

***Formula Funding Recommendations  
for the  
2004-2005 Biennium***

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**April 2002**

**Texas Higher Education Coordinating Board  
P. O. Box 12788  
Austin, Texas 78711  
[www.thecb.state.tx.us](http://www.thecb.state.tx.us)**

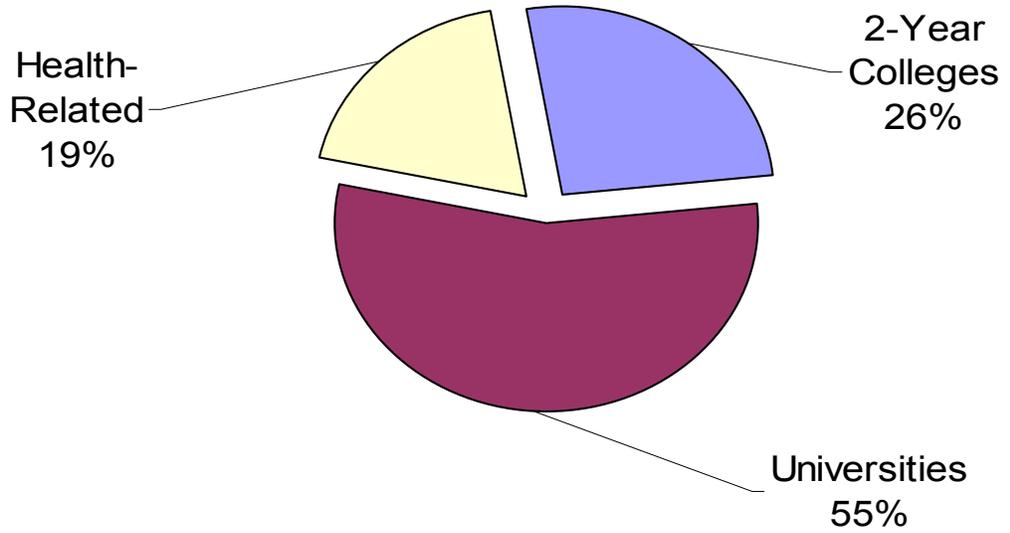
# Texas Higher Education Coordinating Board

## Formula Funding Recommendations April 18, 2002

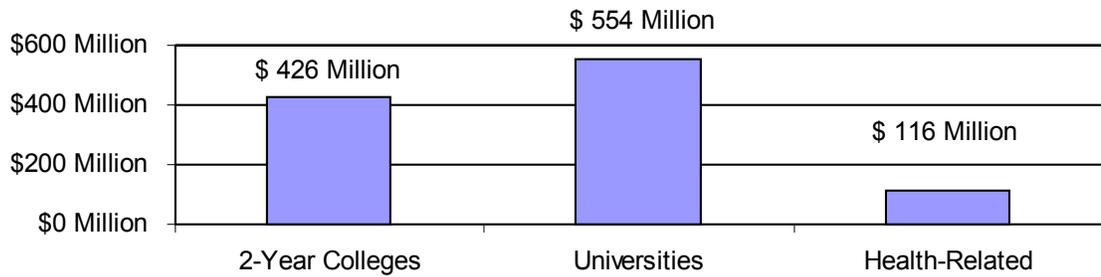
### Summary of Financial Implications

Sector	Current Formula Appropriation	Recommended Appropriation	Increase over Current Formula Appropriation
<b>Community and Technical Colleges</b>	\$1,691 million	\$1,889.4 million	11.7%
Dramatic Enrollment Growth		12.7 million	
Projected Growth (7.45%)		129.0 million	
Closing the Gaps Supplement		86.0 million	
Total		\$2,117.1 million	<b>25.2%</b>
<b>Universities</b>	\$3,580 million	\$3,976.0 million	11.1%
Projected Growth (4.4%)		157.6 million	4.4%
Total		\$4,133.7 million	<b>15.5%</b>
<b>Health-Related Institutions</b>	\$1,233 million	\$1,349.0 million	<b>9.4%</b>
<b>Statewide Total Formula Appropriation</b>	\$6,504 million	\$7,599.8 million	<b>16.9%</b>

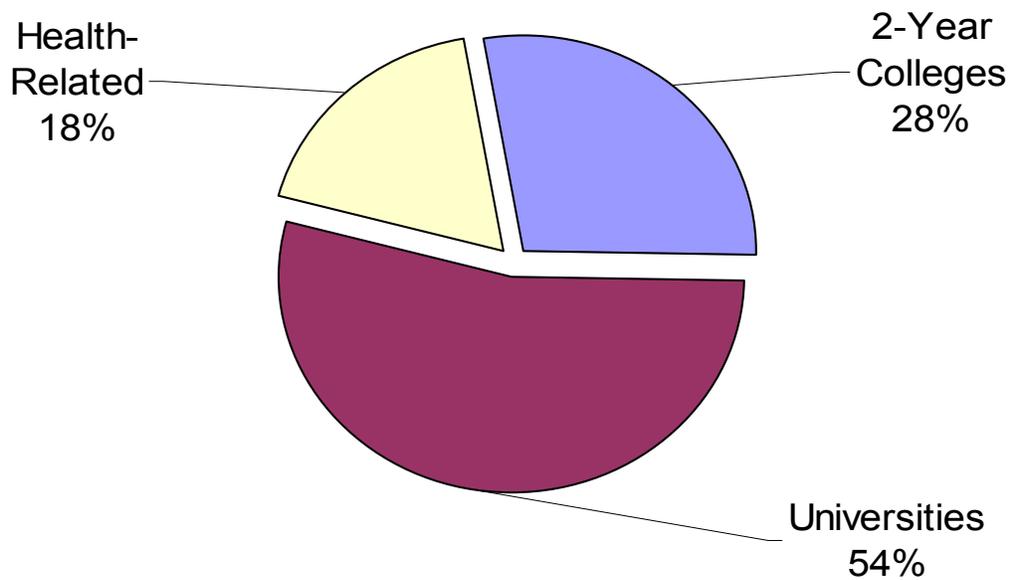
**All Funds Formula Appropriations  
Biennium 2002 - 2003**



**Increase Recommended**



**All Funds Formula Appropriations  
Biennium 2004 - 2005**



**Community and Technical Colleges  
Funding Formulas**

**Coordinating Board Recommendations  
for  
Fiscal Years 2004-2005**

**April 2002**

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## Executive Summary

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

The Commissioner of Higher Education appoints a formula advisory committee to undertake this review, and the Coordinating Board considers the results of the review and the recommendations of the Commissioner in making its recommendations. Following is a discussion of the two alternate funding models and the resulting formula rates.

Two models for setting formula rates are proposed:

- The first model has rates directly derived from the 2001 All Funds Expenditure Report, and it assumes that the State would 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 funds. Fully funding this formula would require an increase in appropriations of approximately 61.2 percent, plus growth. The Formula Advisory Committee recommends this model.
- The second model is a “current services” formula. The appropriation for the 2002-2003 biennium was based on rates that were approximately 66.55 percent of those resulting from the 1999 All Funds Expenditure Report. Model 2 has rates that are based on 66.55 percent of the 2001 All Funds Expenditure Report plus a 4.8 percent adjustment for inflation. This formula would require an increase in appropriations of approximately 12.4 percent. The Coordinating Board recommends this model.

