

**HIGHER EDUCATION
ASSISTANCE FUND
PROPOSED REALLOCATION FOR
FY 2006 THROUGH FY 2015**

October 2004

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Texas Higher Education Coordinating Board

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Coordinating Board Mission

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

THECB Strategic Plan

Coordinating Board Philosophy

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

THECB Strategic Plan

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Executive Summary

With the repeal of the statewide *ad valorem* tax in 1981, many state colleges and universities no longer had resources for construction, improvements, major repair and renovation, and the acquisition of capital equipment. The Legislature recognized the need to provide permanent capital funding for those colleges and universities not participating in the Permanent University Fund (PUF), which included some of the institutions of The University of Texas System and the Texas A&M University System. In 1983, a joint resolution proposed a constitutional amendment to modify the PUF to allow Prairie View A&M University a fixed allocation for 10 years and to provide funds for non-PUF institutions. Article VII, Section 17 of the Texas Constitution established the Higher Education Assistance Fund by adding Chapter 62 to the Texas Education Code.

Amendments to the Texas Constitution provided for the appropriation of \$100 million annually, beginning in September 1985, from the first money coming into the state treasury not otherwise appropriated by the constitution for the purpose of:

- acquiring land;
- constructing and equipping buildings and other permanent improvements;
- major repair and renovation of buildings or other permanent improvements; and
- acquisition of capital equipment, library books, and library materials.

The statute provides that these funds may not be used to finance student housing, intercollegiate athletics, or auxiliary enterprises.

Each governing board authorized to participate in the distribution of money under this section may issue bonds or notes, and they may pledge up to 50 percent of the money allocated to that board to secure the payment of the principal and interest of those bonds.

In 1995, the 74th Legislature enacted HB 2462 to renew the Higher Education Assistance Fund (HEAF), increase the HEAF allocation from \$100 million to \$175 million per year distributed among 32 eligible institutions, and provide for an annual contribution of \$50 million to the HEAF Trust Fund. Paragraph (e) of Section 62.022 of the Texas Education Code states:

Prior to the convening of the regular session of the Texas Legislature in 2005, the coordinating board shall conduct, with the full participation of the eligible institutions, a study and present recommendations to the Legislative Budget Board and to the Texas House and Texas Senate standing committees having cognizance over legislation related to higher education as the allocation of funds appropriated by Section 17(a), Article VII, Texas Constitution, for the 10-year period beginning September 1, 2005.

An additional review by the Coordinating Board every five years determines if the allocations should be adjusted.

In May 2004, the Commissioner of Higher Education appointed an advisory committee to fulfill the mandated 10-year review. Members of the committee represented all institutions and systems that are eligible to receive HEAF revenues (See Appendix A). Between July and October 2004, the Committee met on three occasions at the Coordinating Board and at the offices of the Texas State University System to review the current allocation formula and make recommendations for the HEAF allocation during the 10-year period, FY 2006 through FY 2015.

The HEAF formula allocates dollars to the 32 eligible institutions without regard to the funds they receive under the South Texas/Border Initiative or tuition revenue bonds authorized for those institutions. This formula was recommended by the committee to the Commissioner of Higher Education, who modified it slightly prior to its consideration by the Texas Higher Education Coordinating Board.

The committee recommended the following annual reallocation of HEAF appropriations for FY 2006 through FY 2015 (see Table 1).

- 97 percent (\$169,750,000) of the annual \$175 million should be allocated according to the complexity/condition/deficit factors for all but the Texas State Technical College System (TSTCS); TSTCS's calculated allocation of \$3,734,500 is included in the \$169.75 million without regard to these factors.
- 3 percent (\$5,250,000) of the annual \$175 million should be set aside for reallocation to institutions that would lose funds from their FY 2005 annual allocation amounts.
- The redistribution of the \$5.25 million set-aside should be based on each institution's percent of the total loss (\$14,538,232); institutions losing funds would receive 36.11 cents on the dollar.
- 100 percent of the annual \$175 million should be the adjusted allocation, which is the combination of the formula amount plus the redistributed set-aside.

The Coordinating Board supports the committee's HEAF reallocation formula with the exception of the reallocation methodology for the \$5.25 million pool the committee created to assist the institutions losing funds. Rather than the one-step process recommended by the committee, the Coordinating Board recommends a two-step reallocation process that mitigates the severe losses that would be experienced by the six universities losing more than 10 percent from their FY 2005 HEAF allocations according to the committee's reallocation formula. Under the Coordinating Board's recommendation, the first step would provide an allocation to these six universities, and the second step would provide an allocation to all 18 institutions and the Texas State Technical College System, which are estimated to lose funds from their FY 2005 HEAF allocation (see Table 2).

