

***Formula Funding Recommendations
for the
2008-09 Biennium***

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April 2006

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

Texas Higher Education Coordinating Board

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Coordinating Board Mission

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

THECB Strategic Plan

Coordinating Board Philosophy

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

THECB Strategic Plan

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***Summary of Financial Implications
Regarding
Formula Funding Recommendations
for the
2008-09 Biennium***

April 2006

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Executive Summary

The following report contains the formula recommendations of the Coordinating Board. These recommendations were presented at the Board's April 2006 meeting and forwarded to the Governor, the Legislature, and the Legislative Budget Board by June 1, 2006.

Community and Technical Colleges

The 2006-07 general revenue appropriations for the community and technical colleges are \$1.76 billion. The Coordinating Board recommends a total all-funds appropriation of \$2.45 billion for the 2008-09 biennium, an increase of \$682 million or 38.7 percent. The increase is achieved in several ways. The Board recommends providing an adjustment for known growth between the last two base periods and projected inflation between the current and next base period, which results in an increase of \$320 million. The most significant change regarding community colleges is the decision by the Board to recommend consideration of funding for the next biennium based on 100 percent of the costs reported in the Report of Fundable Operating Expenses (RFOE), less the amount of tuition collected. This results in an additional increase of \$322.5 million over the previous biennium. Also, bonus funding of \$34 million is recommended for study fields which are critical to *Closing the Gaps by 2015*, the state's higher education plan. Additionally, the Board recommends \$3.2 million to fund Alternative Teaching Certificates and \$2.3 million for a pilot study on providing a funding supplement for small institutions.

General Academic Institutions

The 2006-07 All Funds appropriations for general academic institutions are \$3.92 billion. There are two formulas (I&O and Infrastructure) and two supplements (Teaching Supplement and Small Institution Supplement) for general academic institutions. The Coordinating Board recommends a total All Funds appropriation of \$4.59 billion for the 2008-09 biennium, an increase of \$673.9 million, or 17.2 percent.

The primary recommendation of the Board is to continue the phase-in of the cost-based methodology for determining the relative weights contained in the Instruction and Operations (I&O) matrix..

The Board recommends that the Instruction and Operations formula amounts be adjusted for inflation and that the Infrastructure formula be re-centered to reflect actual costs for the latest year available, FY 2005. The increase for the combination of re-centering and adjusting for inflation is \$569.8 million.

The Board recommends providing an adjustment for known growth between the last two base periods, which would result in estimated additional funding of \$65.3 million. Also recommended is funding for projected growth of \$34.2 million. The Board also endorses the need to reimburse institutions for educational services provided to students displaced by Hurricane Katrina (estimated cost is \$4.6 million).

The Board recommends that the Teaching Supplement be renamed the Undergraduate Educational Improvement Supplement and that the Coordinating Board staff conduct a study with the institutions on how this fund might better be applied to the goals of *Closing the Gaps*.

The Board recommends no change to the Small Institution Supplement amounts while a study is conducted to devise a graduated amount for the supplement that will provide the minimum funding necessary to operate a university, along with a graduated phase out of the award after an institution exceeds 5,000 headcount. Also recommended is a pilot study to be conducted with the community colleges to evaluate whether a supplement of this nature can be successfully coupled with institutions' Uniform Recruitment and Retention Plans.

The University Formula Advisory Committee (UFAC) recommended that the Small Institute Supplement be adjusted for inflation for the 2008-09 biennium and that a graduated phase out over three biennia be adopted for institutions exceeding the 5,000 headcount qualifying criteria for the first time.

The UFAC proposes the creation of an incentive funding pool of \$8 million to encourage more efficient use of facilities and the creation of a Graduate Medical Education Pharmacy pool of \$6 million to pay additional volunteer preceptors required by a new accreditation standard. The Coordinating Board believes that studies need to be done to objectively quantify the criteria needed in each case, pending completion of the studies, the Coordinating Board recommends no funding for these two issues.

Health-Related Institutions

The 2006-07 All Funds appropriation for health-related institutions is \$1.26 billion. The Coordinating Board recommends a total All Funds appropriation of \$1.64 billion for the 2008-09 biennium, an increase of \$380.6 million or 30.3 percent.

The Board recommends that the Instruction and Operations formula be adjusted for inflation and that the Infrastructure formula be re-centered to reflect actual costs for FY 2005, an increase of \$221.5 million. The Board also recommends an increase in the graduate nursing weight (\$2.1 million for the biennium), a change in the weight for Biomedical Science including Health Informatics (\$16.2 million for the biennium), and an increase in the Research Enhancement formula percentage from 1.73 to 2.5 percent (\$18.9 million for the biennium).

The Health-Related Institution Formula Advisory Committee (HRIFAC) recommended calculation of formula values that would have the effect of restoring the formula values that existed in the 2002-03 biennium, as well as calculating inflation using the Higher Education Price Index (HEPI). The Coordinating Board recommends that the same methodology be employed for the health-related institutions (HRIs) as for the other sectors, in which the appropriated amounts from 2006-07 be used as the base and adjusted for known growth and projected inflation.

Coordinating Board Trusteed Funds

For the Nursing Shortage Reduction Program, which provides funds for all sectors, including private institutions, the Coordinating Board is recommending an increase for inflation of \$6.5 million for the biennium..

Higher Education Cost Adjustment (HECA) Index

The formula recommendations for each sector include an adjustment for inflation using the HECA inflation index. In the past, the Coordinating Board has recommended using the Consumer Price Index-Urban (CPI-U) inflation index, which is market driven using housing, transportation, food and beverages, apparel and upkeep, medical care, entertainment, and other goods and services. To calculate the CPI-U, the Bureau of Labor Statistics measures average changes in the prices paid for these goods and services in 27 local areas. The Board believes HECA more accurately reflects the inflation experienced by higher education institutions.

