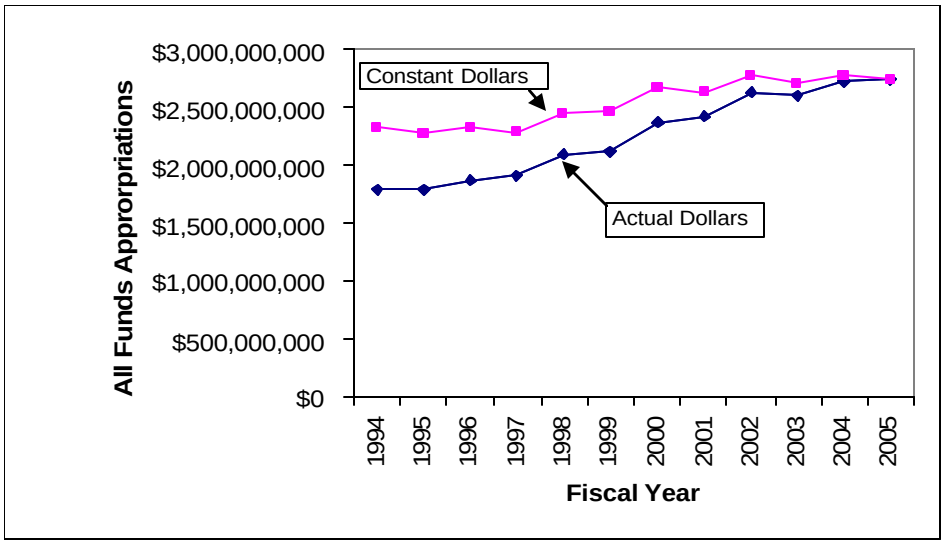
The General Revenue in constant dollars per FTSE has shown a decrease of 8 percent over the 11-year period, while the actual dollars increased has been 19 percent.

Chart 3 - General Revenue Appropriations for General Academic Institutions per FTSE, by Fiscal Year



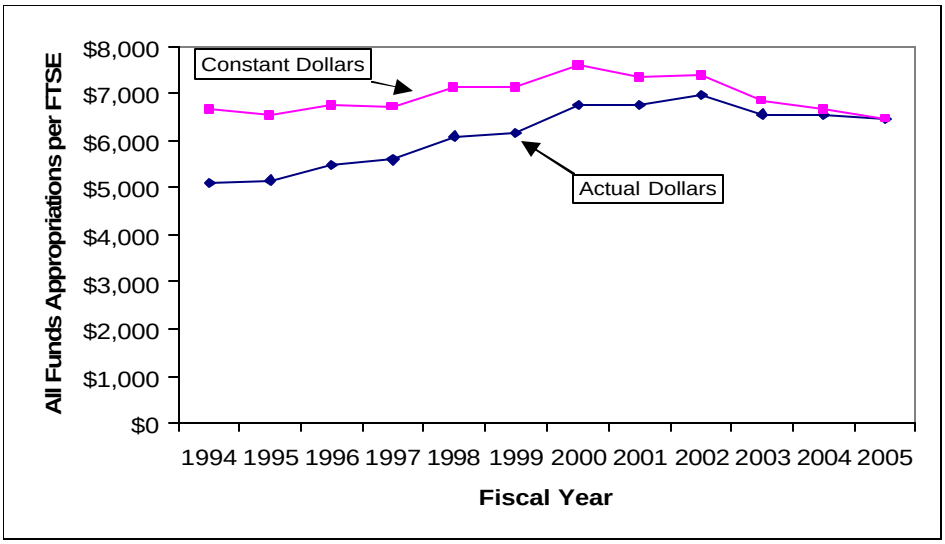
Unlike community colleges, the general academic universities are state agencies. While the appropriations for community colleges only reflect the state General Revenue funds, the appropriations for the general academic institutions include tuition and fees and other funding sources. All Funds appropriations in constant dollars to the general academic increased 18 percent over the 11-year period, while actual dollars increased 54 percent.

Chart 4 - All Funds Appropriations for General Academic Institutions by Fiscal Year



The resulting All Funds appropriations constant dollar per FTSE for general academic institutions decreased 3 percent over the 11-year period from 1994 to 2005, while actual dollars increased by 27 percent.

Chart 5 - All Funds Appropriations for General Academic Institution Funding per FTSE, by Fiscal Year



3. Recommended Changes to the Current Funding Formulas

The most significant change being recommended by the Coordinating Board is the adoption of a cost-based methodology for determining the relative weights contained in the Instruction and Operations (I&O) matrix. The current relative weights were originally derived and used for formula funding by the 75th Texas Legislature in 1997.

To determine the values of the relative weights for the 19 disciplines, cost data were provided by each institution. A working group appointed by the UFAC began this study in the summer of 2002 and over the following 18 months developed a full cost of education methodology that was used as the basis for calculating the I&O relative weights. All 35 public universities participated in the study. Data from FY 2002 were provided on faculty salaries, academic support, institutional support, student services, and departmental operating expenses. Various allocation methodologies were developed, tested, and agreed upon such that all of the costs of education were distributed to the appropriate levels and disciplines that comprise the I&O matrix.

The Coordinating Board recommends that the cost-based methodology be used for formula funding in the 2006-2007 biennium. The FY 2002 data that are used in the preliminary analysis will be combined with FY 2003 data and used in the staff's analysis to be presented to the Legislative Budget Board in preparation for the 79th Legislative Session. This is a budget neutral recommendation.