The HEAF distributions presented to the 79th Texas Legislature will differ slightly from the amounts indicated in Table 2 because the data used in the calculations will be updated as late as possible during the 2005 legislative session.

The committee also recommended adding \$87.5 million to the annual HEAF allocation, to be distributed through the HEAF formula. **The Coordinating Board agrees with this recommendation.**

Table 1 - Final Committee Recommendation for HEAF Allocation
FY 2006 through FY 2015

Institution	Complexity	Deficit	Condition	Total Annual - 97%	Reallocated 3%	Adjusted Annual 100%	Proposed Percent of Allocation	FY 2005 Percent of Allocation	Gain/Loss	Percent Gain/Loss
A	B	C	D	E	F	G	H	I	J	K
Lamar University	\$3,170,290	\$1,870,240	\$1,712,644	\$6,753,174	\$0	\$6,753,174	3.86%	3.28%	\$1,015,723	17.70%
Lamar - Orange	\$370,620	\$14,135	\$200,564	\$585,318	\$56,690	\$642,009	0.37%	0.43%	(\$101,958)	-13.70%
Lamar - Port Arthur	\$605,609	\$363,168	\$236,646	\$1,205,423	\$404,209	\$1,609,632	0.92%	1.34%	(\$726,973)	-31.11%
Lamar Institute of Technology *	\$0	\$0	\$0	\$0	\$0	\$0	0.00%		\$0	
Sul Ross State University	\$616,779	\$0	\$497,120	\$1,113,898	\$186,304	\$1,300,202	0.74%	0.93%	(\$335,069)	-20.49%
Sul Ross State University - Rio Grande	\$243,193	\$49,450	\$0	\$292,643	\$0	\$292,643	0.17%	0.15%	\$26,321	9.88%
Angelo State University	\$1,575,658	\$86,981	\$878,702	\$2,541,342	\$480,924	\$3,022,266	1.73%	2.22%	(\$864,945)	-22.25%
Sam Houston St. University	\$3,361,916	\$1,804,685	\$1,653,040	\$6,819,641	\$0	\$6,819,641	3.90%	3.35%	\$955,033	16.28%
Texas State University - San Marcos	\$6,297,285	\$3,153,540	\$3,606,421	\$13,057,246	\$508,080	\$13,565,326	7.75%	8.27%	(\$913,786)	-6.31%
Total	\$16,241,351	\$7,342,199	\$8,785,136	\$32,368,686	\$1,636,207	\$34,004,893	19.43%	19.97%	(\$945,654)	-2.71%
Texas A&M University - Corpus Christi	\$2,057,877	\$639,710	\$1,143,696	\$3,841,282	\$0	\$3,841,282	2.20%	2.11%	\$153,560	4.16%
Texas A&M International University	\$942,247	\$0	\$625,155	\$1,567,402	\$75,309	\$1,642,711	0.94%	1.02%	(\$135,444)	-7.62%
Texas A&M University - Kingsville	\$1,927,439	\$0	\$1,372,737	\$3,300,176	\$91,290	\$3,391,466	1.94%	2.03%	(\$164,185)	-4.62%
Texas A&M University - Commerce	\$2,446,860	\$0	\$1,205,321	\$3,652,181	\$206,384	\$3,858,564	2.20%	2.42%	(\$371,183)	-8.78%
Texas A&M University - Texarkana	\$398,082	\$443,867	\$132,428	\$974,377	\$18,829	\$993,206	0.57%	0.59%	(\$33,864)	-3.30%
West Texas A & M University	\$1,738,417	\$0	\$1,401,523	\$3,139,940	\$189,889	\$3,329,828	1.90%	2.10%	(\$341,517)	-9.30%
Total	\$9,510,921	\$1,083,577	\$5,880,860	\$16,475,358	\$581,700	\$17,057,057	9.75%	10.26%	(\$892,632)	-4.97%