In addition to the rates, the Formula Advisory Committee recommended a formula supplement that would provide an amount equal to 10 percent of the All Funds Expenditure Report to support the Texas Higher Education Plan. The Coordinating Board recommends that Model 2 be used to set rates and that additional participation and success supplements be provided to further the goals of the Texas Higher Education Plan.

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

In order to improve the educational climate so that all citizens of the State of Texas can benefit from achieving the goals of the Texas Higher Education Plan, a significant financial investment will need to be made by the State of Texas. As stated in the Texas Higher Education Plan, Closing the Gaps:

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. White 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.

The recommendations presented here attempt to align the formula recommendations with the goals of Closing the Gaps. They are expanded upon in subsequent sections of this report.

## 1. Background

Texas has 50 state-assisted community college districts, each governed by a locally elected board of trustees with taxing authority. Each district is authorized to offer both academic and vocational/technical programs. State law precludes the use of state funds to support the physical plant and certain other expenditures 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. The Texas State Technical College System has four colleges located in Waco, Marshall, Sweetwater, and Harlingen. The three Lamar institutions and the four Texas State Technical College institutions are state-supported 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 College System are all-funds appropriations; i.e., the Legislature appropriates locally collected tuition and fees to these institutions.

The Legislature 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 is 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 fully fund the Coordinating Board's formula recommendation in recent years, so each institution receives a percentage of the recommendation. New rates, based on the All Funds Expenditure Report described in Section 2 of this report, are determined each biennium.

Coordinating Board staff develops the All Funds Expenditure Report, with input from an advisory committee of community and technical college presidents, faculty, and citizens. This committee is appointed by the Commissioner of Higher Education, elects its own chair, and provides advice and guidance on a range of formula-related topics. Appendix C contains a roster of 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 two-year colleges.

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

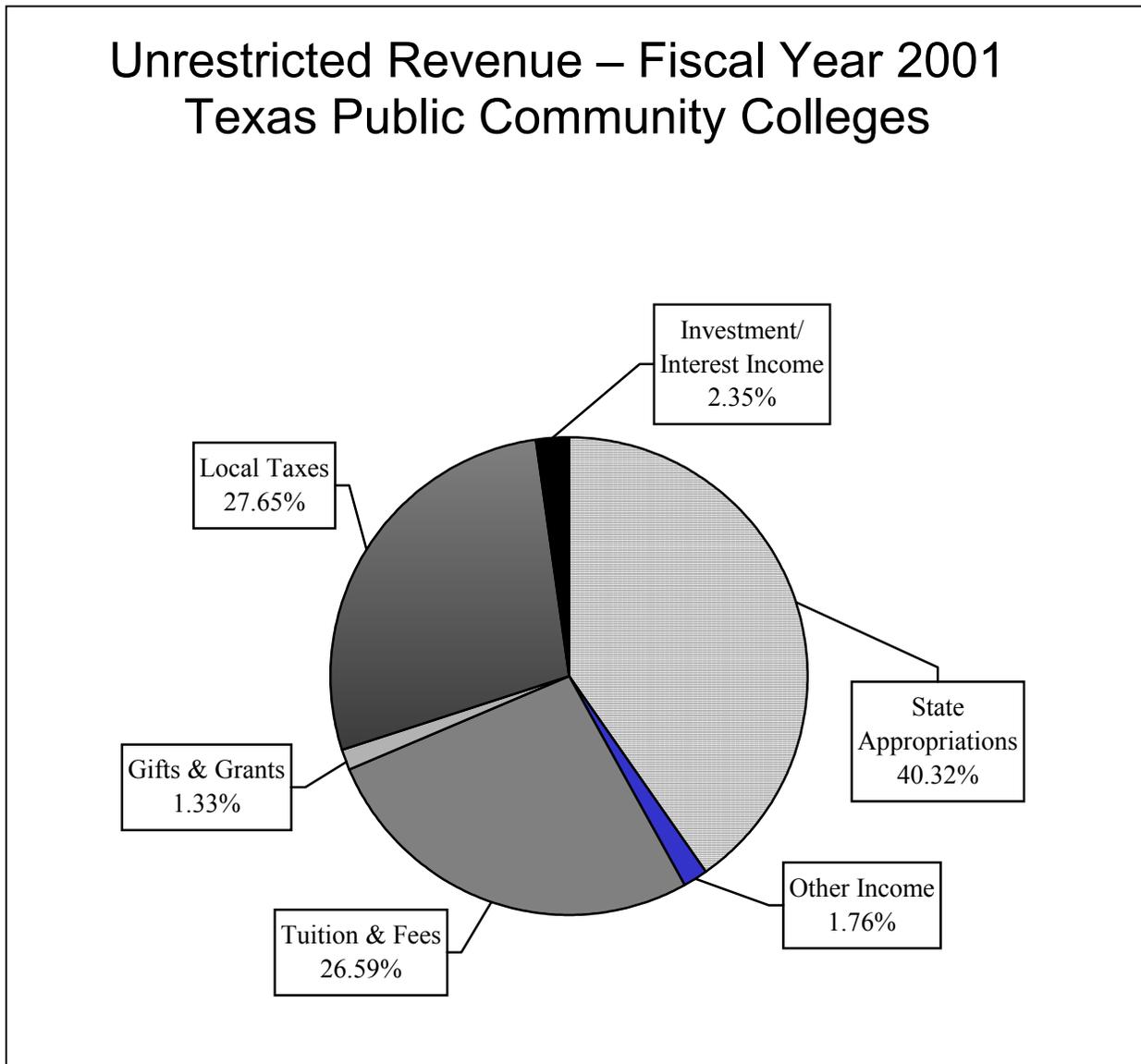
## 2. Community and Technical Colleges 2001 All Funds Expenditure Report

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

Each community college is asked to report 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 form the basis of the formula rate for that category.

The costs reported in the cost study reflect all the 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 annual financial reports filed by each community college district for Fiscal Year 2001, unrestricted funds were derived from the following sources in the amounts indicated:

<u>Source</u>	<u>Amount</u>
State Appropriations	\$ 733,169,994
Tuition and Fees	\$ 483,403,994
Gifts and Grants	\$ 24,166,561
Investment/Interest Income	\$ 42,815,892
Other Income	\$ 31,965,621
Subtotal	\$1,315,522,062
Local Taxes	\$ 502,781,663
Total	\$1,818,303,725

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 choose to subsidize administrative and instructional programs with local tax revenue simply to maintain a margin of excellence.

Based on Fiscal Year 2001 annual financial reports, total statewide expenditures on administrative and instructional costs that are eligible for state funding included the amounts indicated:

<u>Expenditure</u>	<u>Amount</u>
Instruction	\$ 813,483,643
Academic Support	\$ 142,758,843
Student Services	\$ 144,788,196
Institutional Support	\$ 292,763,080
Total	\$ 1,393,793,762

Thus, after using state appropriations, tuition and fees, gifts and grants, investment income and other income, *ad valorem* tax collections of \$78.3 million were used to subsidize administrative and instructional costs at public community colleges.

### **3. Two Models for Setting Administrative and Instructional Rates**

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

#### *3.1. Model 1 – Formula rates providing 100 percent of administration and instructional costs.*

The first model is derived directly from the 2001 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 59.68 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 local tax burden and start-up funding for new programs.

The rates that would apply if this formula is adopted are shown in Appendix B. Fully funding the formula with these rates would require an increase in formula funding from approximately \$1.68 billion to \$2.71 billion, a 61.2 percent increase.