Because the re-calculation of the relative weights would result in a redistribution of I&O formula funding, the Coordinating Board recommends that the cost-based methodology be phased-in. The initial phase-in, recommended by the UFAC, is to implement the cost-based relative weight such that no institution receives greater than a 3 percent loss in I&O formula funding. This was accomplished during the preliminary analysis by adopting one-half of the proposed changes in the relative weights. The three exceptions to this were for two relative weights that funded professional nursing[4] and the relative weight for special professional pharmacy, which were held to a smaller rate of change. **The Coordinating Board also recommends that the phase-in be extended to the 2008-2009 biennium, with the relative weights calculated at 75 percent of the cost-based values.** Full implementation of the cost-based methodology would occur in the 2010-2011 biennium, and that future analyses be based on three years of data.

The Coordinating Board also recommends that any "policy" adjustments that future UFACs, the Coordinating Board, or the Legislature might consider be done so as to not affect the final determination of the I&O matrix. One purpose of this exercise was to demonstrate that there is a reasonable methodology for calculating the relative weights based on individual institutions' actual cost of providing higher education services. Future UFACs will continue to refine this process. The Coordinating Board further recommends that investments in certain disciplines be accomplished exclusively through special item appropriations or funds trusteed to the Coordinating Board by which the Legislature may also require adequate accountability to ensure that funding is spent in the manner in which it was intended.

Additional recommended changes to the current funding formulas fall into several categories, as indicated below. Many of these recommendations are made with reference to *Closing the Gaps*.

[4] Upper-division nursing and master's level health services.

Unless otherwise noted, the **UFAC and the Coordinating Board-are in agreement regarding the recommendations given below.**

Several adjustments are necessary to update the formulas for inflation, and these are presented first. The change in general prices is estimated using projections of the Consumer Price Index for all Urban Consumers (CPI-U)[5]. **Following that are the recommended Coordinating Board changes to the formulas and supplements.**

Inflation Adjustments:

- Increase the per-Semester Credit Hour (SCH) rate in the Instruction and Operations Formula from $51.25 to $53.15 to reflect changes in the CPI-U (estimated biennial cost is $110.2 million).

- Increase the per-Net Assignable Square Foot (NASF) rate in the Infrastructure Formula from $5.95 to $6.03 to reflect changes in the CPI-U (estimated biennial cost is $27.5 million).

- Adjust the Small Institution Supplement from $750,000 to $950,000 to reflect changes in inflation since the supplement was originally established in 1998 (estimated biennial cost is $3.6 million).

Changes to the Formula:

- Determine the Instruction and Operations (I&O) matrix based upon a cost analysis of FY 2002 and FY 2003 (budget neutral).

- Phase-in the cost-based I&O matrix such that no institution will lose more than 3 percent of funding as derived from the I&O matrix (budget neutral).

- Reallocate the portion of the infrastructure formula weighted for utility costs such that total funding is equal to total reported costs, on a statewide basis (budget neutral).

- Shift architecture from program area 2 to program area 1 in the space model, which will increase the space per student from 75 to 90 square feet for baccalaureate level courses, 52.5 to 63 square feet for master's level courses, and 30 to 36 square feet for doctoral level courses (estimated biennial cost is $665,232).

Changes / Additions to Formula Supplements:

- Increase the Small Institution Supplement for the Lamar State Colleges (Lamar Institute of Technology, Lamar State College-Orange, and Lamar State College-Port Arthur) and the Texas State Technical Colleges (TSTC) to 50 percent of the Small Institution Supplement for universities. This would increase the payment to each of the Lamar State Colleges and TSTC campuses to $475,000 per year from the current $75,000 per year. The supplement is part of the formula (estimated biennial cost is $5.6 million).

- Fully fund the known growth that occurred between the 2002-2003 and 2004-2005 base periods, and provide an additional payment for dramatic growth, defined as growth greater than 3 percent in fall 2006 and greater than 6 percent in fall 2007 (estimated biennial costs are $123 million and $4.1 million, respectively).

[5] Global Insights, formerly known as Data Resources Inc./Wharton Economic Forecasting (DRI/WEFA), is a nationally recognized forecasting service. The calculated biennial forecast for the period 9/1/05 – 8/31/07, CPI – All Urban Consumers is 3.7 percent.

- In addition to funding growth between the base periods, fully fund nursing growth as a results-based payment (separate from the above) for growth greater than 3 percent in fall 2006 and greater than 6 percent in fall 2007 (estimated biennial cost is $5.3 million).

- Provide a results-based payment for institutions that show an increase in the number of baccalaureate degrees awarded above the fall 2004 levels (estimated biennial cost is $4.1 million).

- Nursing Success Payment: The state should provide results-based funding that the Coordinating Board will distribute based on the number of nursing graduates. The total biennial funding recommended for all institutions of higher education is $20 million. Distribution to each sector will be based on the relative percentages of the sector. For fall 2002, the universities supplied approximately 40 percent of total graduates, which would result in $8 million in results-based payment for the biennium. **The UFAC did not recommend this supplement.**

Other Funding Related Issues:

- The Coordinating Board recommends that the community colleges participating in the baccalaureate pilot project receive the same I&O formula as the universities and the 10 percent bonus for full-time faculty. It is further recommended that these colleges not receive the infrastructure formula funds or the Small Institution Supplement. This is a budget neutral recommendation.

- **Alternative Teacher Certification Supplement:** Coordinating Board staff, at the direction of the UFAC, reviewed three different options for funding Alternative Teacher Certification (ATC) Programs at community colleges and universities. These options were not available for discussion while the formula advisory committees were meeting. At issue is whether the state should provide funding for alternative teacher certification programs at community colleges. The Coordinating Board would have to develop a funding and reporting mechanism. Below are the three funding options that the staff reviewed:

    1. Reimbursement Method – Program providers request amount of funding following the year that successful applicants are certified.

    2. Annual or Biennial Competition Method – Program providers file competitive proposals requesting the funds. Criteria for award could be based upon number of students in the program or other objectives determined.

    3. Formula Award Basis – Program providers are paid a flat rate for each successful completer. The colleges and universities may not report the students who become successful completers for any other formula funding. The state pays only a portion (to be determined) of the cost of preparing the alternatively-certified teachers.