University of Houston	\$10,864,855	\$7,135,705	\$6,166,985	\$24,167,545	\$649,836	\$24,817,381	14.18%	14.85%	(\$1,168,735)	-4.50%
University of Houston - Clear Lake	\$2,175,335	\$432,701	\$1,015,297	\$3,623,334	\$82,227	\$3,705,561	2.12%	2.20%	(\$147,886)	-3.84%
University of Houston - Downtown	\$1,882,001	\$2,319,925	\$936,849	\$5,138,775	\$112,632	\$5,251,407	3.00%	3.12%	(\$202,570)	-3.71%
University of Houston - Victoria	\$652,717	\$703,456	\$133,796	\$1,489,968	\$60,561	\$1,550,529	0.89%	0.95%	(\$108,920)	-6.56%
Total	\$15,574,908	\$10,591,787	\$8,252,927	\$34,419,622	\$905,256	\$35,324,878	20.19%	21.12%	(\$1,628,111)	-4.41%
The University of Texas - Pan American	\$3,660,690	\$1,882,522	\$1,896,901	\$7,440,113	\$0	\$7,440,113	4.25%	3.47%	\$1,359,001	22.35%
The University of Texas at Brownsville	\$783,676	\$973,704	\$475,567	\$2,232,948	\$0	\$2,232,948	1.28%	0.60%	\$1,182,368	112.54%
Total	\$4,444,366	\$2,856,227	\$2,372,468	\$9,673,061	\$0	\$9,673,061	5.53%	4.08%	\$2,541,369	35.63%
				\$0		\$0	0			
TSTC - Harlingen				\$0		\$0	0			
TSTC - West Texas				\$0		\$0	0			
TSTC - Waco				\$0		\$0	0			
TSTC - Marshall				\$0		\$0	0			
Total	\$0	\$0	\$0	\$3,734,500	\$41,273	\$3,775,773	2.16%	2.20%	(\$74,228)	-1.93%
Midwestern State University	\$1,446,498	\$353,573	\$859,175	\$2,659,245	\$124,503	\$2,783,749	1.59%	1.72%	(\$223,920)	-7.44%
Stephen F. Austin State University	\$2,998,058	\$0	\$1,921,338	\$4,919,396	\$612,367	\$5,531,762	3.16%	3.79%	(\$1,101,347)	-16.60%
Texas Southern University	\$2,817,958	\$2,366,395	\$2,050,238	\$7,234,591	\$0	\$7,234,591	4.13%	4.11%	\$43,098	0.60%
Texas Woman's University	\$3,301,082	\$0	\$1,863,076	\$5,164,159	\$647,037	\$5,811,195	3.32%	3.99%	(\$1,163,702)	-16.68%
Total	\$10,563,596	\$2,719,968	\$6,693,827	\$19,977,391	\$1,383,907	\$21,361,297	12.21%	13.60%	(\$2,445,871)	-10.27%
Texas Tech University	\$8,938,344	\$3,988,350	\$6,071,590	\$18,998,284	\$701,658	\$19,699,942	11.26%	11.98%	(\$1,261,939)	-6.02%
Texas Tech University Health Sciences Center	\$5,985,123	\$1,337,313	\$2,273,635	\$9,596,070	\$0	\$9,596,070	5.48%	4.42%	\$1,861,070	24.06%
Total	\$14,923,466	\$5,325,663	\$8,345,225	\$28,594,354	\$701,658	\$29,296,012	16.74%	16.40%	\$599,132	2.09%
University of North Texas	\$8,657,849	\$7,322,382	\$4,183,127	\$20,163,358	\$0	\$20,163,358	11.52%	10.30%	\$2,142,325	11.89%
University of North Texas Health Science Center at Fort Worth	\$3,091,293	\$283,516	\$968,862	\$4,343,671	\$0	\$4,343,671	2.48%	2.08%	\$703,671	19.33%
Total	\$11,749,142	\$7,605,899	\$5,151,989	\$24,507,029	\$0	\$24,507,029	14.00%	12.38%	\$2,845,996	13.14%
Grand Total	\$83,007,750	\$37,525,318	\$45,482,432	\$169,750,000	\$5,250,000	\$175,000,000	100.00%	100.0%	\$0	0.00%