#### *3.2 Model 2 – Coordinating Board's Recommendations.*

The appropriation for the 2002-2003 biennium was based on rates that were approximately 66.55 percent of those resulting from the 1999 All Funds Expenditure Report. Model 2 has rates that are based on 66.55 percent of the more-recent 2001 All Funds Expenditure Report plus 4.8 percent to compensate for projected inflation between Fall 2001 and Fall 2003. The rates that would apply are shown in Appendix B. These rates would require an increase in appropriations of approximately 12.4 percent (to \$1.9 billion).

#### 4. Other Formula-Related Recommendations

A number of other issues were discussed by the Formula Advisory Committee and are presented below:

Closing the Gaps Supplement: The Formula Advisory Committee recommended a supplement in the amount of 10 percent of the All Funds Expenditure Report be trusted to the Coordinating Board to help increase student participation and success. The committee recommended that in fiscal year 2004, the funds should be allocated among institutions based on headcount enrollment and that in fiscal year 2005, 90 percent should be based on headcount enrollment and 10 percent be based on unspecified performance measures.

The Coordinating Board recommends a *Closing the Gaps* supplement totaling \$86 million. The majority of the supplement is to address the participation goal and is designed for enhanced recruitment and retention (\$77.5 million). The remainder (\$8.5 million) is intended to be used for the success goal and is to be based upon degrees and certificates awarded.

The recruitment and retention portion of the supplement is based on differences between the number of students who are expected to enroll under normal circumstances and the number who will enroll if Closing the Gaps efforts are successful. In each year it provides \$1,000 for each of these additional students who are expected to enroll the following year.

The success portion of the supplement would provide an average of \$200 per degree or certificate awarded. This allocation would be made only in FY 2005, based on awards in FY 2004.

Dramatic Enrollment Growth: In recent biennia, the Legislature has trusted funds to the Coordinating Board for dramatic enrollment growth, which was defined as growth over 5 percent in the first year of the biennium and 10 percent in the second year of the biennium. The Formula Advisory Committee recommended that all growth be funded and that 4 percent of the appropriation for administration and instruction be trusted to the Coordinating Board for that purpose. The Legislature appropriated \$10 million for dramatic enrollment growth in the 2002-2003 biennium. The Formula Advisory Committee recommendation would require an estimated \$55 million be appropriated for that purpose.

The Coordinating Board recommends that growth in excess of 3 percent be funded in Fiscal Year 2004 and growth in excess of 6 percent be funded in Fiscal Year 2005, the same policy in place for general academic institutions. Assuming growth similar to that experienced this biennium, this recommendation would require an appropriation of \$12.8 million.

Separate Rates for Developmental Education and Distance Education: The Formula Advisory Committee recommended that the Coordinating Board convene committees of practitioners to determine if it would be appropriate to develop separate formula rates for developmental education courses and distance education courses. The Coordinating Board supports the recommendation.

Support for Annexation: The Committee recommended that the Coordinating Board estimate the costs and benefits of promoting annexation of property currently not included in a community college district and, if appropriate, recommend to the Legislature incentives for promoting annexation. The Coordinating Board supports the recommendation.

Concurrent Enrollment: Current policies of the Texas Education Agency do not provide ADA funding for enrollments in workforce education courses in which high school students are also enrolled for college credit. The Formula Advisory Committee recommended that the Board “resolve with staff of the Texas Education Agency the issue of funding concurrent credit courses ...” The Commissioner will continue to raise this issue, but this issue can only be addressed by the Texas Education Agency, and the agency’s current position appears to be consistent with the relevant statute.

## 5. Summary

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

**Model 1: Formula Advisory Committee Proposal – 100 percent of 2001 All Funds Expenditure Report** (plus 10 percent Closing the Gaps Supplement plus 100 percent of Dramatic Enrollment Growth plus Projected Base Year Growth)

	<b>Community Colleges</b>	<b>TSTC and Lamar State Colleges</b>	<b>Total</b>
2002-03 appropriation, based on 66.55 percent of 1999 All Funds Expenditure Report	\$1,569.2 million	\$111.5 million	\$1,681.7 million
2002-03 appropriation for Dramatic Enrollment Growth			\$10 million
2004-05 projected appropriation, based on 100 percent of 2001 All Funds Expenditure Report (Model 1)	\$2,528.2 million (61.1 percent)	\$180.8 million (61.6 percent)	\$2,709.0 million (61.2 percent)
2004-05 appropriation for Closing the Gaps Supplement (10 percent of line 3)	\$252.8 million	\$18.1 million	\$270.9 million
2004-05 proposal for 100 percent of Dramatic Enrollment Growth	\$50.3 million	\$5.0 million	\$55.3 million
Proposal Subtotal	\$2,831.3 million	\$203.9 million	\$3,035.2 million
Projected Enrollment Growth between Base Year 2001 and Base Year 2003	\$188.3 million	\$13.5 million	\$201.8 million
Proposal Total	\$3019.4 million (92.4 percent)	\$217.6 million (94.9 percent)	\$3237.0 million (92.5 percent)

**Model 2: Coordinating Board Recommendation - 66.55% of the 2001 All Funds Expenditure Report, plus Inflation** (plus Closing the Gaps Supplement plus 100 percent of Dramatic Enrollment Growth plus Projected Base Year Growth)

	<b>Community Colleges</b>	<b>TSTC and Lamar State Colleges</b>	<b>Total</b>
2002-03 appropriation, based on 66.55 percent of 1999 All Funds Expenditure Report	\$1,569.2 million	\$111.5 million	\$1,681.7 million
2002-03 appropriation for Dramatic Enrollment Growth			\$10 million
2004-05 projected appropriation, based on 66.55 percent of 2001 All Funds Expenditure Report	\$1,682.5 million (7.2 percent)	\$120.3 million (7.9 percent)	\$1,802.8 million (7.3 percent)
Inflation between Fall 2001 and Fall 2003 (4.8 percent of FY 04-05)	\$80.8 million	\$5.8 million	\$86.6 million
<b>Subtotal</b>	<b>\$1,763.3 million (12.4 percent)</b>	<b>\$126.1 million (13.1 percent)</b>	<b>\$1,889.4 million (12.4 percent)</b>
2004-05 appropriation for Closing the Gaps Supplement for Participation Goal (\$1,000/student)	\$76.1 million	\$1.4 million	\$77.5 million
2004-05 appropriation for Closing the Gaps Supplement for Success Goal (\$200/certificate or degree)	\$8 million	\$500,000	\$8.5 million
2004-05 proposal for Dramatic Enrollment Growth (over 3 percent and 6 percent)	\$12.5 million	\$250,000	\$12.8 million
<b>Proposal Subtotal</b>	<b>\$1,859.8 million</b>	<b>\$128.3 million</b>	<b>\$1,988.1 million</b>
Projected Enrollment Growth between Base Year 2001 and Base Year 2003	\$125.3 million	\$3.7 million	\$129.0 million
<b>Proposal Total</b>	<b>\$1,985.1 million (26.5 percent)</b>	<b>\$132.0 million (18.4 percent)</b>	<b>\$2,117.1 million (25.2 percent)</b>