  The Coordinating Board does not recommend any of the above, in part, because the programs are fully subscribed and often have waiting lists. Current charges for these programs vary significantly with a variety of different subsidies typically available to students.

  The Coordinating Board recommends that additional funding for alternative teacher certification be made available by increasing support for either the Teach for Texas Alternative Teacher Certification program (a student loan forgiveness program), or the State Board for Educator Certification (SBEC), the state agency that approves Alternative Teacher Certification programs.

Additional studies:

The following additional studies are recommended.

- The University Formula Advisory Committee for 2006-2007 biennium should continue to conduct a comprehensive study of the cost-based I&O matrix.

- The Infrastructure Study Committee for the 2008-2009 biennium should review a comparison of actual versus predicted space. The Coordinating Board staff should use December 15th as the certification date for the institutional facilities inventory.

- The UFAC for the 2008-2009 biennium should review of the cost of providing distance education to determine whether formula funding is sufficient to cover the costs.

- The Infrastructure Study Committee for the 2008-2009 biennium should review the appropriateness of the current threshold of 5,000 students for receiving the Small Institution Supplement.

- The Infrastructure Study Committee for the 2008-2009 biennium should review the cross-walk as new Classification of Instructional Programs (CIP) codes are developed to ensure that similar classes are being coded appropriately.

4. Cost Summary

Below are cost estimates of implementing these recommendations for the 2006-2007 biennium. The estimated costs of the recommended changes to the formulas, the recommended changes to the supplemental payments, and the recommendations for non-formula items are calculated from 2004-2005 biennium amounts.

Table 1
Funding Recommendations for General Academic Institutions for the 2006-2007 Biennium

Objective / Goal	Description - Formula Items	Estimated Biennial Cost
New Methodology	Develop relative weights for the I&O matrix based on costs with a phase-in	Budget Neutral
Incremental Adjustment	Adjust I&O formula rate for inflation	$110.2 million
Incremental Adjustment	Adjust Infrastructure formula and space model	$27.5 million
Incremental Adjustment	Adjust the Small Institution Supplement	$3.6 million
Participation and Success	Small Institution Supplement for the Lamar State Colleges and TSTC campuses	$5.6 million
	Estimated Increase in Spending - Formula Items	**$146.9 million**
	Description - Non-Formula Items	
Participation and Success	Fully fund growth	$123 million
Participation and Success	Baccalaureate Pilot Project	Budget Neutral
Participation and Success	Fund dramatic growth (greater than 3% in FY 2006 and 6% in FY 2007)	$4.1 million
Participation and Success	Fund nursing growth (greater than 3% in FY 2006 and 6% in FY 2007)	$5.3 million
Success	Results-based funding for increasing the number of baccalaureate degrees	$4.1 million
Incremental Adjustment	Re-classify program areas in Space Model	$ 665,232
Success	Results-based funding for all nursing degrees awarded	$8 million
	Estimated Increase in Spending Non-Formula Items	**$ 145.2 million**
	Total Estimated Increase, Formula & Non-Formula Items plus Growth in Base Year Funding	**$ 292.1 million**

Appendix A
Authority for Funding Formula Development

Texas Education Code, Section 61.002

> In the exercise of its leadership role, The Texas Higher Education Coordinating Board shall be an advocate for the provision of adequate resources . . . to institutions of higher education, to the end that the State of Texas may achieve excellence for college education of its youth . . .

Texas Education Code, Section 61.059(b)

> The board shall devise, establish, and periodically review and revise formulas for the use of the governor and the Legislative Budget Board in making appropriations recommendations to the Legislature for all institutions of higher education, including the funding of postsecondary vocational-technical programs. As a specific element of the periodic review, the board shall study and recommend changes in the funding formulas based on the role and mission statements of institutions of higher education. In carrying out its duties under this section, the board shall employ an ongoing process of committee review and expert testimony and analysis.

General Appropriations Act, 78th Legislature, page III-266.

> These formulas and supplemental items shall be reviewed and updated by study committees appointed by the Higher Education Coordinating Board and recommended changes forwarded to the Legislature, Legislative Budget Board, and Governor's Office of Budget and Planning by June 1, 2004.

Appendix B
FORMULA ADVISORY COMMITTEE AND FORMULA STUDY COMMITTEES FOR THE 2006-2007 BIENNIUM

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Note: *Terms end August 31 in the year indicated in parenthesis*

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Note: *Terms end August 31 in the year indicated in parenthesis*
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Health-Related Institutions
Funding Formulas

Coordinating Board Recommendations
for the
2006-2007 Biennium

April 2004

Texas Higher Education Coordinating Board
P. O. Box 12788
Austin, TX 78711

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Executive Summary
Health-Related Institutions

For the third biennium, health-related institutions received a substantial portion of their appropriations through funding formulas in the 2004-2005 biennium. The Texas Education Code and the General Appropriations Act give the Texas Higher Education Coordinating Board authority to review and recommend changes to these formulas (Appendix A). This document contains the results of that review.

The Commissioner of Higher Education appointed a Health-Related Institution Formula Advisory Committee (HRIFAC) to assist in this review. Mr. Steve Russell, Senior Vice President for Finance and Administration at the University of North Texas Health Science Center at Fort Worth, chaired the HRIFAC; Mr. Richard Moore, Vice President for Business and Administration, The University of Texas Medical Branch at Galveston, chaired the Instruction and Operations Subcommittee; Mr. Steve Lynch, Executive Vice President for Business Affairs, The University of Texas Health Science Center at San Antonio, chaired the Infrastructure Subcommittee; Dr. Gilbert Castro, Vice President for Academic Administration, The University of Texas Health Science Center at Houston, chaired the Research Subcommittee; and Dr. Harry Holmes, Vice President for Governmental Relations, The University of Texas M.D. Anderson Cancer Center, chaired the Mission Specific Support Subcommittee. All nine of the health-related institutions were represented on the committee. A complete listing of the members is shown in Appendix B. The meetings occurred in September through December 2003, the minutes of which may be found at, http://www.thecb.state.tx.us/AdvisoryCommittees/Fin/.

