

**Texas Higher Education Coordinating Board
Legislative Appropriations Request (LAR) Hearing
September 20, 2010 at 3:30PM
Capitol Extension Room E2.030**

FRED HELDENFELS

Good afternoon and thank you for the opportunity to provide you with an overview of our Legislative Appropriations Request for the 2012-13 biennium. My name is Fred Heldenfels and I'm Chairman of the Texas Higher Education Coordinating Board. Joining me is Vice Chair of the Board, Elaine Mendoza, and Commissioner Raymund Paredes. We also have key staff present to respond to additional questions.

I want to begin by thanking our budget leaders for exempting a significant portion of student financial aid from the five percent budget reductions in the current biennium. As a Coordinating Board, we have no higher mission than helping students achieve the dream of higher education. Now in particular there is a critical need for our state to ensure that higher education is affordable and accessible, especially among low- and middle-income Texans. We continue to advocate for financial aid exemptions from potential reductions in the upcoming session, and we thank members of the Legislature and the Governor in advance for doing all they can do to protect student financial aid.

For the upcoming session, the Coordinating Board is also focused on a wide range of strategies designed to increase cost efficiencies and productivity in higher education while dramatically improving student persistence and completion of academic and technical programs across all sectors. Our agenda next session is designed to maintain momentum for *Closing the Gaps by 2015*, accelerate our progress where needed, and improve the efficiency of higher education as the state addresses fiscal challenges.

The All Funds request in our LAR for the 2012-13 biennium is \$1.68 billion, which represents a 3 percent decrease over the current biennium. Our new base for General Revenue and General Revenue-Dedicated is \$1.4 billion and represents 95 percent of GR/GR-D appropriated amount for the

current biennium. We identified two 5 percent reduction options to GR/GR-D funds that total 10 percent, or \$140.5 million, that would be reduced from the new base. Finally, we submitted a total of \$376.7 million in exceptional item requests. The majority of this request is for student financial aid.

I would like to turn it over to Vice Chair Mendoza to briefly discuss the process used by the Coordinating Board to develop the LAR.

ELAINE MENDOZA

Thank you, Mr. Chairman. When you examine our LAR and the reductions we are proposing, you will see that all decisions about which expenditures to preserve, cut or eliminate were undertaken as part of a cohesive, strategic process. That's because, at the outset, the Commissioner established four clear guiding principles for staff in developing the LAR.

The first guiding principle was to preserve as much as possible the programs that contribute the most to achieving the goals of the state's higher education plan, *Closing the Gaps by 2015*. As you know, *Closing the Gaps* aims to achieve national parity with the 10 largest states in four critical areas: student participation, student success, institutional excellence, and research. Texas is making significant progress in achieving these goals. Since 2000 when the plan was adopted, total enrollment has increased by 401,000 students, with the largest enrollment growth in our history occurring last fall. Hispanics accounted for the largest numeric and percentage enrollment increases (175,248 or 74 percent); and annual degrees and certificates awarded to all students have increased by 42 percent. But our work is not finished, and in drafting our LAR we put a focus on maintaining the momentum we have built toward reaching these goals.

The second guiding principle was to preserve as much as possible the programs that contribute the most to achieving the goals of the *Accelerated Action Plan for Closing the Gaps*. In April of this year, the Board adopted this plan to target the four areas in which the state is falling furthest behind in relation to *Closing the Gaps*. Those four areas are: 1) increasing participation rates of African American males and Hispanics; 2)

increasing success rates of African American and Hispanic students; 3) increasing the number of STEM field graduates; and 4) increasing the number of well qualified, certified teachers.

The third guiding principle was to preserve as much as possible all student financial aid programs that serve the neediest students, such as TEXAS Grant program, the Texas Educational Opportunity Grant Program, and Texas Work Study. As Chairman Heldenfels stated, ensuring access to financial aid for our neediest students is one of the Coordinating Board's highest priorities.

The fourth principle was to avoid across-the-board cuts. The easiest thing the staff could have done was apply across-the-board cuts, but the Commissioner wanted each strategy to be carefully evaluated and funded in proportion to its contribution to our state's higher education goals.

Now I would like to turn it over to the Commissioner who will give the highlights of our LAR.