## 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

### Model 1 – Formula Advisory Committee Proposal – 100 percent of 2001 All Funds Expenditure Report

Funding = Base Period Contact Hours x Rates

Funding Code	Funding Discipline	<u>Rates per Base Period Contact Hour</u>	
		Fiscal Yrs 2002-2003	Fiscal Yrs 2004-2005
1	Agriculture	\$4.54	\$7.00
2	Architecture and Precision Production Trades	4.42	7.56
3	Biology, Physical Sciences, and Science Technology	3.66	5.90
4	Business Management, Marketing, and Administrative Services	4.14	6.07
5	Career Pilot	12.44	16.04
6	Communications	5.46	6.99
7	Computer and Information Sciences	3.62	6.69
8	Construction Trades	3.98	6.12
9	Consumer and Homemaking Education	3.56	5.52
10	Engineering	5.09	11.49
11	Engineering Related	4.23	6.58
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	3.50	5.75
13	Foreign Languages	3.80	5.93
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.01	9.73
15	Health Occupations - Dental Hygiene	7.46	11.79
16	Health Occupations – Other	4.33	6.69
17	Health Occupations - Respiratory Therapy	5.76	10.23
18	Health Occupations - Vocational Nursing	3.83	6.59
19	Mathematics	3.30	5.39
20	Mechanics and Repairers - Automotive	4.32	7.74
21	Mechanics and Repairers - Diesel, Aviation Mech., and Transport. Workers	4.87	7.41
22	Mechanics and Repairers - Electronics	4.31	7.41
23	Physical Education and Fitness	4.13	6.98
24	Protective Services and Public Administration	3.28	5.90
25	Psychology, Social Sciences, and History	3.31	5.27
26	Visual and Performing Arts	4.87	7.53

**Notes:**

Based 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).

Rates for courses identified by the Coordinating Board as priority technologies will be increased by 10 percent.

## Appendix B (Continued)

### Model 2 -Coordinating Board Proposal - 66.55% of the 2001 All Funds Expenditure Report plus Inflation

Funding = Base Period Contact Hours x Rates

Funding Code	Funding Discipline	<u>Rates per Base Period Contact Hour</u>	
		Fiscal Yrs 2002-2003	Fiscal Yrs 2004-2005
1	Agriculture	\$4.54	\$4.94
2	Architecture and Precision Production Trades	4.42	5.33
3	Biology, Physical Sciences, and Science Technology	3.66	4.16
4	Business Management, Marketing, and Administrative Services	4.14	4.28
5	Career Pilot	12.44	11.31
6	Communications	5.46	4.93
7	Computer and Information Sciences	3.62	4.72
8	Construction Trades	3.98	4.32
9	Consumer and Homemaking Education	3.56	3.89
10	Engineering	5.09	8.10
11	Engineering Related	4.23	4.64
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	3.50	4.05
13	Foreign Languages	3.80	4.18
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.01	6.86
15	Health Occupations - Dental Hygiene	7.46	8.31
16	Health Occupations – Other	4.33	4.72
17	Health Occupations - Respiratory Therapy	5.76	7.21
18	Health Occupations - Vocational Nursing	3.83	4.65
19	Mathematics	3.30	3.80
20	Mechanics and Repairers - Automotive	4.32	5.46
21	Mechanics and Repairers – Diesel, Aviation Mech., and Transport. Workers	4.87	5.23
22	Mechanics and Repairers -Electronics	4.31	5.23
23	Physical Education and Fitness	4.13	4.92
24	Protective Services and Public Administration	3.28	4.16
25	Psychology, Social Sciences, and History	3.31	3.72
26	Visual and Performing Arts	4.87	5.31

**Notes:**

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Rates for courses identified by the Coordinating Board as priority technologies will be increased by 10 percent.

## Appendix C

### PUBLIC COMMUNITY & TECHNICAL COLLEGE FORMULA ADVISORY COMMITTEE FOR 2004-2005 BIENNIUM

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Note: Terms end August 31 in the year indicted in parenthesis.

**General Academic Institutions  
Funding Formulas**

**Coordinating Board Recommendations  
for  
Fiscal Years 2004-2005**

**April 2002**

**Texas Higher Education Coordinating Board  
P. O. Box 12788  
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## Executive Summary

Over 75 percent of the funds appropriated to general academic institutions each biennium are distributed by funding formulas designed to equitably allocate funds. 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. This document contains the results of that review.

The Commissioner of Higher Education appointed a formula advisory committee and two associated study committees to assist in this process. Chancellor Lamar Urbanovsky of the Texas State University System chaired the Formula Advisory Committee. Provost Sheldon Ekland-Olson of The University of Texas at Austin chaired the Instruction and Operations Study Committee. Vice Chancellor Phil Diebel of the University of North Texas System chaired the Infrastructure Study Committee. Members of the committee and two study committees are shown in Appendix C of this report.

The Coordinating Board considers these committees' recommendations and the recommendations of the Commissioner before recommending formulas to the Governor and the Legislature. Where the Coordinating Board recommendations differ from those of the advisory committees, those differences are identified.

In order to improve the educational climate so that all citizens of the State of Texas can benefit from achieving the goals of *Closing the Gaps*, a significant financial investment will need to be made by the State of Texas. As stated in *Closing the Gaps: The Texas Higher Education 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 presented here attempt to align the formulas with the goals of *Closing the Gaps*. The recommendations are summarized below and expanded upon in subsequent sections of the report.

The Coordinating Board is also issuing a report to comply with Rider 49 of the General Appropriation Act (77th legislature, Article III, page 66). This rider requires a report on the effects of the formula on institutions with fewer than 10,000 students and a determination as to the adequacy of the formula for such institutions in comparison to institutions with larger student populations. This report will be issued separately, but the findings do not indicate any systematic differential in funding based solely on the formula distribution.

**All Goals**

- Prioritization of goals in the following order: Participation, Success, Excellence, Research

**Participation**

- Increase the weight for developmental education courses
- Design formulas for different types of institutions (long-term recommendation)
- Provide additional funding for institutions mandated to partner with low-income school districts
- Provide an incentive for enrolling economically disadvantaged students
- Fully fund dramatic enrollment growth

**Success**

- Increase the weight for teacher education and upper division mathematics and computer science
- Provide an additional incentive for completion of baccalaureate degrees

**Excellence**

- Increase the teaching experience supplement from 10 percent to 15 percent
- Continue the excellence funding

**Research**

- Increase funding for Advanced Research Program and Advanced Technology Program
- Return 100 percent of indirect cost revenue to institutions

The funding formulas allocated \$3,580,073,122 of the appropriation for general academic institutions for the 2002-2003 biennium. If these recommendations are adopted and fully funded by the Legislature, the estimated formula appropriation would be \$3,882,068,658, an increase of \$301,995,536, or 8.4 percent. Projected enrollment increases between base periods of 4.4 percent over the biennium add \$157,523,217. Recommended increases in non-formula items add \$94,148,690. The result is a total increase in formula and non-formula items to \$4,133,740,565, which is a 15.5 percent overall increase.

## 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 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 Formula Advisory Committee is comprised of university administrators, faculty members, and citizens. Each of the two study committees was assigned to one of two major sections of the formula and reported to the Formula Advisory Committee.

The Instruction and Operations formula provides support for the ongoing academic and administrative programs of the universities, and the Instruction and Operations Study Committee reviewed that formula and related supplements. The Infrastructure Support formula provides support for maintenance and operations, including utilities, of university and technical college physical plants, and was reviewed by the Infrastructure Study Committee. Most members of the Formula Advisory Committee served on a study committee, which was also augmented by other specialists. Academic officers participated in the Instruction and Operations Study Committee, and business officers and physical plant administrators in the Infrastructure Study Committee. Appendix C lists the committee members.