The State Higher Education Executive Officers constructed the Higher Education Cost Adjustment (HECA) index from two federally developed and maintained price indices that more closely match the costs of a college or university. The HECA uses the Employment Cost Index (ECI) and the Gross Domestic Product Implicit Price Deflator (GDP IPD). The ECI includes salaries and benefits for private sector white collar workers (which better reflect employees at a college or university), excluding sales occupations. The GDP IPD reflects general price inflation in the U.S. economy. For more detail, see Technical Paper A on pages v-vii. Technical Paper A is included in "State Higher Education Finance 2003" published by the State Higher Education Executive Officers (SHEEO) organization. Principal contributors: Paul Lingenfelter, Hans P. L'Orange, Susan Winter, and David Wright., published 2004. Available electronically at [http:// www.sheeo.org/pubs/completepubs.asp](http://www.sheeo.org/pubs/completepubs.asp).

Higher Education Totals

For the 2008-09 biennium, the Coordinating Board recommends a total All Funds appropriation of \$8.68 billion, including an increase of \$1.74 billion, or 25 percent.

**Coordinating Board's Formula Funding Recommendations
Compared to 2006-07 All Funds Appropriations**

April 2006

Summary of Financial Implications

| Sector | 2006-07 Appropriations (millions) | Recommended 2008-09 Appropriations (millions) | Percentage Increase |
|--|---|--|------------------------|
| Community and Technical Colleges – Base Values | \$ 1,764.2 | \$ 2,335.6 ¹ | 32.4% |
| Known Enrollment Growth | | \$ 70.9 ² | |
| <i>Closing the Gaps</i> | | | |
| Provide Bonus for Critical Fields not High Tech | | 34.2 | |
| Fund Alternative Teaching Certificates | | 3.2 | |
| Pilot – Small Institution Supplement | | 2.3 | |
| Total Community and Technical | \$ 1,764.2 | \$ 2,446.2 | 38.7% |
| Universities – Base Values | \$ 3,919.5 | \$ 4,489.3 ³ | 14.5% |
| Known Enrollment Growth | | 65.3 ² | |
| Projected Enrollment Growth | | 34.2 | |
| Reimbursement of Hurricane Katrina Costs | | 4.6 | |
| Total Universities | \$ 3,919.5 | \$ 4,593.4 | 17.2% |
| Health-Related Institutions – Base Values | \$ 1,256.9 | \$ 1,553.5 ³ | 23.6% |
| Known Enrollment Growth | | 37.6 | |
| <i>Closing the Gaps – Participation and Success</i> | | | |
| Increase Graduate Nursing Weight | | 2.1 | |
| Increase Biomedical Weight | | 16.2 | |
| Enrollment of African American and Hispanic Students | | 6.0 | |
| Restore Mission Specific Rates | | 3.3 | |
| <i>Closing the Gaps - Research</i> | | | |
| Increase Research Enhancement Percentage | | 18.9 | |
| Total Health-Related Institutions | \$ 1,256.9 | \$ 1,637.6 | 30.3% |
| Coordinating Board Trusteed Funds (All Sectors) | | | |
| Nursing Shortage Reduction Program | \$ 6.0 | \$ 6.5 | 8.3% |
| Total All Sectors | \$ 6,946.6 | \$ 8,683.7 | 25.0% |

¹Includes projected inflation

²No inflation estimate applied

³Includes inflation adjustment for I&O formula and re-centering of Infrastructure formula

TECHNICAL PAPER A

The Higher Education Cost Adjustment: A Proposed Tool for Assessing Inflation in Higher Education Costs

Introduction

Prices charged to students, the total cost of higher education, and the effect of inflation are all important issues to the public, state and federal governments, and colleges and universities. This paper discusses two relevant dimensions of inflation in higher education—the consumer and the provider perspectives—and suggests a new tool to benchmark inflation as experienced by providers, colleges, and universities.

The Consumer Perspective

The student, parent, or student aid provider most often views higher education prices relative to how much they pay for other goods and services. The Consumer Price Index for Urban Consumers (CPI-U), most often used for these comparisons, evaluates the growth of tuition and fees against other consumer prices.

The CPI-U "market basket" consists of: housing (forty-two percent of the index), transportation (nineteen percent), food and beverages (eighteen percent), apparel and upkeep (seven percent), medical care (five percent), entertainment (four percent), and other goods and services (five percent). To calculate the CPI-U, the Bureau of Labor Statistics measures average changes in the prices paid for these goods and services in twenty-seven local areas.

Prices for different goods and services generally change faster or slower than the average rate of increase in the CPI-U. Incomes also grow or decline at different rates. Consumers notice when prices increase; and they become concerned when prices for important goods and services grow faster than their incomes. Prices for higher education and health care, for example, have grown faster than overall consumer prices over the past twenty years. While consumer prices as measured by CPI-U grew by forty percent between 1990 and 2002, the cost of medical care grew by seventy-five percent,¹ and tuition and fees for four-year public colleges and universities grew by 120 percent. U.S. income per capita grew by fifty-eight percent during the same period—more than prices in general, but less than the health care and college tuition price increases.

In view of these facts, it is not surprising that college prices are attracting national attention. Colleges and universities are certainly aware of the issues, and of the increase in their prices. At the same time, however, they face growth in the prices that they pay.

¹ "Economic Report of the President." February 2003. Appendix B, table B-60: "Consumer Price Indexes for Major Expenditure Classes" (<http://w3.access.gpo.gov/usbudget/fy2004/sheets/b60.xls>).

The Provider Perspective

The CPI-U is based on goods and services purchased by the typical urban consumer. Colleges and universities spend their funds on different things—mostly (seventy-five percent) on salaries and benefits for faculty and staff, then utilities, supplies, books and library materials, and computing. Trends in the cost of these items don't necessarily run parallel to the average price increases tracked by the CPI-U.

Kent Halstead developed the Higher Education Price Index (HEPI) to track changes in the prices paid by colleges and universities from 1961 on. This index is based on the market basket of expenditures for colleges and universities. To estimate price changes for components in this market basket, it uses trends in faculty salaries collected by the American Association of University Professors (AAUP), and a number of price indices generated by federal agencies.

Dr. Halstead last updated the HEPI in 2001; he used regression analysis to estimate price increases from 2002-03, and made available for purchase *College and University Higher Education Price Index: 2003 Update*, which explains the procedures he used to develop estimated price increases for higher education in recent years.