* included with Lamar University
rows may not add due to rounding
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Table 2 - Coordinating Board Recommendation for HEAF Allocation
FY 2006 through FY 2015

Institution	Complexity	Deficit	Condition	Total Annual - 97%	"First Draw" of Reallocated 3%	"Second Draw" of Reallocated 3%	Adjusted Annual 100%	Proposed Percent of Allocation	FY 2005 Percent of Allocation	Gain/Loss	Percent Gain/Loss
A	B	C	D	E	F	G	H	I	J	K	L
Lamar University	\$3,170,290	\$1,870,240	\$1,712,644	\$6,753,174			\$6,753,174	3.86%	3.28%	\$1,015,723	17.70%
Lamar - Orange	\$370,620	\$14,135	\$200,564	\$585,318	\$37,757	\$29,670	\$652,745	0.37%	0.43%	(\$91,222)	-12.26%
Lamar - Port Arthur	\$605,609	\$363,168	\$236,646	\$1,205,423	\$566,010	\$211,552	\$1,982,985	1.13%	1.34%	(\$353,620)	-15.13%
Lamar Institute of Technology *	\$0	\$0	\$0	\$0			\$0	0.00%		\$0	
Sul Ross State University	\$616,779	\$0	\$497,120	\$1,113,898	\$205,049	\$97,507	\$1,416,454	0.81%	0.93%	(\$218,817)	-13.38%
Sul Ross State University - Rio Grande	\$243,193	\$49,450	\$0	\$292,643			\$292,643	0.17%	0.15%	\$26,321	9.88%
Angelo State University	\$1,575,658	\$86,981	\$878,702	\$2,541,342	\$562,719	\$251,703	\$3,355,764	1.92%	2.22%	(\$531,447)	-13.67%
Sam Houston St. University	\$3,361,916	\$1,804,685	\$1,653,040	\$6,819,641			\$6,819,641	3.90%	3.35%	\$955,033	16.28%
Texas State University - San Marcos	\$6,297,285	\$3,153,540	\$3,606,421	\$13,057,246		\$265,916	\$13,323,162	7.61%	8.27%	(\$1,155,950)	-7.98%
Total	\$16,241,351	\$7,342,199	\$8,785,136	\$32,368,686	\$1,371,535	\$856,348	\$34,596,568	19.77%	19.97%	(\$353,979)	-1.01%
Texas A&M University - Corpus Christi	\$2,057,877	\$639,710	\$1,143,696	\$3,841,282			\$3,841,282	2.20%	2.11%	\$153,560	4.16%
Texas A&M International University	\$942,247	\$0	\$625,155	\$1,567,402		\$39,415	\$1,606,817	0.92%	1.02%	(\$171,338)	-9.64%
Texas A&M University - Kingsville	\$1,927,439	\$0	\$1,372,737	\$3,300,176		\$47,779	\$3,347,955	1.91%	2.03%	(\$207,696)	-5.84%
Texas A&M University - Commerce	\$2,446,860	\$0	\$1,205,321	\$3,652,181		\$108,016	\$3,760,197	2.15%	2.42%	(\$469,550)	-11.10%
Texas A&M University - Texarkana	\$398,082	\$443,867	\$132,428	\$974,377		\$9,855	\$984,232	0.56%	0.59%	(\$42,838)	-4.17%
West Texas A & M University	\$1,738,417	\$0	\$1,401,523	\$3,139,940		\$99,383	\$3,239,323	1.85%	2.10%	(\$432,022)	-11.77%
Total	\$9,510,921	\$1,083,577	\$5,880,860	\$16,475,358		\$304,448	\$16,779,806	9.59%	10.26%	(\$1,169,884)	-6.52%
University of Houston	\$10,864,855	\$7,135,705	\$6,166,985	\$24,167,545		\$340,107	\$24,507,652	14.00%	14.85%	(\$1,478,464)	-5.69%
University of Houston - Clear Lake	\$2,175,335	\$432,701	\$1,015,297	\$3,623,334		\$43,035	\$3,666,369	2.10%	2.20%	(\$187,078)	-4.85%
University of Houston - Downtown	\$1,882,001	\$2,319,925	\$936,849	\$5,138,775		\$58,949	\$5,197,724	2.97%	3.12%	(\$256,253)	-4.70%
University of Houston - Victoria	\$652,717	\$703,456	\$133,796	\$1,489,968		\$31,696	\$1,521,664	0.87%	0.95%	(\$137,785)	-8.30%
Total	\$15,574,908	\$10,591,787	\$8,252,927	\$34,419,622		\$473,787	\$34,893,409	19.94%	21.12%	(\$2,059,580)	-5.57%
The University of Texas - Pan American	\$3,660,690	\$1,882,522	\$1,896,901	\$7,440,113			\$7,440,113	4.25%	3.47%	\$1,359,001	22.35%
The University of Texas at Brownsville	\$783,676	\$973,704	\$475,567	\$2,232,948			\$2,232,948	1.28%	0.60%	\$1,182,368	112.54%
Total	\$4,444,366	\$2,856,227	\$2,372,468	\$9,673,061			\$9,673,061	5.53%	4.08%	\$2,541,369	35.63%
TSTC - Harlingen				\$0			\$0	0		\$0	
TSTC - West Texas				\$0			\$0	0		\$0	
TSTC - Waco				\$0			\$0	0		\$0	
TSTC - Marshall				\$0			\$0	0		\$0	
Total	\$0	\$0	\$0	\$3,734,500		\$21,599	\$3,756,099	2.15%	2.20%	(\$93,901)	-2.44%
Midwestern State University	\$1,446,498	\$353,573	\$859,175	\$2,659,245		\$65,162	\$2,724,407	1.56%	1.72%	(\$283,262)	-9.42%
Stephen F. Austin State University	\$2,998,058	\$0	\$1,921,338	\$4,919,396	\$548,170	\$320,497	\$5,788,063	3.31%	3.79%	(\$845,046)	-12.74%
Texas Southern University	\$2,817,958	\$2,366,395	\$2,050,238	\$7,234,591			\$7,234,591	4.13%	4.11%	\$43,098	0.60%
Texas Woman's University	\$3,301,082	\$0	\$1,863,076	\$5,164,159	\$582,582	\$338,642	\$6,085,383	3.48%	3.99%	(\$889,514)	-12.75%
Total	\$10,563,596	\$2,719,968	\$6,693,827	\$19,977,391	\$1,130,752	\$724,301	\$21,832,444	12.48%	13.60%	(\$1,974,724)	-8.29%
Texas Tech University	\$8,938,344	\$3,988,350	\$6,071,590	\$18,998,284		\$367,230	\$19,365,514	11.07%	11.98%	(\$1,596,367)	-7.62%
Texas Tech University Health Sciences Center	\$5,985,123	\$1,337,313	\$2,273,635	\$9,596,070			\$9,596,070	5.48%	4.42%	\$1,861,070	24.06%
Total	\$14,923,466	\$5,325,663	\$8,345,225	\$28,594,354		\$367,230	\$28,961,584	16.55%	16.40%	\$264,703	0.92%
University of North Texas	\$8,657,849	\$7,322,382	\$4,183,127	\$20,163,358			\$20,163,358	11.52%	10.30%	\$2,142,325	11.89%
University of North Texas Health Science Center at Fort Worth	\$3,091,293	\$283,516	\$968,862	\$4,343,671			\$4,343,671	2.48%	2.08%	\$703,671	19.33%
Total	\$11,749,142	\$7,605,899	\$5,151,989	\$24,507,029			\$24,507,029	14.00%	12.38%	\$2,845,996	13.14%
Grand Total	\$83,007,750	\$37,525,318	\$45,482,432	\$169,750,000	\$2,502,287	\$2,747,713	\$175,000,000	100.00%	100.0%		