The Formula Advisory Committee made its recommendation to the Commissioner on March 15, 2002. The formal report of that committee is available from committee members or the Coordinating Board's Division of Finance, Campus Planning, and Research. There are some differences between the recommendations of the advisory committee and the recommendations of the Coordinating Board, and those differences are noted.

## 2. Funding Formulas Used for the 2002-2003 Biennium

The funding formulas adopted by the Legislature for the 2002-2003 biennium are found in the General Appropriations Act, Article III, page III-238, and they are reproduced here for reference.

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 2002-03 biennium is \$56.65.

Weighting is determined by the following matrix:

	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				

- 2. Teaching Experience Supplement.** For the 2002-2003 biennium, an additional weight of ten 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 ten 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 \$7.36.
- 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, 2002.

### **3. Recommended Changes to the Current Funding Formulas**

Recommended changes to the current funding formulas fall in several categories, as indicated below. Many of these recommendations are made with reference to Closing the Gaps. Additional supporting documentation material can be found in the Formula Advisory Committee's report to the Commissioner and in Appendix B. Unless otherwise noted, the committee and the Coordinating Board are in agreement regarding the recommendations given below.

Several adjustments are necessary to update the formulas for inflation and current data, and these are presented first. Inflation/deflation of general prices is estimated using projections of the Consumer Price Index for all Urban Consumers (CPI-U), provided by DRI/WEFA<sup>1</sup>. Following that are the various changes to the formulas and supplements.

#### **Inflation Adjustments:**

- Increase the per-SCH rate in the Instruction and Operations Formula from \$56.65 to \$59.71 to reflect changes in the CPI-U, plus staff salary increases that were provided by the 77th Legislature outside the formula.
- Increase the per-NASF rate in the Infrastructure Formula from \$7.36 to \$7.54 to reflect to reflect changes in the CPI-U, plus staff salary increases that were provided by the 77th Legislature outside the formula.
- Modify the research and office space factors in the space projection model to provide space per \$1,296,040 of research or current funds expenditures to reflect changes in the CPI-U.

#### **Changes to the Formula:**

- Increase the weight for developmental education from 1.0 to 1.25, on an interim basis, pending further study.
- Increase the weight of undergraduate teacher education courses to the weight of field-based teacher education.
- Increase the weight for computer science and mathematics courses currently classified as liberal arts to the science rate. The Coordinating Board recommends that this only occur for upper division computer science and mathematics courses.
- Allocate the portion of the infrastructure formula weighted for utility costs such that total funding is equal to total reported costs, on a statewide basis.

#### **Changes / Additions to Supplements:**

- Increase the Small Institutional Supplement for the Lamar State Colleges and the Texas State Technical Colleges (TSTC) to fifty percent of the small institution supplement for universities. This would increase the payment to Lamar State Colleges and TSTC to \$375,000 per year from the current \$75,000 per year. The supplement is part of the formula and appropriate documentation should be provided in the Appropriations Act.

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<sup>1</sup> Data Resources Inc./Wharton Economic Forecasting (DRI/WEFA) is a nationally recognized forecasting service. The biennial forecast for the period 9/1/03 – 8/31/05, CPI – All Urban Consumers is 4.8 percent.

- Remove agriculture and visual and performing arts from the current program area and create a fourth program area in the space model for agriculture and visual and performing arts. For each undergraduate FTE, allow 90 NASF. For each graduate and professional FTE, allow 63 NASF. For each doctoral FTE, allow 36 NASF. No other changes to teaching space are recommended.
- Allow the Texas Veterinary Medical Diagnostic Laboratory (TVMDL) in the space model for A&M services to report “current fund expenditures” in place of “research” in the formula with an appropriate reduction in administrative and support cost. The Coordinating Board recommends that 50 percent of the “current fund expenditures” be reported in place of “research” (see Appendix B).
- Provide a supplement that would provide an incentive for recruitment, retention, and graduation of economically disadvantaged students who graduate from economically disadvantaged school districts (see Appendix B).
- Fully fund the Growth Supplement.
- Increase the teaching experience supplement for undergraduate courses taught by tenured or tenure-track faculty from 10 percent to 15 percent, as mandated by the legislature.
- Develop an I&O research formula incentive that has a similar methodology to that for health-related institutions. For example, a fixed percentage of research expenditures in the previous biennium could be allocated to each institution. The Coordinating Board recommends that research be encouraged through alternative mechanisms (see Appendix B).
- Allow general academic institutions to retain 100 percent of indirect cost revenue generated from competitive external grants. It is also recommended that this item be considered as part of formula, as is the case with the health-related institutions, and documented in the Appropriations Act.
- Distribute funds trusted to the Coordinating Board for dramatic enrollment growth to the institutions early enough to enable them to address their dramatic growth.

**Other Financially Related Issues:**

- Create a fund equal to three percent of undergraduate Instruction and Operations funding, to be trusted to the Coordinating Board, which will be distributed based upon the total number of baccalaureate degrees awarded. This fund is intended to support Closing the Gaps success goals. This is a recommendation of the Coordinating Board and not the Formula Advisory Committee.
- For those institutions that have been mandated by statute (per House Bill 400, 77th session) to partner with low performing public schools in their area that are listed in the lowest 10 percent of the state in terms of sending students to higher education, provide funding proportional to the number of students served. Note that HB 400 proximity requirements will likely result in some of these funds being allocated to community colleges.

- Increase funding for the Advanced Technology Program – Advanced Research Program.

**Additional studies:**

- Formula Advisory Committee should conduct a comprehensive study of the weight matrix during the next two years. This should include consideration of alternative matrices for institutions with different missions.
- Develop an alternative to the utilities calculation formula that provides more incentives to negotiate discounted utility prices.
- Investigate the feasibility of specifically including excellence into the formula funding system

#### 4. Cost Analysis

Below are cost estimates of implementing these recommendations during the 2004-2005 biennium. The estimates given below assume that the inflation adjustments are made to the Fiscal Year 2002-2003 appropriations. The estimated costs of the recommended changes to the formulas are then determined, based upon inflated Fiscal Year 2002-2003 amounts. Recommended supplemental payments are also calculated based upon inflated Fiscal Year 2002-2003 amounts.

<b>Recommendation</b>	<b>Description</b>	<b>Estimated Biennial Cost</b>
	<b>Formula Items (Proposed Designated w/ “**”)</b>	
Prioritizing Goals	Fund the <i>Closing the Gaps</i> goals with the following priority: Participation, Success, Excellence Research	N/C
Inflation Adjustments	Adjust I&O formula “multiplier” for inflation	\$51.5 million
	Inflation adjustments in Infrastructure formula and space model	\$24.5 million
Participation	Increase the weight for Developmental Education to 1.25	\$4.2 million
	Develop different formulas for different classes of institutions (for next biennium)	N/C
	Provide incentive for enrolling economically disadvantaged students*	\$12.1 million
	Fully fund growth supplement*	\$25.4 million
	Allocate growth funding on a more timely basis	N/C
Success	Increase weight for teacher education, and upper division computer science, and mathematics	\$53.5 million
	Increase teaching experience supplement	\$55.6 million
Research	Return 100 percent of indirect cost revenue*	\$71.1 million
Supplemental Payments	Enhanced small institution supplement for TSTC and Lamar State Colleges	\$4.2 million
	<b>Estimated Increase in Spending - Formula Items</b>	<b>\$302.1 million</b>
	<b>Non-Formula Items</b>	
Participation	Additional funding for institutions required to partner with low income school districts	\$5.0 million
Success	Three percent of undergraduate I&O allocated based on baccalaureate degree production	\$54.9
Excellence	Continue to provide excellence funding	N/C
Research	Increase funding for ARP/ATP	\$30.0 million
	New Program Areas in Space Model	\$4.2
Additional Studies	Adjust the utility calculation of the Infrastructure Formula	N/C
	Specifically include Excellence in the Funding Formula	N/C
	<b>Estimated Increase in Spending Non-Formula Items</b>	<b>\$94.1 million</b>
	<b>Estimated Increase in Spending - Formula Items</b>	<b>\$302.1million</b>
	<b>Total Estimated Increase, Formula &amp; Non-Formula Items</b>	<b>\$396.2 million</b>

\* Proposed to become part of the formula.