The HEPI has made an important contribution to understanding the cost increases borne by colleges and universities. Over the past three years, the State Higher Education Executive Officers association (SHEEO) and chief fiscal officers of higher education agencies have discussed the feasibility and desirability of a fresh analysis of higher education cost inflation. The following conclusions were reached:

- While the HEPI has been useful, it has not been universally accepted because 1) it is a privately developed analysis, and 2) one of its main components, average faculty salaries, has been criticized as self-referential.
- The HEPI has not diverged dramatically from other inflation indices over short time periods. Hence, many policy makers reference indices such as the CPI-U in annual budget deliberations, especially in budgeting for projected price increases.
- It would be costly to update, refine, and maintain the HEPI in such a way that would meet professional standards for price indexing. The most labor-intensive work would be in refreshing the data in the higher education market basket.

For these reasons, SHEEO has decided not to maintain a successor to the HEPI. But *over an extended period of time*, differences between market basket of higher education cost increases and CPI market basket cost increases are material. The most fundamental problem is that the largest expenditure for higher education is salaries for educated people. In the past twenty years, such people have attracted increasingly higher compensation in both the private and public sectors, including colleges and universities.

SHEEO proposes the Higher Education Cost Adjustment (HECA) as an alternative to the CPI-U and the HEPI for estimating inflation in the costs paid by colleges and universities. HECA is constructed from two federally developed and maintained price indices—the Employment Cost Index (ECI) and the Gross Domestic Product Implicit Price Deflator (GDP IPD). The ECI includes salaries and benefits for private sector white-collar workers, excluding sales occupations. The GDP IPD reflects general price inflation in the U.S. economy.² The HECA has the following advantages:

1. It is constructed from measures of inflation in the broader U.S. economy;
2. It is simple, straightforward to calculate, and transparent; and

² *Gross Domestic Product (GDP) is the total market value of all final goods and services produced in the country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. The GDP Implicit Price Deflator is current dollar GDP divided by constant dollar GDP. This ratio is used to account for the effects of inflation by reflecting the change in the prices of the bundle of goods that make up the GDP as well as changes to the bundle itself.*

3. The underlying indices are developed and routinely updated by the Bureaus of Labor Statistics and Economic Analysis.

Because the best available data suggest that faculty and staff salaries accounted for roughly seventy-five percent of college and university expenditures in 1972, the HECA is based on a market basket with two components—personnel costs (seventy-five percent of the index), and non-personnel costs (twenty-five percent). We have constructed the HECA based on the growth of the ECI for seventy-five percent of costs, and the growth of the GDP IPD for twenty-five percent of costs. While the higher education market basket may have changed since 1972, the information available suggests that this allocation remains roughly accurate.

Table 7 displays three indices from fiscal years 1990 to 2002—the CPI-U, HEPI, and the suggested HECA. For comparison purposes, per capita income growth is shown.

Table 7

**CPI-U, HEPI, HECA, and Per Capita Personal Income,
Indexed to Fiscal 1990**

| Fiscal Year Ending | CPI-U ¹ | HEPI ² | HECA ³ | Per Capita Personal Income ⁴ |
|-----------------------|--------------------|-------------------|-------------------|---|
| 1990 | 100.00 | 100.00 | 100.00 | 100.00 |
| 1991 | 105.47 | 105.26 | 104.44 | 102.30 |
| 1992 | 108.85 | 109.02 | 108.05 | 107.09 |
| 1993 | 112.25 | 112.14 | 111.93 | 110.05 |
| 1994 | 115.15 | 115.98 | 115.39 | 114.14 |
| 1995 | 118.46 | 119.39 | 118.61 | 118.82 |
| 1996 | 121.68 | 122.87 | 121.80 | 124.00 |
| 1997 | 125.15 | 126.70 | 125.19 | 129.84 |
| 1998 | 127.38 | 131.18 | 129.14 | 137.41 |
| 1999 | 129.59 | 134.30 | 132.85 | 142.45 |
| 2000 | 133.33 | 139.84 | 138.33 | 152.05 |
| 2001 | 137.89 | 146.66 | 143.94 | 155.39 |
| 2002 | 140.34 | 153.69 | 148.83 | 157.53 |

Notes: CPI-U and HEPI are fiscal year (July 1 to June 30). HECA data are Quarter 2 of the calendar year, coinciding with the final quarter of the comparable fiscal year. Personal income data are calendar year.

Sources:

1. U.S. Bureau of Labor Statistics.
2. Kent Halstead, Research Associates of Washington, DC.
3. SHEEO, from BLS and BEA data.
4. U.S. Dept. of Commerce, Bureau of Economic Analysis: State Personal Income.

Summary of the Indices

Between fiscal years 1990 and 2002:

- Consumer prices grew by forty percent;
- Provider prices for higher education grew fifty-four percent (as measured by the HEPI);
- Provider prices for higher education grew forty-nine percent (as estimated by the proposed HECA); and
- Per capita income grew fifty-eight percent.

**Texas Public
Community and Technical Colleges
Funding Formulas
Recommendations
for the
2008-09 Biennium**

April 2006

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

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Executive Summary Community and Technical Colleges

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

The Commissioner of Higher Education appointed a Community and Technical College Formula Advisory Committee (CTCFAC) to assist in this process. Dr. Richard Rhodes, President of El Paso Community College, chaired the CTCFAC, which acted as a committee of the whole. Dr. Gregory Williams, President of Western Texas College, is the vice chair. Members of the CTCFAC are listed in Appendix B. The meetings occurred in September through December 2005.

This report presents the recommendations of the Coordinating Board. The recommendations were approved by the Coordinating Board at its April 2006 meeting and were forwarded to the Governor, the Legislature, and the Legislative Budget Board in June 2006. For comparison purposes the CTCFAC recommendations are also included.

The Coordinating Board recommends funding 100 percent of the rates derived from the *FY 2005 Report of Fundable Operating Expenses*, less estimated amounts collected for tuition (\$1.21 billion) over the biennium. This recommendation would require an increase in appropriations of approximately 38.7 percent (estimated biennial increase is \$680 million). This recommendation reflects a change in the method of calculating the colleges' formula funding to an All Funds appropriation.