RAYMUND PAREDES

Let me begin by saying that, we worked very hard to allocate our proposed reductions to protect those resources that help our neediest students and that most contribute to meeting our *Closing the Gaps* goals. Because our budget is closely aligned with our mission, goals, and objectives, it was impossible not to propose cuts that would eliminate the financial aid opportunities available to tens of thousands of needy Texas students, and severely hamper progress on the student success, institutional quality, and research development goals for higher education.

Our operating budget for the biennium represents just 3 percent, or \$52.3 million, of our total budget. We have made a concerted effort to ensure we have a lean but effective administrative structure – in fact, the percentage of our budget dedicated to operating expenses today is half of what was noted at our last sunset review in 2002 – 6 percent compared to the current 3 percent. As a result, there is correspondingly little room for us to realize savings through operating expense reductions. Our 10 percent reduction schedule includes proposed reductions of \$1.4M to the central administration strategies (H strategies). This represents a 9% reduction of

the GR/GR-D appropriations. Reductions to central administration will be achieved through a combination of reduced building rent, reduced travel, extended life of IT equipment and reductions to other operating costs. Since last fall, we have filled positions on a case-by-case basis, and only after a careful assessment of critical needs. We also hold positions open as long as possible to realize cost savings.

Since our sunset review, while our appropriated budget has increased from \$270 million to \$920 million in FY 2010, our FTE count has only increased from 277 to the current 310 cap. Less than half of our 310 FTEs are funded through general revenue. Repayments and administrative fees on our loan programs, as well as administrative funds included with our federal programs and private grants, directly support the majority of our staff members. We have kept our staff structure lean through consolidation of duties, streamlining of processes, and use of temporary employees. We no longer post vacant positions automatically. Postings for vacant positions must be individually justified and approved by both Deputy Commissioners. Vacant positions are filled with temporary employees to the extent possible.

One example of filling vacancies with temporary employees is the administration of the \$723M stimulus funds program which is administered with two full time employees and four employees from a temp agency. We have operated the agency with an average of 12 vacancies for the last three years, in spite of budgeted funds having increased. Between FY 09 and FY 11, our non-GR/GR-D funds have increased from \$115.3M to \$168M, an increase of 46%. We anticipate expanding our extramural funding efforts, thus we are reluctant to reduce our FTE cap. As you know, positions funded with external funds are still subject to the FTE cap. We're making much more aggressive efforts to acquire extramural funding.

In an effort to simplify our LAR, staff produced a summary that I would like to walk you through. You should have a copy of this document at your places [hold up document]. On page A-1, you will see spreadsheets outlining our Baseline Request. As Chairman Heldenfels noted, the GR/GR-D total of \$1.4 billion represents 95 percent of the appropriated amount from the current biennium. I want to point out one significant modification that we made to the baseline in the financial aid strategy in order to meet

the required reductions for the new baseline. Because our baseline preserved as much grant aid to needy students as possible, we had to reduce B-on-Time by \$19.5 million or 37 percent in the baseline. As a result, new B-on-Time awards to Independent College and University students from GR will be eliminated in 2012-13. All new awards will be funded exclusively from tuition set asides currently remitted to the Coordinating Board. All eligible renewal BOT awards will be funded with the remaining GR, set aside funds, and repayments on unforgivable loans.

Beginning on page B-1, you will see our 10 percent base reduction options schedule. I would like to highlight those strategies that we recommend be eliminated if the reductions are realized. These programs provide little or no contribution to the state's efforts to achieve the goals of *Closing the Gaps*.

- **OAG Lawyers Loan Repayment Program** – this program provides loan repayments to attorneys who work for the Office of the Attorney General. While we have recommended this program for elimination, just this past Friday the Coordinating Board was awarded \$700,000 under the federal John R. Justice Loan Repayment Program to assist prosecutors and public defenders across the state. While this program is not perfectly aligned with the program we are proposing for elimination, there is some overlap and we think we will be able to adjust the program to cover much of the impact from eliminating the OAG Lawyers Loan Repayment Program.
- **African American Museum Internship** – this program provides funding for 10 internships for students who wish to explore the possibilities of a career in museology (or museum studies), museum administration/management, and closely related work. The Coordinating Board is exploring alternative funding methods, such as the use of Work Study funds, to support these internships, thus continuing the intent of the program.
- **Primary Care Residency Program** - Beginning in FY 2010, all family practice residency programs supported under the Primary Care Residency Programs were transferred to receive funding exclusively under the Family Practice Residency