**Funding Implications of the Recommendation:**

The funding formulas allocated \$ 3,580,073,122 of the appropriation for general academic institutions for the 2002-2003 biennium. If these recommendations are adopted and fully funded by the Legislature, the estimated formula appropriation would be \$3,882,068,658, an increase of \$301,995,536, or 8.4 percent. Projected enrollment increases between base periods of 4.4 percent, over the biennium, add \$157,523,217. Recommended increases in non-formula items add \$94,148,690. The result is a total increase in formula and non-formula items to \$4,133,740,565, which is a 15.5 percent overall increase.

## **5. Funding for Veterinary Medicine**

A rider in the General Appropriations Act of the 76th Legislature directed the Coordinating Board to recommend a formula for Veterinary Medicine professional education at Texas A&M University, which previously had been funded with a special item.

The Coordinating Board recommended that Veterinary Medicine professional education be funded like a program in a health-related institution. Specifically, the Board recommended that Veterinary Medicine infrastructure be funded at the rate for health-related institutions and that instruction and operations funded be based on FTE students, with the health-related institution base rate and a weight of 3.580.

This recommendation was used by the Legislature but was never documented in the General Appropriations Act. This recommendation does not represent a change and is included here only for documentation purposes. Explicitly including the documentation in the General Appropriations Act would be desirable.

## **6. Effects of the Formula on Institutions with Fewer than 10,000 Students**

Section 49, page III-66 of the General Appropriations Act includes the following directive:

**Formula Funding Study.** In its biennial review of funding formulas for the general academic institutions, the Higher Education Coordinating Board shall study the effects of the formula on institutions with fewer than 10,000 students and shall determine the adequacy of the formula for institutions in comparison to institutions with larger student populations. The Coordinating Board shall report its finding to the Legislative Budget Board by September 1, 2002, with any recommendations for a small college and university formula funding method.

One of the university formula study committees considered this issue and recommended no change in the formula other than the changes in the small institution supplement for Lamar State Colleges and TSTC proposed earlier.

A separate report on this topic will be provided at a later date.

## **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***, 77th Legislature, page III-238.

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, 2002.

## **Appendix B**

### **Rationale for Various Formula Recommendations**

Following is a discussion of the issues that require additional explanation.

#### **Adjust the Space Model Calculation for Veterinary Medical Diagnostic Laboratory:**

The committee is recommending that the Texas Veterinary Medical Diagnostic Laboratory be allowed to report "current fund expenditures" as "research expenditures" in the space model calculation with an appropriate reduction in administrative and support costs, resulting in an increase in predicted space (and funding). Since an accurate estimation of the "appropriate reduction in administrative and support costs" would require a cost analysis, the Coordinating Board recommends that 50 percent of "current fund expenditures" be reported as "research", until a cost analysis can be made.

#### **Funding for Economically Disadvantaged Students:**

It is recommended that there be a formula supplement sufficient to finance enhanced student services and instructional assistance for economically disadvantaged students who graduated from Texas districts in which 40 percent or more of the students are economically disadvantaged. The level of funding per semester credit hour would be based on costs associated with recruiting, providing improved student advising and counseling for freshman and sophomore students, and additional instructional assistance for all freshman core academic courses. Funding would be generated by freshman and sophomore students whose expected family financial contribution to their college education is zero, as determined by the federal financial need calculation, as an indicator of economic disadvantage. Funding for freshmen that are economically disadvantaged students in 2004 would be an additional \$55.81 per semester credit hour. Funding for freshman and sophomore economically disadvantaged students in 2005 would be an additional \$57.18, and \$15.39 per semester credit hour, respectively.

In addition to the supplement discussed above, it is recommended that for each student who is economically disadvantaged, as defined by this recommendation, and who obtains a baccalaureate degree, the degree-granting institution will receive a supplement of \$1,000.

#### **Encouraging Research:**

The committee recommends that an I&O research formula be developed for general academic institutions that has a similar methodology to that of the Health Related Institutions (i.e., a base amount plus a percentage of the research expenditure). The Coordinating Board recommends the two strategies included in the Texas Higher Education Plan: (A) allowing institutions to retain 100 percent of indirect cost revenue, and (B) increasing funding for the Advanced Technology Program – Advanced Research Program.

The table on the following page shows the impact on individual institutions of allowing institutions to retain 100 percent of indirect cost revenue.

**Estimated Additional Indirect Cost Recovery Necessary to Provide  
100 Percent Appropriations for FY2004-05**

<b>Institution</b>	<b>Biennial Total</b>
THE UNIVERSITY OF TEXAS AT AUSTIN	\$32,667,038
TEXAS A&M UNIVERSITY	6,952,000
UNIVERSITY OF HOUSTON	6,673,356
TEXAS TECH UNIVERSITY	4,773,932
THE UNIVERSITY OF TEXAS AT EL PASO	4,394,562
THE UNIVERSITY OF TEXAS AT ARLINGTON	2,916,662
THE UNIVERSITY OF TEXAS AT DALLAS	1,847,266
PRAIRIE VIEW A&M UNIVERSITY	1,716,712
UNIVERSITY OF NORTH TEXAS	1,382,806
THE UNIVERSITY OF TEXAS AT SAN ANTONIO	1,357,588
TEXAS SOUTHERN UNIVERSITY	970,000
SOUTHWEST TEXAS STATE UNIVERSITY	812,000
TEXAS A&M UNIVERSITY - KINGSVILLE	643,424
THE UNIVERSITY OF TEXAS - PAN AMERICAN	529,644
THE UNIVERSITY OF TEXAS AT BROWNSVILLE	497,156
TEXAS A&M UNIVERSITY AT GALVESTON	450,000
SAM HOUSTON STATE UNIVERSITY	392,638
TEXAS WOMAN'S UNIVERSITY	383,138
LAMAR UNIVERSITY - BEAUMONT	326,322
STEPHEN F. AUSTIN STATE UNIVERSITY	324,794
WEST TEXAS A&M UNIVERSITY	180,000
TEXAS A&M UNIVERSITY - CORPUS CHRISTI	173,250
TARLETON STATE UNIVERSITY	160,000
UNIVERSITY OF HOUSTON - DOWNTOWN	144,724
UNIVERSITY OF HOUSTON - CLEAR LAKE	126,644
THE UNIVERSITY OF TEXAS AT TYLER	103,636
TEXAS A&M UNIVERSITY - COMMERCE	80,000
MIDWESTERN STATE UNIVERSITY	51,202
THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN	41,026
SUL ROSS STATE UNIVERSITY	23,948
TEXAS A&M INTERNATIONAL UNIVERSITY	16,322
ANGELO STATE UNIVERSITY	15,932
UNIVERSITY OF HOUSTON - VICTORIA	7,024
<b><u>Total Estimated Additional Indirect Cost Recovery</u></b>	<b><u>\$71,134,746</u></b>

**Appendix C**  
**FORMULA ADVISORY COMMITTEE FOR 2004-2005 BIENNIUM**

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

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FOR 2004-2005 BIENNIUM**

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Note: Terms end August 31 in the year indicated in parenthesis  
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FOR 2004-2005 BIENNIUM**

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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  
Fiscal Years 2004-2005**

**April 2002**

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

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## Executive Summary

For the second time, health-related institutions received a substantial portion of their appropriations through funding formulas in the 2002-2003 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. This document contains the results of that review.

