



Higher Education Fund Re-Allocation Recommendation for Fiscal Years 2020 through 2025

September 2018

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Agency Mission

The mission of the Texas Higher Education Coordinating Board (THECB) is to provide leadership and coordination for Texas higher education and to promote access, affordability, quality, success, and cost efficiency through *60x30TX*, resulting in a globally competitive workforce that positions Texas as an international leader.

Agency Vision

The THECB will be recognized as an international leader in developing and implementing innovative higher education policy to accomplish our mission.

Agency Philosophy

The THECB will promote access to and success in quality higher education across the state with the conviction that access and success without quality is mediocrity and that quality without access and success is unacceptable.

The THECB's core values are:

Accountability: We hold ourselves responsible for our actions and welcome every opportunity to educate stakeholders about our policies, decisions, and aspirations.

Efficiency: We accomplish our work using resources in the most effective manner.

Collaboration: We develop partnerships that result in student success and a highly qualified, globally competitive workforce.

Excellence: We strive for excellence in all our endeavors.

The Texas Higher Education Coordinating Board does not discriminate on the basis of race, color, national origin, gender, religion, age or disability in employment or the provision of services.

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Introduction

The Texas Higher Education Coordinating Board (THECB) is required by Texas Education Code (TEC) 62.022 to conduct a five-year review of the Higher Education Fund (HEF) allocation methodology and to provide the results to the Legislative Budget Board and the Texas Legislature. To ensure the full participation of all HEF eligible institutions in the review process, THECB staff invited the participation of those schools on a workgroup to inform the review process with their input.

TEC 62.021 (a) mandates equitable allocations based on three specific elements, as well as a 2.2 percent set-aside for the Texas State Technical Colleges:

1. Institutional Complexity - Reflects the expense of implementing the range and level of academic programs. An institution's mix of degree programs and levels, and the extent of its research programs determine its complexity.
2. Space Deficit - Proportionally funds the cost to construct the space need (difference of needed educational and general net assignable space, estimated by the THECB space model, and reported values). Allocates no funds to institutions with a surplus.
3. Facilities Condition - Funds the renovation and maintenance of educational and general facilities by estimating a reasonable level of deferred maintenance. The Association of Physical Plant Administrators (APPA) advocates spending 1.5 to 3 percent of building values on major repair and rehabilitation annually.

To determine these recommendations, staff invited the involvement of all HEF eligible institutions and surveyed institutions regarding their existing deferred maintenance needs as reported to their Governing Board per TEC 61.05821. Additionally, THECB staff reviewed the building condition report, which is provided annually on the facilities inventory. Recommendations and alternatives for the methodology were developed by staff and shared with workgroup members nominated by each HEF institution. The recommendations presented in this report represent the majority desire of HEF-eligible institutions that expressed a preference.

Higher Education Fund History

The Texas Constitution, Article VII, Section 17, established the Higher Education Fund by amending Chapter 62 to the Texas Education Code. Amendments to the Texas Constitution provided for an annual appropriation of \$100 million, beginning in September 1985, from the first money coming into the state treasury not otherwise appropriated by the Constitution, for the following:

- Acquiring land
- Constructing and equipping buildings and other permanent improvements
- Performing major repair and renovation of buildings or other permanent improvements
- Acquiring capital equipment, library books, and library materials

These funds may not be used to finance student housing, intercollegiate athletics, or auxiliary enterprises. Eligible institutions may issue bonds or notes pledging up to 50 percent of their individual annual allocations to secure the payment of the principal and interest of those bonds.

Effective Year	Annual Appropriation	Action
1985	\$100 million	Introduced
1995	\$175 million	House Bill (HB) 2462, 74th Texas Legislature
2007	\$262.50 million	HB 3001, 79th Texas Legislature
2009	\$262.50 million	HB 51, 81st Texas Legislature, reallocated funds and eliminated the HEF Trust Fund
2017	\$393.75 million	SB 1194, 84th Texas Legislature

Current Allocation Methodology

The current funding levels, as specified in TEC 62.021, were developed in 2014 using the most current data available. A three-factor approach, combined with a 2.2 percent set-aside for Texas State Technical Colleges, is currently used to equitably allocate the \$393,750,000 appropriated annually for the Higher Education Fund (HEF). The 97.8 percent of the HEF remaining after the set-aside is allocated as follows:

- Factor 1 - Institutional Complexity: 50 percent is allocated based on the institutions' Fiscal Year (FY) 2016-2017 all-funds, formula-funding appropriations, as introduced in HB 1, 84th Texas Legislature, Regular Session.
- Factor 2 – Space Deficit: 25 percent is allocated based on unadjusted¹ Space Deficit using institutions' fall 2014 space need, as determined by the Space Projection Model.
- Factor 3 – Facilities Condition: 25 percent is allocated using institutions' campus condition index values for their fall 2014 reported building inventories.

The amounts determined through this methodology were codified in statute during the 84th Texas Legislature, Regular Session, and allocated \$262,500,000 for FY 2016, and \$393,750,000 for FY 2017 through FY 2025.

Stakeholder Working Group

THECB staff invited all HEF eligible institutions to participate in the review process and to provide input and recommendations for any proposed changes to the allocation methodology; 19 institutional representatives were appointed by the university presidents. On August 2, 2018, THECB staff hosted a conference call with these institutional representatives; after the meeting, numerous emails were exchanged.

The prevailing opinion among the group was that the existing methodology was equitable and adequate but did require minor modification. Where the existing methodology used the dollar amounts from the introduced appropriations bill, the group felt using real numbers would yield a better result.

Further discussion centered on the use of unadjusted or adjusted space deficits with no clear majority among the representatives. Consequently, THECB staff agreed to prepare the allocations using both methodologies to allow appropriate comparison. The group members agreed to voice their preference via email and determined that further meetings were not required. A majority of the HEF-eligible institutions felt continuing to use the unadjusted space deficit was appropriate.

¹ The Space Projection Model adjusts the surplus/deficit based on facilities that are under construction but not online and reflected in the facilities inventory. This creates an adjusted surplus or an unadjusted surplus.

Recommendations

THECB staff recommends approval on the following modifications to the equitable allocation methodology, as agreed to by the stakeholder working group:

1. Institutional Complexity – Continue to allocate 50 percent of available funds but use the FY 2018-2019 Formula Appropriations (less Board Authorized Tuition).
2. Space Deficit – Continue to use the unadjusted Space Deficit, updated using the Fall 2017 Space Model projections, and continue to allocate 25 percent of available funds.
3. Facilities Condition – Continue to use the same methodology, but update using the Fall 2017 Educational and General Campus Condition Index Values (EGCCIV) and continue to allocate 25 percent of available funds.

These changes will result in a reallocation of available funds, which can be found in Appendix A. The reallocation will not put the payment of HEF-pledged bonds in jeopardy.

Impact of HEF Proceeds on Facilities Condition

TEC 62.022 also requires the THECB to review the impacts of HEF on the condition of facilities. THECB staff reviewed the available data in two different ways. First, a survey of institutions sought to determine the existing levels of deferred maintenance, the extent HEF revenues were directly used to mitigate these maintenance issues, and the debt service level of HEF-backed bonds. Second, staff reviewed facilities condition codes, as reported annually as part of the facilities inventory.