Program. The funds that are proposed to be eliminated would have supported 23 primary care programs currently supporting 122 residents in the following residency specialties: Internal Medicine, Obstetrics and Gynecology. Reduction and elimination of these funds would result in 61 fewer residents supported. However, not all of the 41 eligible programs currently receive primary care residency funding. Eighteen residency programs currently operate without these funds, suggesting that eliminating funding would not necessarily result in programs closing.

Moving down the spreadsheet, you will see cuts to our H strategies which represent our operating budget. As I previously mentioned, the Coordinating Board's operating budget represents approximately 3 percent of All Funds appropriated to the agency. For both reduction options, the Coordinating Board is recommending reducing Central Administration by a total of 7.23 percent, Information Resources by 9.94 percent, and Other Support Services by 13 percent. Program operating budgets in aggregate were reduced by more than 10 percent to preserve trustee program funding.

Regarding our student financial aid strategy, which includes funding for the TEXAS Grant program, the Texas Educational Opportunity Grant Program, the Tuition Equalization Grant Program, Texas Work Study, and B-on-Time loan program, we are recommending preserving the need-based programs as much as possible. We also ranked student financial aid as the last program to be cut in both sets of the reductions.

To realize the first full amount of the first 5 percent reduction option, TEXAS Grant was reduced by \$6.2 million and by \$37.7 million in the second reduction. More than 40,000 fewer students will receive an initial award than in the previous biennium at the baseline request if both proposed reductions are made.

Let me pause here and make an editorial comment. You've already heard that we had the enrolment growth in the history of Texas higher education between 2008 and 2009. Our early data suggest we will have similar growth between 2009 and 2010. Those students are largely poor, largely first generation and largely Hispanic. It would be the worst possible

message to send to those students that, just as they're entering higher education in significant numbers, we're going to cut funding that makes it possible for them to go to college.

My fear is that those students, because of a lack of financial support and a lack of academic support programs at institutions of higher education, will leave college, return to their communities and say to their siblings, friends and families that higher education is not for them. If that happens, it's likely to have a large effect on our higher education enrollments over the next generation, with profound implications for our economic competitiveness and quality of life in Texas.

We did not recommend a decrease in TEOG funding under the first reduction scenario. The second proposed reduction of \$1.39 million will result in 697 fewer students receiving an initial grant. About 3,000 fewer students will receive an initial award than in the previous biennium at the baseline request if this proposed reduction is made.

For TEG, the first reduction is \$10.5 million and the second reduction is \$12.2 million. Approximately 10,900 fewer students will receive an initial award than in the previous biennium at the baseline request if both proposed reductions are made.

For B-on-Time, the first reduction is \$11.1 million and the second reduction is \$4.8 million. Approximately 9,200 fewer students will receive an initial award than in the previous biennium at the baseline request if both proposed reductions are made.

For Work Study, the proposed reduction of \$620,000 will result in 498 fewer students receiving an award.

On page B-2, you will see the strategies that we recommend no reductions. Some examples include:

- **Teach for Texas Loan Repayment Program** – this program provides loan repayments to qualified teachers at Texas public K-12 schools. Teachers must provide full-time instruction in a subject field having a critical shortage of teachers or at a campus having a critical shortage of teachers. Demand exceeds

availability of funds. This program is important for achieving the goal to increase the number of certified teachers, particularly in the STEM fields, as indicated in the Coordinating Board's *Accelerated Plan for Closing the Gaps by 2015*.

- **Engineering Recruitment Program** – this program engages and encourages middle and high school students to consider engineering as a profession. It is a critical program that supports the Coordinating Board's goal in the *Accelerated Plan* to increase the number of STEM degrees.
- **TRIP (Texas Research Incentive Program)** – this program was established by HB 51, 81st Texas Legislature, to provide funding and incentives to emerging public research universities in developing and maintaining high quality programs. If Texas wants to establish additional national research universities, this funding is critical for the emerging research universities.
- **Two-year and four-year institution enrollment growth** – Texas institutions of higher education experienced the greatest enrollment growth in the history of record keeping in fall 2009. More than 122,000 new students enrolled in Texas public and private institutions of higher education. It is critical that the state fund this growth at public 2-year and 4-year institutions, which is consistent with the Coordinating Board's formula funding recommendations to fund 100% of growth.