The Commissioner of Higher Education appointed an advisory committee to assist in this review. Terry Ansell, Associate Vice President of Resource Management at the University of Texas Health Science Center at Houston, chaired the advisory committee. All nine of the health-related institutions were represented on the committee.

The Coordinating Board considered the committee's and the Commissioner's report before making final recommendations on funding to the Governor and the Legislature. In cases where the Coordinating Board's recommendations differ from those of the advisory committee, those differences have been identified.

In order to improve the educational climate so that all citizens of the State of Texas can benefit from achieving the goals of *Closing the Gaps*, a significant financial investment will need to be made by the State of Texas. As stated in *Closing the Gaps: The Texas Higher Education 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 presented here attempt to align the formulas with the goals of *Closing the Gaps*. The recommendations are summarized below and expanded upon in subsequent sections of the report.

The recommendations for the 2004-2005 biennium are as follows:

- \$ Adjust the per student base value for inflation<sup>1</sup> and for faculty and staff salary increases provided by the 77th Legislature outside the formula process.
- \$ Increase the weight for biomedical science to provide parity with funding provided for science students in universities.

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<sup>1</sup> Data Resources Inc./Wharton Economic Forecasting (DRI/WEFA) is a nationally recognized forecasting service. The biennial forecast for the period 9/1/03 – 8/31/05, CPI – All Urban Consumers is 4.8 percent.

- \$ Provide an incentive for recruiting and retaining disadvantaged students.
- Provide an increase in the research formula factor from 2.50 percent to 5 percent of reported research expenditures.
- Create a new rate for graduate nursing programs.
- The advisory committee recommended changes in the Small Program Class Size Supplement formula that eliminates some technical problems and recognizes that small programs offered off-campus are more costly than those offered on-campus. The Coordinating Board recommends that the current methodology be maintained until more accurate information can be used as the basis for change.

The funding formulas allocated \$1,232,723,712 to health-related institutions for the 2002-2003 biennium. If these recommendations are adopted by the Legislature and fully funded, the estimated appropriation would be \$1,349,279,709, an increase of \$116,555,997 or 9.46 percent.

## 1. Background

One-third of the funds appropriated to Texas health-related institutions for the 2002-2003 biennium were allocated by means of 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 adequately support higher education. The authority for the Coordinating Board's involvement in the development of funding formulas is described in Appendix A.

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, and Research. 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 Formula Advisory Committee was composed of twelve individuals including presidents and chief administrative/business officers of health-related institutions, a faculty representative and a lay member. 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 Funding.

The Formula Advisory Committee met a total of four times beginning November 2001 and concluding February 2002. The subcommittees also met several times during that period. Appendix C contains a list of the committee members.

The Instruction and Operations Subcommittee reviewed that formula which provides support for the ongoing academic and administrative programs of the universities. The Infrastructure Subcommittee reviewed the formula that provides support for maintenance and operations, including utilities, of the institutions' physical plants. All of the members of the Formula Advisory Committee served on a subcommittee.

The Formula Advisory Committee submitted its recommendations to the Commissioner on March 12, 2002. The formal report of that committee is available from the Chairman of the Committee or from the Coordinating Board's Division of Finance, Campus Planning, and Research. In cases where there are differences between the recommendations of the advisory committee and the Coordinating Board, those differences are noted.

In addition to compensating for the effects of inflation, the major changes recommended are the following:

- equalize the per-student funding (between health-related institutions and general academic institutions) for students enrolled in biomedical science;
- assist institutions that enroll and retain economically disadvantaged students;
- increase research funding;

- modify the Small Program Class Size Supplement formula to remove an inconsistency and to include a weighting factor to differentiate remote and home site programs. The Coordinating Board is recommending that the current methodology be maintained pending further study.
- create a new rate for doctoral nursing programs.

## 2. Funding Formulas used for the 2002-2003 Biennium

The funding formulas adopted by the Legislature for the 2002-2003 biennium are found in the General Appropriations Act, Article III, pages III-240 and 241, and they are reproduced here for reference.

**Sec. 33. 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 \$11,776:

<u>Program</u>	<u>Weight Per Student</u>
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 \$11.54 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 \$11.51.

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 2.50 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's Office by June 1, 2002.
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 2002 shall be based on the number of new cancer cases reported in 1999, and General Revenue appropriations for Fiscal Year 2003 shall be based on the number of new cancer cases reported in 2000. The rate per new cancer case shall be \$70.55 in Fiscal Year 2002 and \$68.97 in Fiscal Year 2003 for Strategy B.1.3, Science Park Operations; and \$318.94 in Fiscal Year 2002 and \$311.96 in Fiscal Year 2003 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 2002 shall be based on the number of new primary chest disease diagnoses reported in 1998, and General Revenue appropriations for Fiscal Year 2003 shall be based on the number of new primary chest disease diagnoses reported in 1999. The rate per primary chest diagnosis shall be \$4.65 for Fiscal Year 2002 and \$4.34 for Fiscal Year 2003.
  - 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's Office, 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.

### 3. Recommended Changes to the Current Funding Formulas

Recommended changes to the current funding formulas fall in several categories, most of which are the direct result of recommendations of the Formula Advisory Committee. In cases when a committee recommendation was modified or not accepted by the Coordinating Board, the rationale is found in Appendix B.

#### Routine technical changes necessary to clarify the formulas or update the formulas for inflation

- Increase the Base Value Per Weighted Student in the Instruction and Operations Formula from \$11,776 to \$12,421 to reflect changes in the CPI-U and faculty and staff salary increases that were provided by the 77th Legislature outside the formula.
- Increase the per-NASF rate in the Infrastructure Formula from \$11.51 for The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center Tyler to \$11.79. For all other health-related institutions, increase the rate from \$11.54 to \$11.82. Increases are related to changes in the Consumer Price Index.
- Adjust the “constant” in the research laboratory space and office space factors in the Space Projection Model to adjust for changes in the Consumer Price Index.
- Modify the Space Projection Model to include those sites that are recognized by the Legislature as approved/operational as of February 1, 2003.
- Adjust the base rate of \$1,412,500 per institution for research to \$1,446,400 to reflect increases in the Consumer Price Index.