This report presents the recommendations of the Coordinating Board. These recommendations were considered by the Coordinating Board at its April 2004 meeting and were forwarded to the Governor, the Legislature, and the Legislative Budget Board in May 2004.

To achieve the goals of *Closing the Gaps by 2015,* the Texas higher education plan, a significant financial investment will need to be made by the State of Texas. As stated in the plan*:*

> "Population changes sweeping the state require creative solutions to sort out the subsequent educational challenges. The population projections of the state forecast the greatest growth to occur in urban areas and along the Texas border. By 2008, Texas will become a minority-majority state. Hispanics will account for more than 40 percent of the state's population. Blacks will represent 11 percent. Whites will be 45 percent. Other groups, including Asian-Americans, will represent 4 percent. The state's Hispanic and Black populations have enrolled in higher education at rates well below that of the White population. The educational enrollment and success rates for all Texans will have to rise more rapidly than ever to avoid a decline in educational levels" (p. 7).

The recommendations of the Coordinating Board are summarized below under the *Closing the Gaps* objectives, and expanded upon in subsequent sections of the report.

HRI Recommendations by *Closing the Gap* Goals:

Participation and Success

- Adjust 2004-2005 biennial amounts by known growth between the last two base periods and adjust for projected inflation between the current and the next base periods (estimated biennial increase of $79.4 million).
- Provide a payment for the number of nursing degrees awarded (estimated biennial increase of $4 million).
- Provide a payment for baccalaureate nursing growth (estimated biennial increase $5 million).
- Provide results-based funding for enrolled Hispanic and African-American students (estimated biennial increase of $31.1 million).
- Create a new rate for master's and doctoral levels of nursing (estimated biennial increase of $1.4 million).
- Establish a weight for students in Health Informatics (estimated biennial increase of $262,674).
- Change data collection methods used for the mission specific support to The University of Texas Health Center at Tyler (this is a budget neutral recommendation).

Research

- Provide a biennial increase of $15 million for research enhancement calculated at 1.42 percent of reported research expenditures (Note: research expenditures for the health-related institutions increased from $821,437,118 in FY 2001 to $1,055,779,708 in FY 2003).

The funding formulas allocate **$1,265,771,989** of the appropriation for health-related institutions for the 2004-2005 biennium. An additional **$107,716,564** is allocated to the formulas from Section 56, Special Provisions Relating Only to State Agencies of Higher Education. If the recommendations contained in this report are adopted and fully funded by the Legislature for the 2006-2007 biennium, the estimated formula appropriation would be **$1,452,953,873**, an increase of **$79,465,320**, or 5.8 percent. Recommended increases in non-formula items add **$56,742,343**. The result is a total increase in formula and non-formula items to **$1,509,696,237** which is an increase of **$136,207,684** or 9.9 percent overall.

1. Background

One-third of the funds appropriated to Texas health-related institutions for the 2004-2005 biennium are allocated through funding formulas. These formulas are intended to provide for an equitable allocation of funds among institutions and to establish the level of funding required to support higher education adequately.

Until the 2000-2001 biennium, the funding of health-related institutions had been through a continuation and special item process. However, the 76th Legislature adopted a new set of funding formulas that serve to allocate funds to Instruction and Operations, Infrastructure, Research, and Mission Specific Support. The General Appropriations Act directs the Coordinating Board to review the formulas and to make recommendations to the Legislature in June of even-numbered years.

In response to that mandate, the Commissioner of Higher Education appointed a formula advisory committee to assist in conducting this review. The Health-Related Institution Formula Advisory Committee (HRIFAC) was comprised of nine individuals including presidents and chief administrative/business officers of health-related institutions and a faculty representative. The chair of the Formula Advisory Committee initiated the review process by appointing four subcommittees to review and make recommendations to the full committee on Instruction and Operations, Research, Infrastructure, and Mission Specific Support funding.

The HRIFAC met four times beginning September 2003 and concluding December 2003. The subcommittees also met several times during that period. Appendix B contains a list of the committee members. All of the members of the HRIFAC served on subcommittees.

The Instruction and Operations Subcommittee reviewed the formula that provides support for the ongoing academic and administrative programs of the health-related institutions. The Infrastructure Subcommittee reviewed the formula that provides support for maintenance and operations, including utilities, of the institutions' physical plants. The Mission Specific Support Subcommittee reviewed the formula for the two institutions, The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler, which are not authorized to offer a broad range of health professions education degree programs.

The HRIFAC submitted its recommendations to the Commissioner on February 23, 2004. The formal report of the HRIFAC is available at the Coordinating Board's website at: http://www.thecb.state.tx.us/AdvisoryCommittees/Fin/.

The HRIFAC's primary recommendation was that no changes be made to any formula component until each institution received the level of funding that each received in the 2002-2003 biennium (before the 7 percent reductions). To accomplish this recommendation, no other recommended adjustments would be implemented until after the base year data for the 2004-2005 biennium are funded by the 2002-2003 biennium funding rates for instruction and operations, infrastructure, research, and mission specific support.

This is not recommended by the Coordinating Board. Rather, the Coordinating Board recommends an inflation methodology that comports with the recommendation for the universities and two-year institutions. The base period would be the funding amounts received in the 2004-2005 biennium, adjusted for inflation.

The Coordinating Board's recommendation includes adjustments for both known growth between biennia and projected inflation.

The Coordinating Board also recommends results-based payments for growth in nursing enrollment and nursing degrees awarded as well as for Hispanic and African-American enrollment.