The CTCFAC proposed deriving rates directly from the *FY 2005 Report of Fundable Operating Expenses*, then funds the colleges at 75 percent of the total costs of providing instructional and administrative programs at community colleges. This would include costs currently borne by state general revenue, but also some costs currently borne by tuition and fees, gifts and grants, local *ad valorem* tax supplements, and other sources of local funds. Fully funding this formula would require an increase in appropriations of approximately 60 percent. The CTCFAC recommends this model (estimated biennial increase is \$1.07 billion).

In addition to its formula proposal, the CTCFAC recommended that the current "high-tech" bonus structure be replaced by a "critical fields" bonus structure. This would provide a 10 percent premium for contact hours that address the critical needs of the state. The Coordinating Board supports this recommendation.

The funding formulas used for community colleges are also used to support the instructional and administrative costs of the Texas State Technical College System and the Lamar State Colleges. The infrastructure costs for these institutions are based on using the Infrastructure formula used by universities. A continuation of that policy is recommended.

To achieve the goals of *Closing the Gaps by 2015*, a significant financial investment will need to be made by the State of Texas. The recommendations are summarized below under the *Closing the Gaps* objectives and expanded upon in subsequent sections of the report.

Participation and Success

- Provide a 10 percent premium for courses in fields that are critical needs for the state. Estimated biennial cost is \$34.2 million.
- Fully fund known enrollment growth that occurs between the base years. Estimated biennial cost \$70,900,983.
- Fund nursing growth through the formula. Estimated biennial cost is included in the formula appropriation.
- Provide trustee funds to the Coordinating Board with the purpose of providing funding for Alternative Teacher Certification based on the number of certificates. Estimated biennial cost is \$3.2 million.
- Provide trustee funds to the Coordinating Board for providing a small institution supplement to institutions with less than 2,500 headcount enrollment. The Coordinating Board will work with the small institutions to determine quantifiable goals for enrollment increases as part of the institution's Uniform Recruitment and Retention Strategic Plan. Estimated biennial cost is \$2.25 million.

The funding formulas allocated **\$1,764,187,509** to community and technical colleges for the 2006-07 biennium. If the formula recommendations contained in this report are adopted and fully funded by the Legislature for the 2008-09 biennium, the estimated formula appropriation would be **\$2,335,644,126**, an increase of **\$571,456,617** (32 percent). Finally, recommended increases in non-formula items add **\$110,571,249**. The result is a total increase in formula and non-formula items to **\$682,027,866**, which is a **38.7** percent increase above current base year formula funding.

1. Background

Texas has 50 community college districts, each governed by a locally elected board of trustees with taxing authority. Each district is authorized to offer both academic and technical programs. State law precludes the use of state funds to support the physical plant and certain other expenses at these institutions.

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

The Legislature generally uses the same formula for both community and technical colleges in appropriating funds for instructional and administrative expenditures, although in the last biennium, technical colleges were funded at higher levels. The formula consists of rates for 26 disciplines. The contact hours generated in each of these disciplines are multiplied by the corresponding rates, and the sum of these products forms the basis of the appropriation for each institution. In recent years, the Legislature has not fully funded the formula recommendation, so each institution has received a percentage of the recommendation. New rates, based on reports submitted by the colleges, (the *Report of Fundable Operating Expenses* described in Section 2 of this report), are determined each biennium. Appendix C contains the 26 rates for the recommendation.

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

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

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

2. Community and Technical Colleges' FY 2005 Report of Fundable Operating Expenses

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

Each community and technical college reports total instructional expenses and contact hours for each instructional discipline included on a list provided by the Coordinating Board. The colleges also report total expenses for administration, including institutional support, student services, library, instructional administration, organized activities, and instructional staff benefits. The report of total expenses excludes physical plant employees. The current cost study was adopted in 2004 and replaced the old *All Funds Expenditure Report*, which was not tied to the Annual Financial Reports of the institutions.

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

3. Recommendation for Setting Administrative and Instructional Rates

Coordinating Board recommendation – Formula rates based on 100 percent of the FY 2005 Report of Fundable Operating Expenses, less tuition.

The Coordinating Board recommends using 100 percent of the rates derived from the *FY 2005 Report of Fundable Operating Expenses*, then deducting the expected tuition collections and inflation. This would produce an All Funds appropriation. The inflation factor is 7.55 percent, based on the Higher Education Cost Adjustment Index produced by SHEEO.

This recommendation would increase appropriations by approximately 32 percent, bringing total appropriations to \$2,335,644,126 for the biennium, excluding historical growth. The rates that would result from this recommendation are provided in Appendix C.

CTC Formula Advisory Committee's proposal – Formula rates based on 75 percent of administration and instructional costs.

The CTCFAC's proposal establishes rates set at 75 percent of rates derived from the *FY 2005 Report of Fundable Operating Expenses*. It assumes that the State of Texas would pay 75 percent of the administrative and instructional costs of two-year colleges, plus inflation. The inflation factor is 7.55 percent, based on the Higher Education Cost Adjustment Index. Approximately 50 percent of these costs are currently paid from sources other than state General Revenue. These other sources include tuition and fees, gifts and grants, and local *ad valorem* taxes.

Funding the formula using 75 percent of the results of the *FY 2005 Report of Fundable Operating Expenses* would require an increase in formula funding from \$1,764,187,509 to \$2,720,225,644, a 54 percent increase, excluding historical growth. The rates that would result from this proposal are provided in Appendix C.

4. Other Formula-Related Recommendations

A number of other issues were proposed by the CTCFAC and are recommended by the Board. These are presented below:

Critical Fields Funding: Currently, the formula includes a premium for hours generated in certain “high tech” fields, the CTCFAC recommended that the state expand that and provide a premium of 10 percent above the full formula funding rate determined from the *FY 2005 Report of Fundable Operating Expenses* for certain “critical fields,” including computer science, engineering, mathematics, physical science, nursing, allied health, life sciences, and teacher education and certification.

The Classification of Instructional Programs (CIP) codes for these critical fields are:

Computer Science 11
Teacher Education 13
Engineering 14 & 15
Life Sciences 26 & 30.01
Mathematics 27 & 32.0104
Physical Science 40
Nursing 51.16
Allied Health 51.00, 51.02, 51.06, 51.07, 51.08, 51.09, 51.10, 51.1501, 51.1502, 51.18, 51.23, 51.26, 51.2703, 51.3101, 51.99

Nursing Growth Funding: The CTCFAC recommended that the state provide funding for nursing growth through the formula, rather than through a supplement. The Board agrees with this recommendation.