The Coordinating Board is recommending a total of \$376.7 million in exceptional item requests. I want to highlight some of our key requests:

- **Student Financial Aid** – The Legislature has invested significant funds to student financial aid. In order to maintain this momentum, we are recommending the following exceptional items:
 - **TEXAS Grant** - \$172.3 million to maintain a consistent number of students entering the program each year
 - **TEOG** - \$10 million to reach an additional 4,000 students in the biennium
 - **Work Study** - \$15 million will double the number of students in the program
 - **Top 10%** - \$18 million to fully fund this program

- **Higher Education Performance Incentive Initiative** – these funds are awarded to general academic institutions on the basis of the number of degrees awarded. Supplemental funding is awarded based on whether the degree is awarded in a critical field and whether the graduate is an “at-risk” student. The Legislature began funding this initiative in FY09 with General Revenue. In the 2010-2011 biennium, funding was provided through the federal American Recovery and Reinvestment Act (ARRA). Given the lack of ongoing ARRA funding, the THECB requests \$80 million in General Revenue for this critical initiative.
- **Texas High School Completion and Success Initiatives** - The 81st Texas Legislature moved the statutory responsibility for Mathematics, Science, Technology Teacher Preparatory Academies and the Intensive Programs from TEA to the THECB, but did not appropriate funding to the THECB. Currently, funding is provided to TEA and TEA provides the THECB with funding through an MOU. TEA representatives have indicated they will not request funding in the 2012-2013 LAR since they do not have statutory authority for these two programs.
- **Texas Armed Services Scholarship** - This will fund two new full cohorts of 185 students each year and renewals from the FY12 cohort.
- **National Student Clearinghouse Data** – This will enable us to enhance the capability of research in the area of college access and success, the THECB requests \$500,000 to purchase matching records from the National Student Clearinghouse. This will enable us to very intentionally and in a focused way identify what helps students succeed and what prevents students from being successful in college. We want to be more data driven in Texas, and this will help us in that goal.
- **Baylor College of Medicine Undergraduate Education** - The THECB requests \$9.1 million on behalf of Baylor College of Medicine (BCM) to restore reductions made to this strategy since BCM has no other mechanism for requesting an exceptional item. This will fund BCM equivalent to formula funding that is provided to all public health-related institutions for medical education.

FRED HELDENFELS

In conclusion, we want to thank the Texas Legislature and the Governor for enacting significant legislation that has contributed to and will positively impact the state's ability to close the gaps. Examples of those initiatives include the College and Career Readiness Standards, the significant investment in TEXAS Grants over the past 10 years, and the commitment to developing additional national research universities. All of these have contributed greatly to advancing our state's higher education goals.

But we have much more work ahead of us, and we on the Coordinating Board firmly believe that Texas must continue to significantly invest in higher education. We must continue to invest in higher education because there is so much at stake, both in terms of the long-term economic health of our state and the quality of life of our citizens. According to the Perryman Group, achieving the objectives of *Closing the Gaps* would, by 2030, achieve annual statewide gains of \$489.6 billion in consumer spending, \$194.5 billion in gross state product, and \$121.9 billion in personal income, as well as 1,023,281 permanent jobs. Moreover, the state would receive approximately \$8.08 in receipts for every \$1 in funding over this period.

In order to fully reap the benefits of our investment in higher education, we cannot afford to do business as usual. Beyond what we have proposed in the LAR, we at the Coordinating Board are pursuing multiple initiatives to ensure that our state's higher education funding is spent in the most efficient and effective manner possible to achieve our goals. And so we have proposed incorporating student success measures into the formula funding model; prioritizing TEXAS grants toward those needy students most ready to meet the challenges of higher education; and realizing greater cost-efficiencies across our institutions. We look forward to working with the Legislature and the Governor on these and other initiatives to make sure our citizens realize the greatest possible return on their investment in higher education.

Thank you, and we are happy to answer any questions you might have.