2. Health-Related Institutions Formula Funding

2.1 Funding Formulas used for the 2004-2005 Biennium

The funding formulas adopted by the Legislature for the 2004-2005 biennium are found in the General Appropriations Act, Article III, pages III-266 and 267, and they are reproduced here for reference.

Section 31. Health Related Institutions Funding. Funding for health related institutions shall consist of three formulas plus supplemental non-formula items.

1. **Instruction and Operations Support Formula.** The Instruction and Operations Support Formula shall provide funding on a per student or full time equivalent basis. Funding for each instructional program is based on the following funding weights per student, with a base value per weighted student of $9,934:

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

   Instructional programs with enrollments of less than 200 students at individual campuses shall receive additional funding to compensate for the diseconomies of scale. The minimum formula shall generate additional funding per student, on a sliding scale, with programs with small enrollments receiving more additional funding per student.

2. **Infrastructure Support Formula.** Funding to the health-related institutions for plant support and utilities shall be distributed by the infrastructure support formula which is driven by the predicted square feet for the health related institutions produced by the Space Projection Model developed by the Texas Higher Education Coordinating Board. The rate per square foot is $9.43 for all health related institutions, excluding The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Center at Tyler. For these two institutions, the per square foot rate is $9.31.

   Because the Space Projection Model does not account for hospital space, separate infrastructure funding for hospital space at The University of Texas Medical Branch at Galveston, The University of Texas M. D. Anderson Cancer Center, and The University of Texas Health Center at Tyler shall be included in the total funding for hospital and patient care activities.

3. **Research Funding.** The health-related institutions shall retain 100 percent of indirect research costs recovered on grants. Each institution also receives research enhancement funding of $1,412,500 plus 2.15 percent of its research expenditures as reported to the Texas Higher Education Coordinating Board.

4. **Supplemental Non-formula Items.** Institutions shall receive a direct reimbursement as applicable for staff group insurance, workers' compensation insurance, unemployment insurance, public education grants, medical loans, tuition revenue bond payments, and facility lease charges. Institutions may receive an appropriation for special items. Hospital and clinic operations shall be funded through a combination of hospital and clinic revenue and general revenue.

5. **Formula Study Committees.** These formulas shall be reviewed and updated by study committees appointed by the Texas Higher Education Coordinating Board and recommended changes forwarded to the Legislature, Legislative Budget Board, and Governor by June 1, 2004.

6. **Mission Specific Support.** The University of Texas M.D. Anderson Cancer Center and the University of Texas Health Center at Tyler do not provide formal medical education which qualifies for instruction support under subsection 1 above. Therefore, funding allocated to these institutions shall be based on the following criteria:

   a. The University of Texas M.D. Anderson Cancer Center has a statutory mission to eliminate cancer through patient care, research, education, and prevention. General Revenue funds appropriated to The University of Texas M.D. Anderson Cancer Center in Strategy B.1.3, Science Park Operations, and Strategy D.1.1, Patient Care Activities, shall be based on the number of new cancer cases each year based upon population estimate projections of the state produced by the Texas State Data Center and California State Center Registry incidence rates used as a methodological source by cancer epidemiologists in Texas and throughout the country. General Revenue appropriations for fiscal year 2004 shall be based on the number of new cancer cases reported in 2001, and General Revenue appropriations for fiscal year 2005 shall be based on the number of new cancer cases reported in 2002. The rate per new cancer case shall be $59.31 in fiscal year 2004 and $58.21 in fiscal year 2005 for Strategy B.1.3, Science Park Operations: and $263.29 in fiscal year 2004 and $268.16 in fiscal year 2005 for Strategy D.1.1, Patient Care Activities.

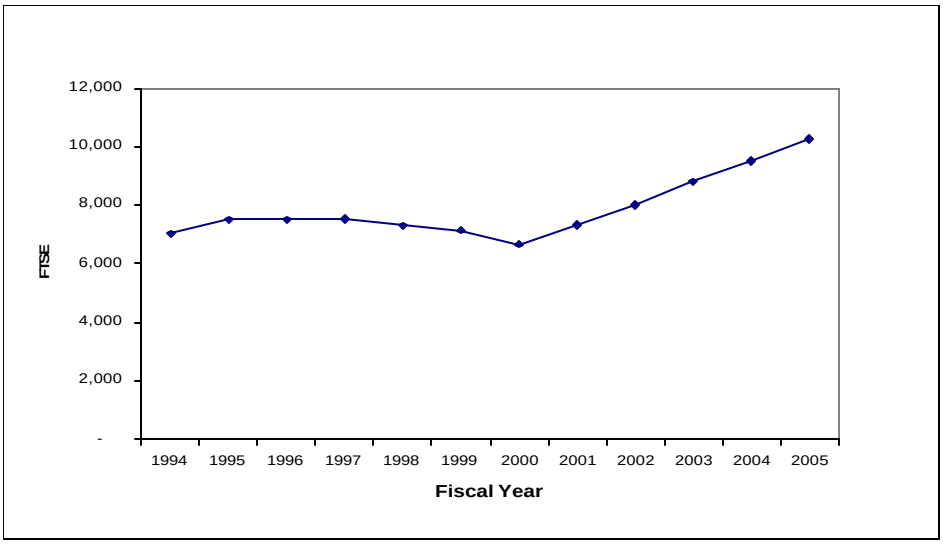
   b. The University of Texas Health Center at Tyler has a statutory mission to conduct research, develop diagnostic and treatment techniques, provide training and teaching programs, and provide diagnosis and treatment of inpatients and outpatients with respiratory diseases. General Revenue funds appropriated to The University of Texas Health Center at Tyler in Strategy A.1.1, Medical Education and Research Items, shall be based on the number of new primary chest disease diagnoses each year in Texas as reported by participating Texas hospitals in the Texas Hospital Association Patient Data System program. General Revenue appropriations for fiscal year 2004 shall be based on the number of new primary chest disease diagnoses reported in 2000, and General Revenue appropriations for fiscal year 2005 shall be based on the number of new primary chest disease diagnoses reported in 2001. The rate per primary chest diagnosis shall be $7.56 for fiscal year 2004 and $7.27 for fiscal year 2005.

   c. The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler shall submit to the Legislative Budget Board, Governor, and Texas Higher Education Coordinating Board a copy of the appropriate reports discussed above and supporting documentation which provides the necessary information to calculate the formula allocations in subsections (a) and (b) above.