Alternative Teacher Certification Supplement: The CTCFAC recommended that the state provide funding for Alternative Teacher Certification (ATC) programs at community colleges. The Coordinating Board recommends that \$3,220,000 be trusteed to the Coordinating Board to fund ATC programs, based on the number of teaching certificates awarded.

Small Institution Supplement: The CTCFAC recommended that small community colleges receive a Small Institution Supplement, as do small universities and technical colleges. The Coordinating Board recommends a pilot program for funding community colleges with fewer than 2,500 headcount enrollment. These small institutions will work with the Coordinating Board to determine quantifiable goals for enrollment increases as part of their Uniform Recruitment and Retention Plan. In return, the Coordinating Board will distribute trusteed funds of \$2,250,000 to participating, eligible institutions.

Developmental Education: The CTCFAC recommended that a cost study be conducted to determine the additional differential cost for developmental studies, and the Coordinating Board concurs.

5. Cost Summary

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

Table 1
Coordinating Board Recommendations
Increase in Formula Rates based on 100 percent of
FY 2005 Report of Fundable Operating Expenses, less tuition

| Objective/Goal | Formula Items | Community Colleges | TSTC and Lamar State Colleges | Total |
|---------------------------|---|---------------------------|--------------------------------------|------------------------|
| Participation and Success | 2008-09 projected appropriations, based on 100 percent of the <i>FY 2005 Report of Fundable Operating Expense</i> . | \$304.5 million | \$18.0 million | \$322.5 million |
| | Adjust formula rate for inflation | \$235.0 million | \$13.9 million | \$248.9 million |
| Participation and Success | Critical Fields Bonus | | | \$34.2 million |
| Participation and Success | Fund known growth between base years. | \$66.9 million | \$4.0 million | \$70.9 million |
| Participation and Success | 2006-07 appropriations for RN and LVN nursing growth | | | \$0 |
| | Estimated Cost – Formula Items | | | \$676.5 million |
| | | | | |
| Objective/Goal | Non-Formula Items | Community Colleges | TSTC and Lamar State Colleges | Total |
| | | | | |
| Participation and Success | Small Institution Supplement | \$2.3 million | | \$2.3 million |
| Success | Alternative Teacher Certificate Funding | \$3.2 million | | \$3.2 million |
| | Estimated Cost – Non-Formula Items | | | \$5.5 million |
| | Proposal Total | | | \$682.0 million |

Table 2
Community and Technical Colleges Formula Advisory Committee Proposal
Increase in Formula Rates based on 75 percent of
FY 2005 Report of Fundable Operating Expenses

| Objective/Goal | Formula Items | Community Colleges | TSTC and Lamar State Colleges | Total |
|---------------------------|---|---------------------------|--------------------------------------|--------------------------|
| Participation and Success | 2008-09 projected appropriations, based on 100 percent of the <i>FY 2005 Report of Fundable Operating Expenses</i> , less tuition payments. | \$667.6 million | \$39.5 million | \$707.1 million |
| | Adjust formula rate for inflation | \$235.0 million | \$13.9 million | \$248.9 million |
| Participation and Success | Critical Fields Bonus | | | \$34.2 million |
| Participation and Success | Fund known growth between base years. | \$66.9 million | \$4.0 million | \$70.9 million |
| Participation and Success | 2006-07 appropriations for RN and LVN nursing growth | | | \$0 |
| | Estimated Cost – Formula Items | | | \$1,061.1 million |
| | | | | |
| Objective/Goal | Non-Formula Items | Community Colleges | TSTC and Lamar State Colleges | Total |
| | | | | |
| Participation and Success | Small Institution Supplement | \$2.3 million | | \$2.3 million |
| Success | Alternative Teacher Certificate Funding | \$3.2 million | | \$3.2 million |
| | Estimated Cost – Non-Formula Items | | | \$5.5 million |
| | Proposal Total | | | \$1,066,6 million |

Appendix A

Authority for Funding Formula Development

Texas Education Code, Section 61.002

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

Texas Education Code, Section 61.059(b)

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

Appendix B

PUBLIC COMMUNITY AND TECHNICAL COLLEGES FORMULA ADVISORY COMMITTEE FOR THE 2008-09 BIENNIUM

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

Appendix C

Administrative and Instructional Rates for the 2006-07 and Recommended 2008-09 Biennia

Coordinating Board Recommendation – Formula rates based on 100 percent of *FY 2005 Report of Fundable Operating Expenses, less tuition collections.*

Funding = Base Period Contact Hours x Rates

| Funding Code | Funding Discipline | Rates per Base Period Contact Hour | |
|--------------|---|------------------------------------|------------------|
| | | 2006-07 Biennium | 2008-09 Biennium |
| 1 | Agriculture | \$ 3.80 | \$ 4.86 |
| 2 | Architecture and Precision Production Trades | 3.82 | 5.92 |
| 3 | Biology, Physical Sciences, and Science Technology | 3.06 | 4.15 |
| 4 | Business Management, Marketing, and Administrative Services | 3.49 | 4.41 |
| 5 | Career Pilot | 7.20 | 15.73 |
| 6 | Communications | 3.77 | 4.90 |
| 7 | Computer and Information Sciences | 3.62 | 5.08 |
| 8 | Construction Trades | 3.85 | 5.50 |
| 9 | Consumer and Homemaking Education | 2.86 | 4.12 |
| 10 | Engineering | 4.66 | 6.91 |
| 11 | Engineering Related | 3.78 | 4.58 |
| 12 | English Language, Literature, Philosophy, Humanities, and Interdisciplinary | 3.05 | 4.35 |
| 13 | Foreign Languages | 3.20 | 4.01 |
| 14 | Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing | 4.65 | 6.68 |
| 15 | Health Occupations - Dental Hygiene | 6.54 | 9.98 |
| 16 | Health Occupations - Other | 3.54 | 4.96 |
| 17 | Health Occupations - Respiratory Therapy | 5.24 | 6.21 |
| 18 | Health Occupations - Vocational Nursing | 3.41 | 4.62 |
| 19 | Mathematics | 2.91 | 4.10 |
| 20 | Mechanics and Repairers - Automotive | 3.68 | 5.10 |
| 21 | Mechanics and Repairers – Diesel, Aviation Mech., and Transport. Workers | 4.33 | 6.25 |
| 22 | Mechanics and Repairers -Electronics | 3.72 | 5.72 |
| 23 | Physical Education and Fitness | 3.59 | 4.98 |
| 24 | Protective Services and Public Administration | 3.25 | 4.57 |
| 25 | Psychology, Social Sciences, and History | 2.80 | 3.78 |
| 26 | Visual and Performing Arts | 3.75 | 5.06 |

Notes:

Base period contact hours for semester length courses are for Summer Session 2004, Fall Semester 2004, and Spring Semester 2005.