* included with Lamar University
rows may not add due to rounding
THECB 11/2/04

Charge to the Committee

At the first meeting of the Higher Education Assistance Fund (HEAF) Reallocation Advisory Committee, Deputy Commissioner Teri E. Flack provided the Commissioner's charge to the committee:

- Conduct an open, public process. Provide an opportunity for persons and institutions not represented on the committee to provide input into the process.
- Complete the work so that any changes to the formula could be distributed for comment and then considered by the Coordinating Board at its October 2004 meeting.
- Review the sections of the Constitution and the Education Code that authorize the Higher Education Assistance Fund and the allocation of Higher Education Assistance Funds and be guided by the instructions contained therein.
- Review the assumptions and the data that were used in making the previous allocation to ensure that they are still appropriate. Recommend changes in the allocation as appropriate, especially any that would help achieve the goal of *Closing the Gaps by 2015*.
- Because institutions have made plans assuming stability in the Higher Education Assistance Fund allocation, avoid recommending a radical reallocation plan.
- Changes to the recommended allocation should be justified in a form that is persuasive to the Commissioner, the Board, and the Legislature.

Set-Asides

Table 1 shows the committee's proposed distribution of the set-aside funds. During the five-year period FY 2001 through FY 2005, the HEAF allocation included a set-side for the Texas State Technical College System (TSTCS), Texas Southern University (TSU), Texas Tech University Health Sciences Center (TTUHSC), and University of North Texas Health Science Center at Fort Worth (UNTHSC-FW). The set-asides were amounts removed from the annual total of \$175 million prior to the remaining funds being distributed by formula, which will be described in the following section.

- TSTCS received a set-aside of \$3,850,000 or 2.2 percent of the total \$175 million – the maximum amount authorized by the Texas Constitution.
- TSU received a set-aside of \$1 million in addition to its formula-based HEAF allocation, for funding the *Office of Civil Rights Priority Plan*.
- TTUHSC and UNTHSC-FW received \$11,375,000, or 6.5 percent, of the total \$175 million, in recognition of the institutions' inability to participate in the complexity factor and the space deficit factor of the HEAF allocation formula because health-related institutions were not receiving general formula funding at that time (formula funding began for the health-related institutions in FY 2000 and the Coordinating Board adopted an updated Space Projection Model for the health-related institutions for the purpose of formula funding in April 2000). Nearly one-third (32 percent) of the \$11.4 million was allocated to UNTHSC-FW, with the remainder (68 percent) allocated to TTUHSC.