#### Structural changes to the formula

- Provide for each program area a 10 percent supplement for every enrolled student who meets the ‘disadvantaged student’ designation defined by the Coordinating Board (see Appendix B).
- Increase formula appropriation for research from 2.5 percent to 5 percent of research expenditures reported in the Research Expenditures Report.
- The advisory committee recommended that the Small Program Class Size Supplement formula be changed to include the addition of a weighting factor for remote site programs of .90 and a weight of .60 for home site programs. The proposed Small Class Size formula calculations are as follows:

Remote site = # students @ remote site x (1 - #/200) x .90 x weighted base rate  
Home site = # students @ home site x (1-#/200) x .60 x weighted base rate

They further recommended that the Legislature provide “Hold Harmless” funding, using funding freed as a result of this formula change, to those health related institutions that would be adversely affected in the 2004-2005 biennium by the modification. The Coordinating Board recommends that the current methodology be maintained pending further study (see Appendix B).

- Increase established rates for each mission specific calculation to reflect the increase in

the Consumer Price Index.

Change in the weights for specific disciplines

- Increase the weight for biomedical science from 1.018 to 1.292 to yield the same amount of funding per-student as received by the general academic institutions for science students.
- Fund Health Informatics at The University of Texas Health Science Center at Houston using the Biomedical Sciences rate.
- The advisory committee recommended creation of a new rate for graduate nursing programs and set the weight 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. The Coordinating Board recommends that the new weight apply to doctoral programs only.

Formula Advisory Committee recommendations not being endorsed at this time

- Research conducted by full time faculty members of a health-related institution (HRI) through a primary affiliate of the HRI shall be included in that HRI's total research expenditures for purposes of the "Research Enhancement" formula if: (1) They are awarded privileges of full-time faculty by the HRI; (2) They are eligible for HRI institutionally controlled funds for research; (3) They are the principal investigator of the research conducted at the affiliated entity, and; (4) An audited or certified account of research expenditures by these faculty is available. The Coordinating board should determine the procedures for providing applicable research data (see Appendix B).
- Provide supplemental state support for the costs of faculty time in educating post-degree (Graduate Medical Education) clinical trainees at the state health centers (see Appendix B).

#### 4. Funding Implications of the Proposed Funding Formula

Formula funding appropriated to health-related institutions for the 2002-2003 biennium totaled \$1,232,723,712. Implementing all of the proposed recommendations would increase formula funding for health-related institutions by \$116,555,997 to a projected \$1,349,279,709, an increase of 9.46 percent.

For the purposes of this report it is assumed that there will be no growth in student credit hour production at health-related institutions. Inflation is projected to increase by 2.37 percent for each year of the 2004-2005 biennium. Indexing the 2002-2003 formula appropriations for inflation produces an inflation-related amount of \$52,670,254, which is included in the projected increase of \$116,555,997 for the 2004-2005 biennium.

Table 1  
Proposed Increases in Formula Appropriation

Item	Projected Cost	Percentage of 2002-03 Appropriation
Base appropriation for 2002-2003 biennium	\$1,232,723,712	100.00%
Changes to update the I & O formula for inflation and current data	\$44,443,792	3.61%
Modify the Space Projection Model to update the per-NASF rate in the Infrastructure formula and add all entities that are approved/operational as of February 1, 2003 <small>Note: Predicted space used for cost estimates do not include space amounts for resident and post doctoral fellows. Information was not available as of report date.</small>	\$5,863,176	.48%
Increase established rates for each mission specific calculation be adjusted to reflect the increase in the Consumer Price Index	\$1,760,718	.14%
Changes to update the Research base rate for inflation	\$602,568	.04%
Provide for each program area a 10 percent supplement for every enrolled student who meets the 'disadvantaged student' designation	\$10,574,812	.85%
Increase research funding from 2.50 percent to 5 percent of research expenditures	\$41,070,410	3.33%
Increase the biomedical science weight	\$12,457,170	1.01%
Fund Health Informatics at UTHSC – Houston using the Biomedical Sciences rate	(\$355,517)	(.02%)
New Rate for Graduate Nursing	\$138,868	.02%
Total	\$1,349,279,709	109.46%

**Table 2**  
**Effects of Full Formula Funding**

<b>Institution</b>	<b>2002-2003 Base</b>	<b>2004-2005 Recommended</b>	<b>Increase</b>	<b>Percentage Increase</b>
UTSWMC Dallas	\$171,617,294	\$193,683,256	\$22,065,962	12.86%
UTMB Galveston	\$167,041,596	\$183,230,284	\$16,188,688	9.70%
UTHSC Houston	\$233,817,773	\$256,179,420	\$22,361,647	9.57%
UTHSC San Antonio	\$209,390,943	\$228,901,389	\$19,510,446	9.32%
TAMUSHSC	\$106,408,548	\$115,210,206	\$8,801,658	8.27%
UNTHSC Fort Worth	\$77,325,782	\$82,587,942	\$5,262,160	6.81%
TTUHSC	\$142,258,654	\$150,793,600	\$8,534,976	6.00%
UT MD Anderson Cancer Center	\$117,263,562	\$130,400,734	\$13,137,172	11.20%
UTHC Tyler	\$7,599,560	\$8,292,848	\$693,288	9.12%
Statewide Totals	\$1,232,723,712	\$1,349,279,709	\$116,555,997	9.46%

## **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*, 76th Legislature, page III-240**

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, 2002.

## Appendix B

### Rationale for Various Formula Recommendations

Provide for each program area a 10 percent supplement for every enrolled student who meets the 'disadvantaged student' designation defined by the Coordinating Board.

- The Commissioner recommends that a 10 percent supplement be provided for each student who enrolls in a health related institution (HRI). The Commissioner further recommends that one-half of the supplement to each school be used to provide direct aid to the qualifying students.
- The Commissioner believes that formula funding can be used as an incentive to support Legislative priorities.
- Disadvantaged student is defined as: 1) The Expected Family contribution as an undergraduate was \$3000 or less; 2) The student is a first generation college student.
- The student is a Texas resident.

#### **Formula Advisory Committee recommendations not being endorsed at this time**

Research conducted by full time faculty members of a HRI through a primary affiliate of the HRI shall be included in that HRI's total research expenditures for purposes of the "Research Enhancement" formula.

- There are inherent difficulties in obtaining data and verifying its validity from 3rd parties.
- The lack of reliable data makes it impossible to assess the fiscal impact of the recommendation.
- The research priorities of the 3rd party may not coincide with those of the State.

#### Change Small Class Supplement:

The committee recommends a change in the formula to account for a fundamental flaw in the formula (i.e., over a range of students, for some disciplines, total payment declines as additional students are added), and to specifically recognize a perceived higher cost associated with operating small campuses at remote sites. The Commissioner recommends that the current methodology be maintained. The recommendation of the committee was based primarily on the mathematical result of the change in the formula and not on any cost data submitted for review. While the committee's proposal does resolve the inconsistency, it does so by redistributing ~\$6 million away from Allied Health, Public Health, Graduate and Nursing programs. The benefactors are Medical programs, which would get ~\$3 million in additional supplemental payments, and \$3.1 million is assumed as hold harmless payments. The Coordinating Board recommends that this item be studied further by a committee that will collect and analyze cost data from programs that currently receive small class supplemental payments.

#### Provide formula funding for Graduate Medical Education (GME):

While there are some indications that changes in federal health-care reimbursements are adversely affecting GME financing, sufficient information related to expenditures and revenue does not currently exist. The Board has been directed by the Legislature to conduct a study regarding this issue and the staff of the CB is currently working with a public accounting firm with expertise in health care financing to provide the requested information. At present, Board does not have a recommendation.

## Appendix C

### HEALTH-RELATED INSTITUTIONS FORMULA ADVISORY COMMITTEE FOR 2004-2005 BIENNIUM

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