Base period contact hours for non-semester length courses are for quarterly periods March–May 2004, June–August 2004, September–November 2004, and December 2004–February 2005.

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).

Appendix C
Administrative and Instructional Rates for the 2006-07
and
Recommended 2008-09 Biennia

Formula Advisory Committee Proposal – Formula rates based on 75 percent of
FY 2005 Report of Fundable Operating Expenses

Funding = Base Period Contact Hours x Rates

| <u>Funding Code</u> | <u>Funding Discipline</u> | <u>Rates per Base Period Contact Hour</u> | |
|---------------------|---|---|-------------------------|
| | | <u>2006-07 Biennium</u> | <u>2008-09 Biennium</u> |
| 1 | Agriculture | \$ 3.80 | \$ 5.67 |
| 2 | Architecture and Precision Production Trades | 3.82 | 6.89 |
| 3 | Biology, Physical Sciences, and Science Technology | 3.06 | 4.84 |
| 4 | Business Management, Marketing, and Administrative Services | 3.49 | 5.14 |
| 5 | Career Pilot | 7.20 | 18.32 |
| 6 | Communications | 3.77 | 5.70 |
| 7 | Computer and Information Sciences | 3.62 | 5.92 |
| 8 | Construction Trades | 3.85 | 6.41 |
| 9 | Consumer and Homemaking Education | 2.86 | 4.80 |
| 10 | Engineering | 4.66 | 8.05 |
| 11 | Engineering Related | 3.78 | 5.33 |
| 12 | English Language, Literature, Philosophy, Humanities, and Interdisciplinary | 3.05 | 5.06 |
| 13 | Foreign Languages | 3.20 | 4.66 |
| 14 | Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing | 4.65 | 7.78 |
| 15 | Health Occupations - Dental Hygiene | 6.54 | 11.62 |
| 16 | Health Occupations - Other | 3.54 | 5.77 |
| 17 | Health Occupations - Respiratory Therapy | 5.24 | 7.24 |
| 18 | Health Occupations - Vocational Nursing | 3.41 | 5.38 |
| 19 | Mathematics | 2.91 | 4.77 |
| 20 | Mechanics and Repairers - Automotive | 3.68 | 5.94 |
| 21 | Mechanics and Repairers - Diesel, Aviation Mech., and Transport. Workers | 4.33 | 7.27 |
| 22 | Mechanics and Repairers - Electronics | 3.72 | 6.66 |
| 23 | Physical Education and Fitness | 3.59 | 5.80 |
| 24 | Protective Services and Public Administration | 3.25 | 5.32 |
| 25 | Psychology, Social Sciences, and History | 2.80 | 4.40 |
| 26 | Visual and Performing Arts | 3.75 | 5.89 |

Notes:

Base period contact hours for semester length courses are for Summer Session 2004, Fall Semester 2004, and Spring Semester 2005.

Base period contact hours for non-semester length courses are for quarterly periods March–May 2004, June–August 2004, September–November 2004, and December 2004–February 2005.

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).

**Texas Public General Academic Institutions
Funding Formula Recommendations
for the
2008-09 Biennium**

April 2006

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

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Executive Summary General Academic Institutions

Most of the All-Funds appropriations for general academic institutions in the 2006-07 biennium are distributed through funding formulas designed to allocate funds equitably. The Texas Education Code and the General Appropriations Act give the Texas Higher Education Coordinating Board authority to review and recommend changes to these formulas (Appendix A). This document contains the results of that review.

The Commissioner of Higher Education appointed a University Formula Advisory Committee (UFAC) and two associated study committees to assist in this process. Dr. Jesse Rogers, President of Midwestern University, chaired the UFAC; Dr. William (Bill) Perry, Vice Provost at Texas A&M University, chaired the Instruction and Operations Study Committee; and Mr. Jim Brunjes, Senior Vice Chancellor of the Texas Tech University System, chaired the Infrastructure Study Committee. Members of the UFAC and two study committees are shown in Appendix B. They met in September through December 2005, and the meeting minutes are available online at <http://www.thecb.state.tx.us>.

This report presents the recommendations of the Coordinating Board. These recommendations were approved by the Coordinating Board at its April 2006 meeting and were forwarded to the Governor, the Legislature, and the Legislative Budget Board on June 1, 2006.

The Coordinating Board and the UFAC recommend continuation of the implementation plan for the cost-based Instruction and Operations Matrix. Accordingly, the second phase of the three-phase plan is to be adopted for the 2008-09 biennium. The three-phase plan, adopted in 2004, calls for movement from the original multiplier matrix used in the 2004-05 biennium to full implementation of the matrix based on the results of the cost study process over three biennia.

First Phase – 2006-07 Biennium. Use a matrix that represents the original 2004-05 matrix plus 50 percent of the difference between the original matrix multipliers and the fully implemented cost-based matrix.

Second Phase – 2008-09 Biennium (Reflected in this recommendation). Use a matrix that represents the original matrix plus 75 percent of the difference between the original matrix multipliers and the fully implemented cost-based matrix.

Third Phase – 2010-2011 Biennium. Full implementation of cost-based matrix.

Note: The fully implemented cost-based matrix is defined as the calculated multipliers based on a three-year rolling average of data from the three most recent fiscal years available.

This methodology and the resulting matrix will redistribute Instruction and Operations (I&O) formula funding because the relative weights that comprise the I&O funding matrix will change. These changes will result from the movement to 75 percent of full implementation and the changing base data as the most recent years included in the three-year rolling average are updated.