2.2 Health-Related Institutions FTSE

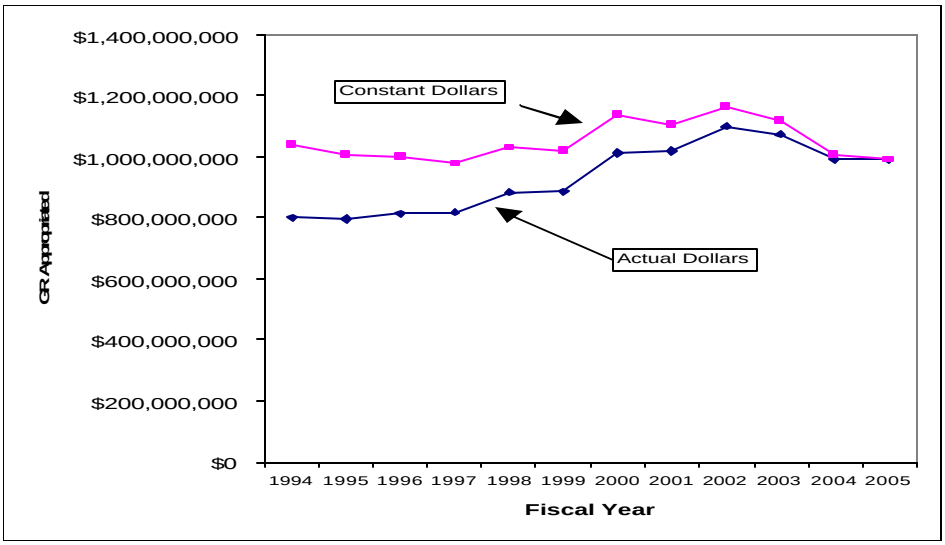
Health-related institutions have experienced modest enrollment growth. If projections for 2004 and 2005 are accurate, the number of students increased 46 percent over the 11-year period, 1994 through 2005. To allow a more meaningful analysis, headcount enrollment figures were converted to Full-Time Student Equivalent (FTSE) figures.

Chart 1 - Health-Related Institutions FTSE by Fiscal Year



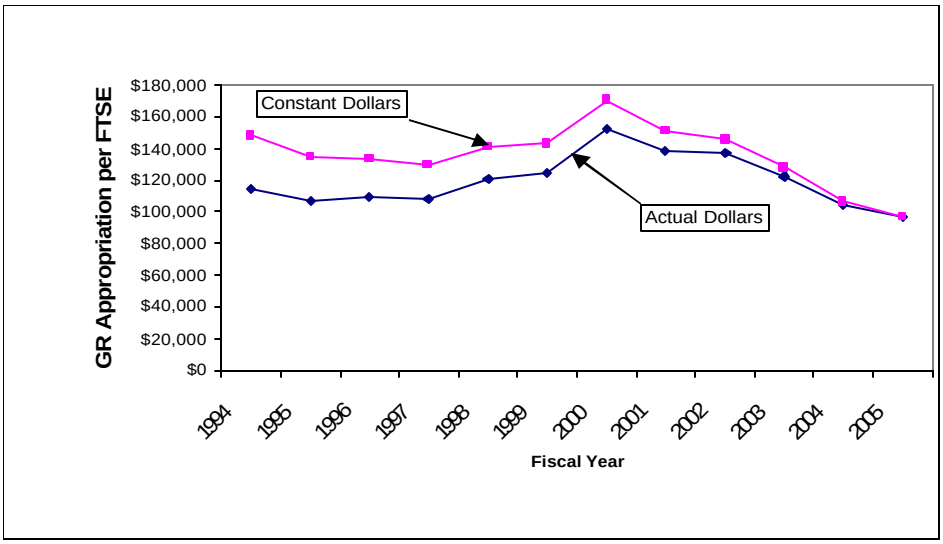
The General Revenue funding over the same time period has not kept pace with enrollment growth. The General Revenue constant dollar growth for HRIs over the 11-year period has declined by 5 percent, while actual dollar growth is 24 percent.

Chart 2 - General Revenue Appropriations for Health-Related Institutions by Fiscal Year



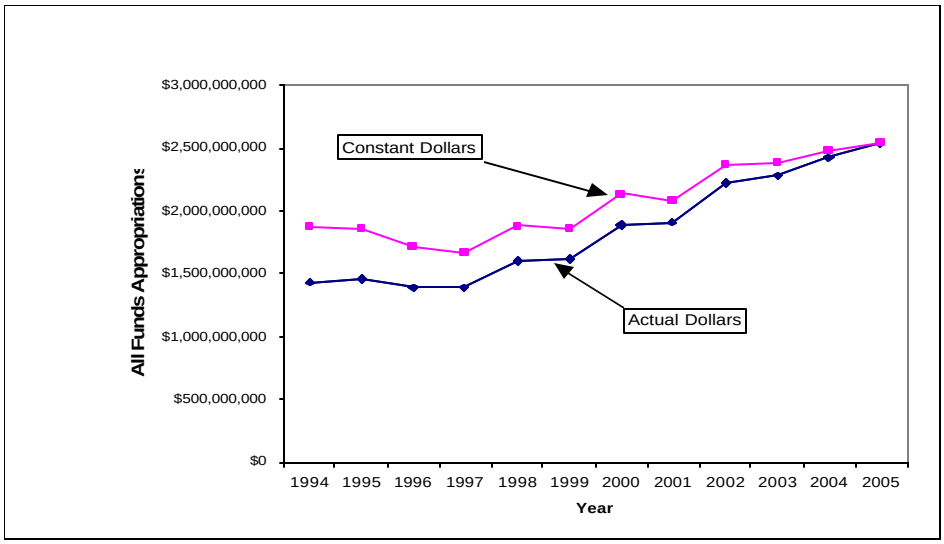
The resulting analysis of General Revenue per FTSE shows the impact of the student growth and the corresponding General Revenue funding. The General Revenue constant dollar per FTSE has decreased 35 percent over the 11-year period, while actual dollar growth decreased 15 percent.