These four set-asides totaled \$16,225,000 or 9.27 percent of the \$175 million annual allocation of HEAF.

For the period FY 2006 through FY 2015, the committee recommended that set-aside funds no longer continue for three of these institutions: TSU, TTUHSC, and UNTHSC-FW. All would receive their full HEAF allocations through the allocation formula.

Originally, TSTCS was to receive the same set-aside as in the prior period, but as the analysis continued, the committee decided to recommend a different approach to mitigate potential radical reallocations that would cause significant reductions to some institutions where enrollment growth, facility condition, and space deficit might not be as great compared to that of other institutions.

For the period FY 2006 through FY 2015, the committee recommended setting aside 3 percent (\$5.25 million) of the \$175 million annual allocation for HEAF, to be redistributed among institutions that would experience a loss of HEAF funds from FY 2005 (see Table 1). Under this recommendation, 97 percent (\$169,750,000) would be available for allocation under the formula described below. The TSTCS allocation of \$3,734,500 (97 percent of its FY 2005 allocation) is included in this amount. **The Coordinating Board agrees with this recommendation.**

The committee recommended that these funds be redistributed among all of the institutions losing funds, based on their proportion of the total loss experienced. Eighteen universities and technical colleges and TSTCS would lose some funds under the reallocation formula recommended. Redistributing this set-aside would reduce the severity of the loss for these institutions; at the same time, the remaining institutions would see less of a gain over FY 2005 than they were initially calculated to receive.

The Coordinating Board does not support the redistribution process recommended by the committee. The Coordinating Board recommends distributing the \$5.25 million through a two-step process. The first step would provide \$2.5 million to the six institutions that would experience reductions from their FY 2005 HEAF allocations above 10 percent according to the committee's reallocation formula.

- **These institutions include: Lamar--Orange (loss of \$101,958 or 13.7 percent), Lamar--Port Arthur (loss of \$726,973 or 31.11 percent), Sul Ross State University (loss of \$335,069 or 20.49 percent), Angelo State University (loss of \$864,945 or 22.25 percent), Stephen F. Austin State University (loss of \$1,101,347 or 16.6 percent loss), and Texas Woman's University (loss of \$1,163,702 or 16.68 percent).**
- **The first draw would reduce the loss for each of these six institutions by an amount calculated to restore the loss to no more than 10 percent loss from their FY 2005 HEAF allocation to the initial FY 2006 HEAF distribution that was recommended by the committee.**

The second step would distribute the remaining \$2.7 million among all 18 universities and technical colleges and TSTCS that are projected to experience a loss of HEAF funds from FY 2005.

- **The second draw would distribute these funds according to the reallocation process recommended by the committee.**

Other than the initial 3 percent across-the-board reduction to create the redistribution pool, the gains earned by the 10 institutions that would experience increases above their FY 2005 HEAF allocations would remain unchanged, as with the committee's recommendation.

Elements of the HEAF Allocation Formula

During the period FY 2001 through FY 2005, the HEAF allocation was based on three elements: institutional complexity, facilities condition, and space deficit. For the period FY 2006 through FY 2015, the committee recommended continued use of these three elements as the foundation of the allocation formula. (See Appendix B for a list of the elements of the proposed formula). **The Coordinating Board agrees with this recommendation.**

Institutional Complexity Element

The complexity element reflects the cost of implementing the range and level of an institution's academic programs. More complex institutions are those that offer degree programs at the bachelor's, master's, doctoral, and professional levels and have extensive research and public service programs. After the set-aside is subtracted, the committee recommended allocating 50 percent of the remaining annual HEAF allocation formula appropriation, \$83,007,750, on the basis of complexity. Complexity was measured by using the all funds formula appropriation for FY 2005. The total amount received from the all funds formula appropriation by the HEAF institutions is computed and each institution's percentage of that total appropriation is multiplied by \$83,007,750 to determine its share of the complexity portion of the HEAF allocation. Table 1 shows the proposed distribution of the Institutional Complexity allocation. **The Coordinating Board agrees with this recommendation, but would substitute for the universities' all funds formula appropriation for FY 2005 the cost data collected by the Coordinating Board to implement its cost-based formula recommendations for FY 2006 and FY 2007 for universities that was approved by the Board at its April 2004 meeting.**

Facilities Condition Element

The facilities condition element provides funds for renovation and maintenance of each institution's academic facilities and is equal to 2 percent of the Fall 2003 replacement value of each institution's E&G space, as reported in its FY 2003 Facilities Inventory.