To achieve the goals of *Closing the Gaps by 2015*, the Texas higher education plan, a significant financial investment will need to be made by the State of Texas. The recommendations are summarized below under the *Closing the Gaps* objectives. They are further explained in subsequent sections of the report.

Participation and Success

- Adjust to current costs and provide inflation adjustment to the various rates contained in the formulas. Estimated biennial cost is \$569.8 million.
- Fully fund known enrollment growth that occurred between the 2004-05 and 2006-07 base periods. Estimated biennial cost is \$65.3 million.
- Provide a results-based payment for projected growth through the 2008-09 biennium. Estimated biennial cost is \$34.2 million.
- Provide for reimbursement of costs incurred by Texas public universities which provided educational instruction to students displaced by Hurricane Katrina. Estimated cost is \$4.6 million.

The funding formulas allocated **\$3,919,513,149** of the appropriation for general academic institutions for the 2006-07 biennium. If the formula recommendations contained in this report are adopted and fully funded by the Legislature for the 2008-09 biennium, the estimated formula appropriation would be **\$4,489,322,121**, an increase of **\$569,808,972**, or 14.5 percent. Known enrollment increases between the 2004-05 and 2006-07 base periods of 4.3 percent, over the biennium, would add **\$65,294,942**. Projected future enrollment increases would add **\$34,194,136**. Finally, reimbursement for Hurricane Katrina related costs would add **\$4,580,260**. The result is a total recommended increase of **\$673,878,310** in formula and non-formula items, which is an 17.2 percent increase overall.

1. Background

Over 74 percent of the funds appropriated directly to Texas public universities each biennium is 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 funding formulas are included in the “Special Provisions Related to Institutions of Higher Education” section of the General Appropriations Act. Another provision of the Act directs the Coordinating Board to review the funding formulas, using an advisory committee constituted for that purpose, and to make recommendations to the 80th Legislature.

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 UFAC is made up of university administrators, faculty members, and citizens. Reporting to UFAC are two study committees, each assigned to a major portion of the formula. Rosters for the three committees are provided in Appendix A.

The Instruction and Operations Study Committee reviewed that formula and related supplements. The Infrastructure Study Committee reviewed that formula. Most members of the UFAC also served on a study committee. Study committee membership was then augmented by other specialists – primarily academic officers in the case of the Instruction and Operations Study Committee; primarily business officers and physical plant administrators in the case of the Infrastructure Study Committee.

2. General Academic Institutions Formula Funding Used for the 2006-07 Biennium

The funding formulas adopted by the Legislature for the 2006-07 biennium and found in the General Appropriations Act, Article III, page III-250-251, are reproduced on the following pages.

Section 30. 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 2006-07 biennium is \$55.72.

Weighting is determined by the following matrix:

| | Lower Division | Upper Division | Masters | Doctoral | Special Professional |
|----------------------|----------------|----------------|---------|----------|----------------------|
| Liberal Arts | 1.00 | 1.86 | 4.07 | 10.89 | |
| Science | 1.66 | 3.00 | 7.63 | 19.72 | |
| Fine Arts | 1.63 | 2.74 | 5.91 | 12.31 | |
| Teacher Education | 1.34 | 1.91 | 2.89 | 8.41 | |
| Agriculture | 2.06 | 2.62 | 7.14 | 13.43 | |
| Engineering | 2.43 | 3.28 | 7.21 | 18.35 | |
| Home Economics | 1.32 | 1.97 | 3.70 | 8.47 | |
| Law | | | | | 3.39 |
| Social Services | 2.01 | 2.30 | 4.59 | 12.10 | |
| Library Science | 1.28 | 1.33 | 3.59 | 8.85 | |
| Vocational Training | 2.14 | 2.52 | | | |
| Physical Training | 1.35 | 1.30 | | | |
| Health Services | 2.10 | 2.80 | 6.10 | 12.75 | |
| Pharmacy | 2.45 | 3.39 | 13.75 | 22.72 | 6.37 |
| Business Admin. | 1.24 | 1.61 | 3.95 | 16.59 | |
| Optometry | | | 5.46 | 19.12 | 7.00 |
| Teacher Ed. Practice | 1.75 | 2.19 | | | |
| Technology | 1.93 | 2.46 | 5.59 | | |
| Nursing | 3.58 | 4.96 | 5.89 | 13.49 | |
| Developmental Ed | 1.00 | | | | |
| Veterinary Medicine | | | | | 15.44 |

2. Teaching Experience Supplement. For the 2006-07 biennium, an additional weight of 10 percent is added to lower-division and upper-division semester credit hours taught by tenured and tenure-track faculty. Furthermore, it is the intent of the Legislature that the weight shall increase by 10 percent per biennium, up to 50 percent.

3. **Infrastructure Support Formula.** Funding associated with plant-related formulas and utilities shall be distributed by the Infrastructure Support formula, which is driven by the predicted square feet for universities' educational and general activities produced by the Space Projection Model developed by the Coordinating Board. The portion of the formula related to utilities is adjusted to reflect differences in unit costs for purchased utilities, including electricity, natural gas, water and wastewater and thermal energy. The average rate per square foot is \$6.37.
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, 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, 2006.

3. Recommended Changes to the Current Funding Formulas

The Coordinating Board recommends two significant changes to the current funding formulas

1. *A change in matrix relative weight values based on updated cost information.* As part of the phase-in of the cost-based weighting methodology over three biennia, the Board recommends using a matrix that represents the original matrix plus 75 percent of the difference between the original matrix multipliers and the fully implemented cost-based matrix. The matrix is based on a three-year moving average of the most recent costs from institution annual financial reports. Although this will not affect the total amount of Instruction and Operation (I&O) formula funding, there will almost certainly be some redistribution of funds among institutions. The specific amounts will not be known until the latest data is available in January 2007, but as in the current biennium, no institution will suffer greater than a 3 percent loss in I&O formula funding. This methodology was adopted originally for the 2006-07 biennium and is re-affirmed for the 2008-09 biennium. Budget neutral.
2. *The re-centering of the Infrastructure formula to fund 100% of infrastructure costs, excluding those for Auxiliary Enterprises.* The costs used are for FY2005 (the most recent available), and were obtained in a survey done by the formula committee.