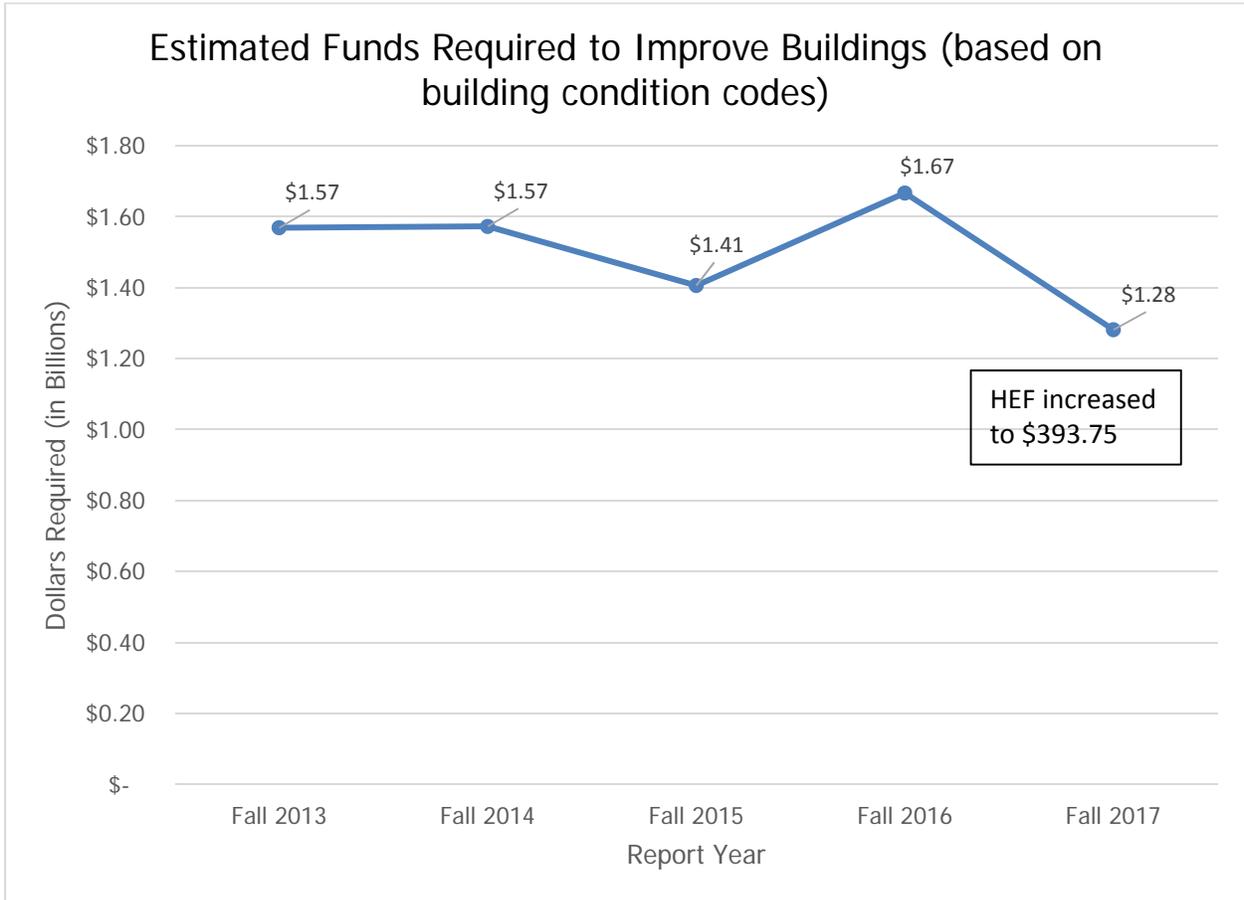
Prior to 2012, the THECB collected deferred maintenance information directly from institutions of higher education in Texas. Legislative changes shifted this reporting requirement to the governing boards. This change limits the data available and makes comparative analysis for a study of this type challenging. The data received via the survey shows, on the aggregate, minimal amounts of deferred maintenance and indicates HEF revenues are adequate to address the deferred and critical deferred maintenance existing at HEF-eligible institutions.

The facilities condition code reported by the institutions indicates the percentage of a building's replacement value that would need to be spent to bring it up to a standard where only routine maintenance is required. The condition code is reported in a broadband manner with four different cost bands reported:

- Only routine maintenance required
- 0-25 percent of the replacement value required to repair and/or upgrade
- 26-50 percent of the replacement value required to repair and/or upgrade
- Over 50 percent of the replacement value required to repair and/or upgrade