Chart 3 - General Revenue Appropriations for Health-Related Institutions per FTSE, by Fiscal Year



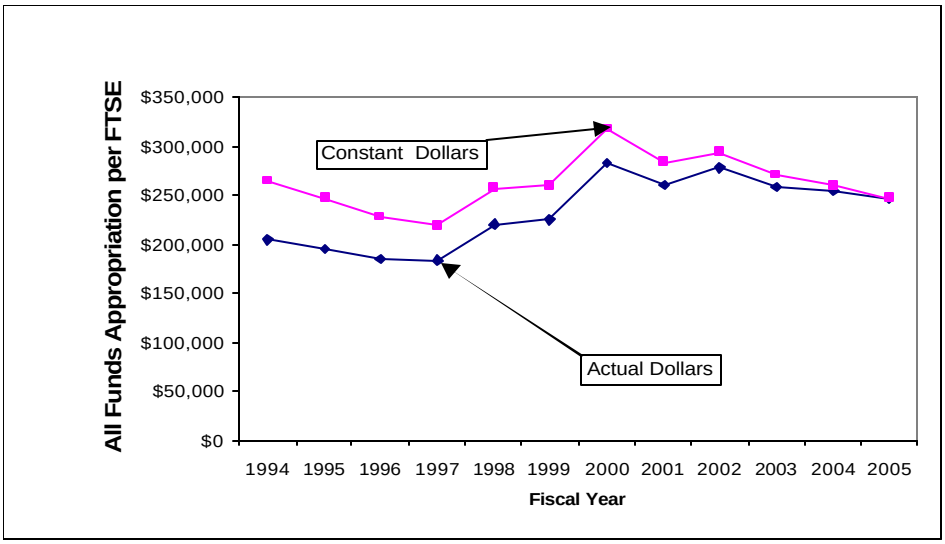
Like the universities, the health-related institutions are state agencies. The appropriations for the health-related institutions include tuition and fees and other funding sources in addition to General Revenue. All Funds appropriations in constant dollars have increased 36 percent over the 11-year period, while the actual dollars have increased by 77 percent.

Chart 4 - All Funds Appropriations for Health-Related Institutions by Fiscal Year



The resulting All Funds per FTSE, in constant dollars, for health-related institutions indicates a decrease of 7 percent over the 11-year period from 1994 to 2005, while actual dollars have increased 21 percent.

Chart 5 - All Funds Health-Related Institutions Funding per FTSE, by Fiscal Year



3. Recommended Changes to the Current Funding Formulas

The Health-Related Institutions Formula Advisory Committee recommended that all of the various rates discussed below first be adjusted to the 2002-2003 biennial amounts. The Coordinating Board did not agree with this recommendation. **The Coordinating Board recommends that 2004-2005 amounts be the base amounts on which the biennial estimates are constructed.** This is consistent with the recommendations made for the two-year and general academic institutions. **The Coordinating Board also recommends a results-based payment for growth in nursing degrees awarded, which is consistent with the other recommendations.**

The following are the Coordinating Board's recommendations for health-related institutions:

Inflation Adjustments

- Increase the Base Value Per Weighted Student in the Instruction and Operations Formula from $9,934 to $10,301 to reflect changes in the Consumer Price Index for All Urban Consumers (CPI-U) (estimated biennial cost is $35.7 million).

- Increase the per-NASF rate in the Infrastructure Formula from $9.31 for The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center Tyler to $9.65 to reflect changes in the CPI-U. For all other health-related institutions, increase the rate from $9.43 to $9.78. Increases are related to changes in the CPI-U (estimated biennial cost is $30.4 million).

- Adjust the research base rate of $1,412,500 per institution for research to $1,464,739 to reflect increases in the CPI-U (estimated biennial cost is $940,301).

- Increase established rates for each mission specific support calculation to reflect the increase in the CPI-U (estimated biennial cost is $3.2 million).

Structural changes to the formula

- Adjust 2004-2005 biennial amounts by known growth between the last two base periods (11.1 percent) (estimated biennial cost is $7.8 million).

- Provide a 10 percent supplement in the I&O formula as an incentive for recruiting and retaining each enrolled Hispanic and African-American students, which are the two largest groups currently underrepresented in Texas medical schools for the purpose of closing the gaps in participation and success (estimated biennial cost is $31.1 million).

- Adjust formula appropriations for research to add $15 million for the biennium, the equivalent of 1.42 percent of research expenditures reported in the FY 2003 Research Expenditures Report.

- Fully fund baccalaureate nursing growth as a results-based payment for growth greater than 3 percent in fall 2006 and greater than 6 percent in fall 2007 (estimated biennial cost is $5 million).

- Nursing Success Payment: The state should provide results-based funding that the Coordinating Board will distribute based on the number of nursing graduates. The total biennial funding recommended for all institutions of higher education is $20 million. Distribution to each sector will be based on the relative percentages of the sector. For fall 2002, the health-related institutions supplied approximately 20 percent of total RN nursing graduates, which would result in $4 million in results-based payment for the biennium.

- Change data collection methods used for the reimbursement to The University of Texas Health Center at Tyler to make use of more reliable data sources (This recommendation is budget neutral).