An accepted standard developed through the Association of Physical Plant Administrators (APPA) and John Dunn's *Financial Planning Guidelines for Facility Renewal and Adaptations* provides that an amount equal to 1.5 to 3 percent -- on average -- of an institution's replacement value should be spent for major repair and rehabilitation annually.

While the condition and deficit elements account for 50 percent of the total allocation less set asides, the committee recommended that the condition element should be computed first and should be fully funded from the remaining \$83,007,750. The remainder of funds would then be available for addressing the space deficit element.

After the set-aside is subtracted, the committee recommended allocating 27.4 percent (\$45,482,432) of the annual HEAF allocation formula appropriation on the basis of institutional facilities condition. Table 1 shows the proposed distribution of the Facilities Condition allocation. **The Coordinating Board agrees with this recommendation.**

Space Deficit Element

The space deficit element is based on the difference between each institution's actual Education and General (E&G) assignable space and the space projected by the Fall 2003 Space Projection Model. The HEAF allocation formula provides no funds to institutions that do not have a space deficit. If an institution has a projected deficit, the HEAF allocation formula first determines the

amount per year necessary to eliminate the deficit or annual deficit value, and then provides funds in an appropriate proportion relative to the other elements of the model.

To calculate the annual deficit value, the E&G net assignable square feet (NASF) from the Space Projection Model is multiplied by 1.5 to convert it to gross square feet. The gross square feet figure is then multiplied by \$200 to produce a monetary value. The \$200 value represents an average construction cost per gross square foot. The value obtained is the total deficit value. This value is then divided by 10, representing the full allocation period FY 2006 through FY 2015, to obtain an annual value.

After the set-aside is subtracted, the committee recommended allocating the remaining 22.6 percent (\$37,525,318) of the annual HEAF allocation formula appropriation on the basis of institutional space deficit. Table 1 shows the proposed distribution of the Space Deficit allocation. **The Coordinating Board agrees with this recommendation.**

Closing the Gaps

The committee discussed the charge of considering affects of any recommendations on achieving the goals of *Closing the Gaps*. It was agreed that the complexity element's wide scope addresses all of the components of *Closing the Gaps* because it is based on the proposed formula funding system for the 2006 – 2007 biennium, which includes a cost-based Instruction and Operations formula for universities and technical colleges. In addition, the Infrastructure formulas for universities, technical colleges, and health-related institutions are based on the Space Projection Model, which considers expenditures, enrollments, and academic programs. The committee concluded that the goals of *Closing the Gaps* had been addressed by its assignment of a 50 percent weight to the complexity element in the HEAF allocation formula. **The Coordinating Board supports this conclusion.**

Additional HEAF Recommendation

The current space deficit for HEAF institutions is 4.69 million square feet, which is more than five times larger than five years ago. The McGraw-Hill Construction index report a 28.5 percent inflation factor for construction over the last 10 years. For the HEAF institutions to maintain constant dollar funding, an additional \$50 million per year would be required.

Student enrollment at the HEAF institutions for fall 2003 was 163,224 full-time student equivalents more than the student enrollment at the Permanent University Fund (PUF) institutions. The University of Texas at Austin, Texas A&M University, and Prairie View A&M University rely on the Available University Funds (AUF), income from the PUF that is appropriated to these institutions for their construction, capital renewal, equipment and other needs. The FY 2005 distribution to the AUF is 54 percent more than it was in 1995. For the HEAF institutions to mirror the 50 percent growth in AUF, an additional \$87.5 million per year would be required.

Based on equity considerations with the Available University Fund and inflation costs and enrollment growth over the past 10 years, and to help the institutions that receive HEAF meet the goals in *Closing the Gaps*, the committee further recommended that \$87.5 million be added to the annual HEAF allocation and distributed through the HEAF formula. **The Coordinating Board agrees with this recommendation.**

Summary of Coordinating Board Recommendations

The Coordinating Board recommends the following annual reallocation of HEAF appropriations for FY 2006 through FY 2015.

- 97 percent (\$169,750,000) of the annual \$175 million should be allocated according to the complexity/condition/deficit factors for all but Texas State Technical College System (TSTCS); TSTCS's calculated allocation of \$3,734,500 is included in the \$169.75 million.
- 3 percent (\$5,250,000) of the annual \$175 million should be set-aside for reallocation to institutions that would lose funds from their FY 2005 annual allocation amount.
- The redistribution of the \$5.25 million set-aside should be based on a two-step process. The first step would distribute \$2.5 million to reduce the loss for each of the six institutions that are projected according to the committee's reallocation formula to lose more than 10 percent of their FY 2005 HEAF allocations. The second step would distribute the remaining \$2.7 million among all 18 universities and technical colleges and TSTCS that are projected to experience a loss of HEAF funds from FY 2005.
- 100 percent of the annual \$175 million should be the adjusted allocation, which is the combination of the formula amount plus the redistributed set-aside.