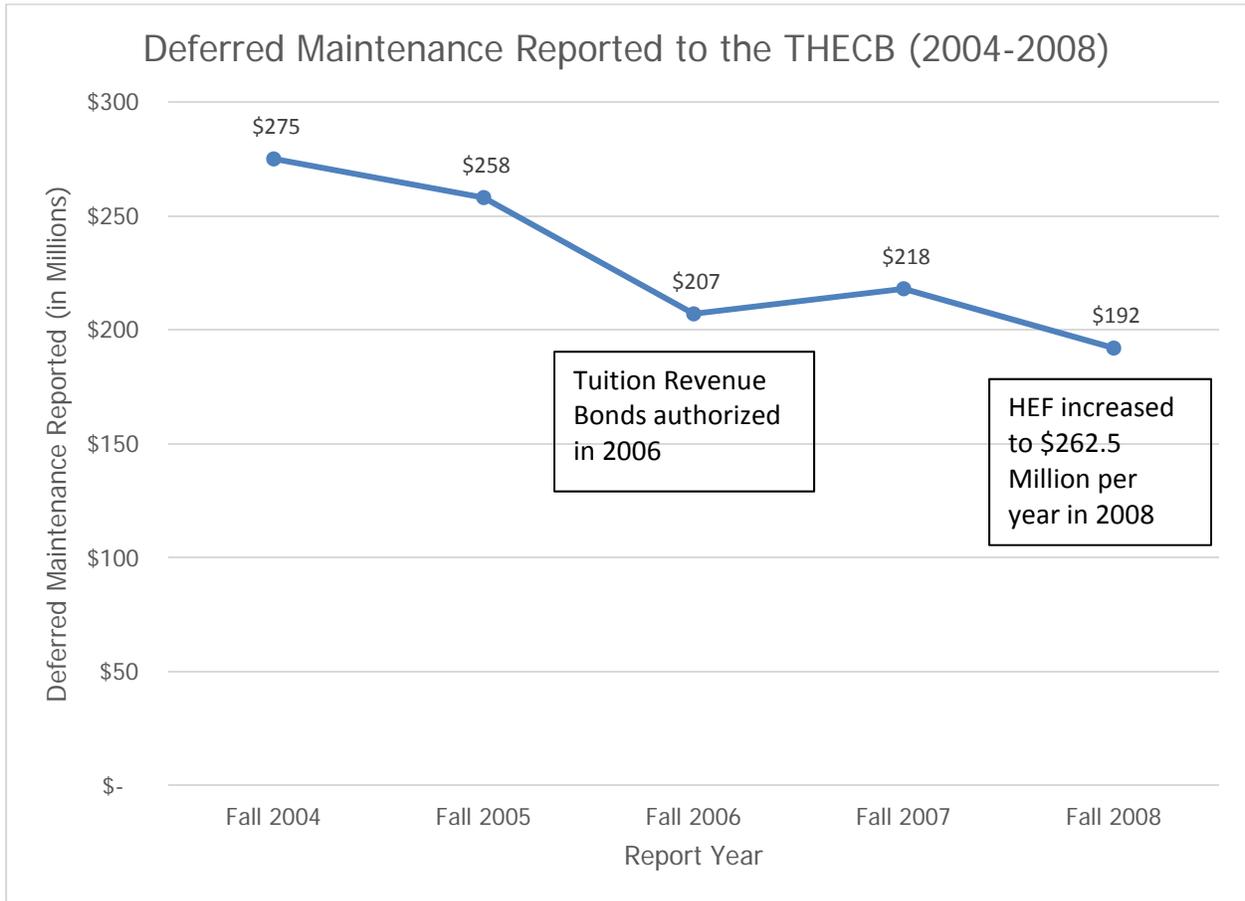
To obtain an estimate, THECB staff used the values of zero, 25 percent, 50 percent, and 75 percent, respectively. While this assumes a high amount, it provides a uniform estimating method. The results can be seen in Figure 1 on the next page.

Figure 1.



The improved condition of facilities may be due to increased HEF revenues. It's important to note that Tuition Revenue Bonds (TRBs) authorized during the same period may have also been a factor. In Figure 2 (next page), decreased amounts of deferred maintenance are observed in 2006 and 2008. TRBs were authorized in 2006, and not surprisingly, the deferred maintenance levels dropped. In 2008, the HEF was increased to \$262.5 million, and a decrease in deferred maintenance also occurred.

Figure 2.



Since deferred maintenance is a direct factor in determining facilities condition, it is reasonable to say HEF revenues are being used to reduce or limit any increases in deferred maintenance. Finally, given the overall low amount of deferred maintenance reported in our survey, it is believed the current levels of HEF funding permit institutions to address deferred maintenance in a timely fashion.