Change in the weights for specific disciplines

- Create a new rate for master's and doctoral levels nursing programs and set the rate at 110 percent of the current nursing rate (an increase from 1.138 to 1.252) to encourage graduate enrollment and compensate for the higher costs associated with the low student-to-faculty ratio required for the graduate-level programs. This recommendation is consistent with the charge to assess the effectiveness of funding to target critical workforce shortage areas in the state (estimated biennial cost is $1.4 million).

- Establish a weight for students in Health Informatics at the same weight as that of proposed for Graduate Biomedical Sciences - 1.292. Health Informatics is populated by students who already possess an undergraduate degree and in many cases a professional health degree (MD, DDS, and DSN) or a PhD. degree in a biomedical science area (estimated biennial cost is $262,674).

4. Funding Implications of the Proposed Funding Formula

Table 1
Funding Recommendations for Health-Related Institutions for the 2006-2007 Biennium

Objective / Goal	Description - Formula Items	Projected Cost
Participation and Success	Adjust FY 2002-03 I&O, Infrastructure, and Mission Specific Support formula for known growth inflation and inflation	$78.4 million
Participation and Success	Provide results-based funding equal to 10 percent above the applicable funding weight for every enrolled African American and Hispanic student.	$31.1 million
Incremental Adjustment	Fund Health Informatics at UTHSC – Houston using the Biomedical Sciences rate	$262,674
Participation and Success	Results-based funding for baccalaureate nursing dramatic growth	$5 million
Success	Results-based funding for all nursing graduates	$4 million
Participation and Success	New Rate for Master's and Doctoral Nursing	$1.4 million
Research	Increase research funding by $15 million (1.42 percent of research FY 2003 expenditures)	$15 million
Research	Adjust the Research base rate for inflation and known growth	$1 million
	Total	$136.2 million

Table 2
Effects of Full Formula Funding

Institution	Formula Only 2004-2005 Base[1]	2006-2007*** Recommended	Increase	Percentage Increase
UTSWMC Dallas	$166,979,532	$185,522,689	$18,543,157	11.11%
UTMB Galveston	$151,238,675	$170,772,115	$19,533,440	12.92%
UTHSC Houston	$221,827,305	$246,668,983	$24,841,678	11.20%
UTHSC San Antonio	$194,428,197	$219,095,190	$24,666,993	12.69%
TAMUSHSC	$105,681,844	$117,488,398	$11,806,554	11.17%
UNTHSC Fort Worth	$78,047,267	$83,953,782	$5,906,515	7.57%
TTUHSC	$151,109,098	$167,437,087	$16,327,989	10.81%
*UT MD Anderson Cancer Center**	$261,026,967	$274,559,486	$13,532,519	5.18%
UTHC Tyler**	$43,149,668	$44,198,507	$1,048,839	2.43%
Statewide Totals	$1,373,488,553	$1,509,696,237	$136,207,684	9.92%

*Includes Science Park
**Includes Mission Specific Support Funding
***Base (I&O, Infra, Research, Mission Sp) plus known growth between 2002-2003 biennium and 2004-2005 biennium and inflation for 2006-2007 biennium plus the following changes:

- Three nursing (MSN + Doctoral Weight ($1.4 million), BSN Growth ($5 million), All Nursing Graduates ($4 million)
- Health Informatics ($262,674)
- Research ($15 million)
- Participation & Success Hispanic and African-American students (All) ($31.1 million)

[1]Includes all Section 56 Formula Allocations

Appendix A

Authority for Funding Formula Development

Texas Education Code, Section 61.002

> In the exercise of its leadership role, the Texas Higher Education Coordinating Board shall be an advocate for the provision of adequate resources ... to institutions of higher education, to the end that the State of Texas may achieve excellence for college education of its youth ...

Texas Education Code, Section 61.059(b)

> The board shall devise, establish, and periodically review and revise formulas for the use of the governor and the Legislative Budget Board in making appropriations recommendations to the Legislature for all institutions of higher education, including the funding of postsecondary vocational-technical programs. As a specific element of the periodic review, the board shall study and recommend changes in the funding formulas based on the role and mission statements of institutions of higher education. In carrying out its duties under this section, the board shall employ an ongoing process of committee review and expert testimony and analysis.

General Appropriations Act, 78th Legislature, page III-267

> These formulas and supplemental items shall be reviewed and updated by study committees appointed by the Texas Higher Education Coordinating Board and recommended changes forwarded to the Legislature, Legislative Budget Board, and Governor's Office by June 1, 2004.

Appendix B

HEALTH-RELATED INSTITUTIONS FORMULA ADVISORY COMMITTEE FOR THE 2006-2007 BIENNIUM

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Note: *Terms end August 31 in the year indicated in parenthesis*

Related reports available from the Texas Higher Education Coordinating Board's Division of Finance, Campus Planning and Research:

An Overview of Article III, House Bill 1, 78th Legislature, General Appropriations Act, Agencies of Public Higher Education, October 2003

An Overview of Article III and Article XII, Senate Bill 1, 77th Legislature, General Appropriations Act, Agencies of Public Higher Education, January 2002

Coordinating Board Recommended Funding Formulas, Fiscal Years 2004-2005 for Community Colleges, General Academic Institutions and Health-Related Institutions, April 2002

Statewide Median Rates from FY2002 All Funds Expenditure Report

Financing Higher Education: The Appropriate Balance among Appropriations, Tuition and Fees, and Financial Aid to Achieve the Goals of Closing the Gaps

Minutes of the Community and Technical College Formula Advisory Committee for the 2006-2007 Biennium

Minutes of the University Formula Advisory Committee for the 2006-2007 Biennium

Minutes of the Instruction & Operation Formula Study Committee for the 2006-2007 Biennium

Minutes of the Infrastructure Formula Study Committee for the 2006-2007 Biennium

Minutes of the Health-Related Formula Advisory Committee for the 2006-2007 Biennium

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