Based on equity considerations with the Available University Fund and inflation costs and enrollment growth over the past 10 years, and to help the institutions that receive HEAF meet the goals in *Closing the Gaps*, the committee further recommended that \$87.5 million be added to the annual HEAF allocation and distributed through the HEAF formula. **The Coordinating Board agrees with this recommendation.**

Appendix A

Higher Education Assistance Fund Reallocation Advisory Committee

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Chancellor
Texas State University System

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Vice President for Finance and Operations
Lamar University

Bill Nance
Vice President for Finance and Support Services
Texas State University--San Marcos

Tom Kale
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Texas A&M University System

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Vice President for Finance and Administration
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John Rudley
Vice Chancellor/Vice President for Administration and Finance
University of Houston System

William Staples
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University of Houston--Clear Lake

Don Smith
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Roland Smith
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Quintin Wiggins
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Texas Woman's University

Jim Brunjes
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Texas Tech University

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The University of Texas--Pan American

Lee Jackson
Chancellor
University of North Texas System

Phil Diebel
Vice Chancellor and Vice President for Finance
University of North Texas

William Segura
Chancellor
Texas State Technical College System

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Appendix B

Elements of the Proposed HEAF Allocation Formula

The recommended HEAF allocation formula would incorporate the following data elements for presentation to the 79th Texas Legislature in 2005.

Complexity Element

FY 2002 and FY 2003 average All Funds cost data (for implementation of the cost-based formula recommendations for FY 2006 and FY 2007) for universities

FY 2005 All Funds Formula Appropriations for technical colleges

FY 2005 All Funds Formula Appropriations for health-related institutions

Condition of Facilities

Replacement values for FY 2005

Fall 2004 certified facilities inventory

Space Deficit Element

Fall 2004 space model projection with the total current fund expenditures and research expenditures as reported in the annual financial report due on December 1, 2004

Fall 2004 CBM 004 class report

Each institution's approved program inventory

Fall 2004 certified facilities inventory

Fall 2004 CBM 008 faculty report

The Texas State Technical College System would receive \$3,734,500 as its base allocation. This amount represents 97 percent of the maximum amount of HEAF support available to TSTCS established in the Texas Constitution.

Formula Allocation

The formula allocation is the total amount of money appropriated per year by the Legislature, less set-asides.

Total allocation after contribution to HEAF Trust Fund:	\$ 175,000,000
Adjustments:	
Texas State Technical College System	\$ 3,734,500
3 Percent Reallocation	<u>\$ 5,250,000</u>
Total Adjustments:	\$ 8,984,500
Total Formula Allocation:	\$ 166,015,500

The available allocation of \$166,015,500 is weighted at 50 percent for institutional complexity, allowing an allocation of \$83,007,750 for this element.

The available allocation of \$166,015,500 is weighted at 27.4 percent for institutional facilities condition, allowing an allocation of \$45,482,432 for this element.

The available allocation of \$166,015,500 is weighted at 22.6 percent for institutional space deficit, allowing an allocation of \$37,525,318 for this element.

The total amount received from the Fiscal Year 2005 all funds formula appropriations by the HEAF institutions is computed. Then, each institution's percentage of that appropriation is multiplied by \$83,007,750.

The space deficit element is calculated by multiplying an institution's space deficit, in NASF, as determined by the *Space Projection Model* by 1.5 and multiplying the result by \$200 per square foot. This amount is divided by 10 to obtain an annual value. The sum of all the calculated values equals \$37,525,318.

The facilities condition element is calculated by multiplying the total of each institution's facilities replacement value as reported in the FY 2003 Facilities Inventory by 2 percent. The sum of all the calculated values equals \$126,844,821. Then, each institution's percentage of that replacement value is multiplied by \$45,482,432.

The sum of the three elements for each institution is calculated. For institutions that would lose funding from their FY 2005 allocation, a portion of the \$5.25 million would be added to their allocation. The first step would add an amount only to the six institutions that would experience reductions from their FY 2005 HEAF allocations above 10 percent according to the committee's reallocation formula, to reduce their losses to 10 percent. The first step would allocate \$2.5 million of the \$5.25 million set-aside funds. The second step would add an amount to all 18 universities and technical colleges and the Texas State Technical College System that are projected to experience a loss of HEAF funds from FY 2005. The remaining \$2.75 of the set-aside funds would be redistributed among all of the institutions losing funds based on their proportion of the total loss experienced. The resulting two set-aside amounts are then added to the institution's allocation for a final adjusted allocation.

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