Appendix A – Recommended HEF Allocations, FY 2021-2025

Institutions	Annual Appropriation, 2017-2025	Updated Allocation using Fall 2017 Space Model (Unadjusted), Fall 2017 Index Values, and 2018-2019 Appropriations	Change from Prior Allocation	Percent change from Prior Allocation
TAMU-CC	\$ 11,136,344	\$ 11,478,824	\$ 342,480	3%
TAMU-Kingsville	8,966,056	8,858,060	(107,996)	-1%
TAMIU	6,709,910	7,462,394	752,484	11%
WTAMU	7,164,408	7,446,495	282,087	4%
TAMU-Commerce	10,786,313	11,123,859	337,546	3%
TAMU-Texarkana	1,823,883	2,050,273	226,390	12%
UH	52,770,054	54,514,004	1,743,950	3%
UH-Clear Lake	8,005,116	7,726,043	(279,073)	-3%
UH-Downtown	11,752,877	10,828,344	(924,533)	-8%
UH-Victoria	4,275,861	3,542,817	(733,044)	-17%
Midwestern	5,061,412	4,933,200	(128,212)	-3%
UNT	37,562,056	37,346,563	(215,493)	-1%
UNT-Dallas	2,113,004	3,354,441	1,241,437	59%
UNTHSC	17,091,856	15,125,502	(1,966,354)	-12%
SFA	11,636,163	11,277,793	(358,370)	-3%
TSU	11,659,843	11,719,335	59,492	1%
TTU	49,225,809	49,874,746	648,937	1%
Angelo	5,320,102	6,792,999	1,472,897	28%
TTUHSC	23,372,396	21,652,392	(1,720,004)	-7%
TTUHSC-El Paso	6,234,075	5,557,572	(676,503)	-11%
TWU	14,846,558	14,554,133	(292,425)	-2%
Lamar	14,101,882	13,141,181	(960,701)	-7%
Lamar-IOT	2,580,521	2,553,130	(27,391)	-1%
Lamar-Orange	1,694,343	1,488,396	(205,947)	-12%
Lamar-Port Arthur	2,157,784	2,217,102	59,318	3%
Sam Houston	17,329,858	18,236,811	906,953	5%
TXST	37,162,755	37,606,478	443,723	1%
Sul Ross	2,135,523	2,151,723	16,200	1%
Sul Ross-Rio Grande	410,738	472,890	62,152	15%
Allocated Total	\$ 385,087,500	\$ 385,087,500	-	0%
TSTC	8,662,500	8,662,500	-	0%
Total	\$ 393,750,000	\$ 393,750,000	\$ -	0%

Appendix B – Data Sources by Element

Complexity Element

- Current – FY 2016-2017 All Funds, Formula-Funding Appropriations, introduced HB1, 84th Texas Legislature, Regular Session
- Proposed - FY 2018-2019 All Funds, Formula-Funding Appropriations, introduced HB1, 84th Texas Legislature, Regular Session

Space Deficit Element

- Current
 - Fall 2014 space projection model with the total current fund expenditures and research expenditures, as reported in the Annual Financial Report due on December 1, 2014
 - Fall 2014 Class Report (CBM004)
 - Institutions' approved program inventory
 - Fall 2014 certified Building (CBM014) and Room (CBM011) Reports
 - Fall 2014 Faculty Report (CBM008)
 - Calendar Year 2014 Continuing Education Class Report (CBM00C)
- Proposed
 - Fall 2017 space projection model with the total current fund expenditures and research expenditures, as reported in the Annual Financial Report due on December 1, 2017
 - Fall 2017 Class Report (CBM004)
 - Institutions' approved program inventory
 - Fall 2017 certified Building (CBM014) and Room (CBM011) Reports
 - Fall 2017 Faculty Report (CBM008)
 - Calendar Year 2017 Continuing Education Class Report (CBM00C)

Condition of Facilities

- Current
 - Fall 2014 Campus Condition Index Values
 - Fall 2014 certified Building (CBM014) and Room (CBM011) Reports
- Proposed
 - Fall 2017 Campus Condition Index Values
 - Fall 2017 certified Building (CBM014) and Room (CBM011) Reports



This document is available on the Texas Higher Education Coordinating Board website:
<http://www.thecb.state.tx.us>

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