The original formula was introduced for the 1998-99 biennium. Since that time, occasional state budgetary shortfalls and greater than projected inflation have combined to produce a substantial shortfall in formula funding amounts.

The original formulas were accompanied by a recommendation that an intensive review of their adequacy to cover costs be conducted at five year intervals. The original five-year

review fell due during a statewide budget shortfall in 2003 and was not performed. The additional cost to re-center the Infrastructure formula of \$244.2 million reflects both the 10 year period involved and the recent precipitous rise in energy prices.

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

Several adjustments are necessary to update the formulas for inflation, and these are presented first. The change in general prices is estimated using projections of the Higher Education Cost Adjustment (HECA) Index published by the Finance Division of the State Higher Education Executive Officers, a non-profit nationwide association of the chief executive officers serving statewide coordinating and governing boards of postsecondary education. Following that are the recommended changes to the formulas and supplements.

Inflation Adjustments

- Increase the per-SCH rate in the Instruction and Operations Formula from \$55.72 to \$61.55 to reflect changes in the HECA index (7.55 percent, estimated biennial cost is \$243 million). (UFAC recommended restoring appropriations per full-time student equivalent (FTSE) to FY 1998 levels as of FY 2005 and then projecting inflation using CPI-U through the 2008-09 biennium. Total UFAC recommended increase is \$652.4 million over the current biennium, or 20.3 percent.)
- Increase the statewide average rate per predicted square foot in the Infrastructure Formula from \$6.37 to \$9.26 to reflect re-centering to actual FY 2005 cost (latest available) and changes in the HECA index. The estimated biennial cost for universities alone is \$285.7 million, of which \$244.2 million represents re-centering the cost with the remainder of \$41.5 million attributed to inflation adjustments. (UFAC recommends a rate of \$9.79 per predicted square foot. This is the median of costs per actual square foot reported in the FY 2005 survey. (Estimated additional cost of this recommendation is \$352.2 million.)
- Continue the Small Institution Supplement at the current rate of \$750,000 annually pending completion of a study in the next biennium. (UFAC recommends adjustment of the Small Institution Supplement from \$750,000 to \$998,632 to reflect changes in inflation since the supplement was originally established in 1998. Institutions exceeding the 5,000 headcount limit for award of the supplement for the first time should have their awards reduced by 33 percent each following biennium. (Estimated additional biennial cost is \$4.6 million.)
- Certain other institutions of higher education such as the Lamar State Colleges, Texas State Technical College, Texas A&M Service Agencies, and the Texas A&M College of Veterinary Medicine share the same infrastructure formula with universities. (Estimated additional costs are \$41.1 million.)

Changes to the Formula

- Determine the Instruction and Operations (I&O) matrix based upon a cost analysis of FY 2004, FY 2005, and FY 2006 (budget neutral).

- Phase in the cost-based I&O matrix, which represents 75 percent of the difference between the original matrix and the pure cost-based matrix, so that no institution will lose more than 3 percent of funding as derived from the I&O matrix (budget neutral).
- Reallocate the portion of the infrastructure formula weighted for utility costs so that it reflects the actual ratio of purchased utilities to total infrastructure costs (56.26 percent), on a statewide basis (budget neutral).

Changes / Additions to Formula Supplements

- Fully fund the known growth that occurred between the 2004-05 and 2006-07 base periods, and provide an additional supplement for projected growth estimated at 1 percent for the biennium (estimated biennial cost is \$65.3 million and \$34.2 million, respectively).

Other Funding Related Issues

- **Reimbursement of Instructional Costs for Students Displaced by Hurricane Katrina:** Substantial un-reimbursed costs have been incurred as a result of providing education to students displaced by Hurricane Katrina. Additional funds in the appropriate amount are recommended to be trusteeed to the Coordinating Board for distribution to qualifying institutions. (Estimated additional biennium cost of \$4.6 million.)
- **Trusteed Fund to Compensate Additional Pharmacy Preceptors Needed for Pending Increase in In-Service Training Required by New Accreditation Requirements:** Further study is needed to determine a method to objectively quantify such costs. No appropriations are recommended pending completion of a study. (The UFAC recommended that a trusteeed fund be established under the Coordinating Board to be distributed based on the number of preceptors required. The initial biennial amount should be based on a rate equivalent to that currently provided for graduate medical education, or approximately \$6.8 million for the biennium.)
- **Incentive Funding to Increase Facilities Utilization:** It is recommended that any appropriations for this purpose should be deferred, pending the recommendations of a committee to evaluate the current space utilization standards. (The UFAC recommended the establishment of an incentive pool to reward institutions exceeding the Coordinating Board space utilization standards or showing substantial improvement from one year to the next. Estimated biennial cost is \$9.8 million at 1 percent of total committee recommended infrastructure funding.)

Additional Studies

- The current UFAC, or an appropriately constituted ad hoc committee, should construct a new graduated award methodology for the Small Institution Supplement, based on a combination of fixed and variable costs, which provides the minimum adequate funding necessary to operate a university.

- At the same time, a pilot study should be conducted with community colleges to evaluate whether a supplement of this nature can be successfully coupled with institutions' Uniform Recruitment and Retention plans. A change to the university supplement may be considered for the 2010-11 biennium after the findings of the ad hoc committee and the results of the community college pilot study are evaluated.
- A study should be conducted by an ad hoc committee to research the viability of a methodology to determine objective, quantifiable costs of "in-kind" contributions, such as donated time by volunteer preceptors for pharmacy students and other similar contributions.
- The current UFAC, or an appropriately constituted ad hoc committee, should continue to review the cost-based I&O matrix as new data becomes available.

4. Cost Summary

Below are cost estimates of implementing these recommendations for the 2008-09 biennium. The estimated costs of the recommended changes to the formulas, the recommended changes to the supplemental payments, and the recommendations for non-formula items are calculated from 2006-07 biennium amounts.

Funding Recommendation Increases for General Academic Institutions for the 2008-09 Biennium

| Objective / Goal | Formula Items | Estimated Biennial Cost |
|---------------------------|---|-------------------------|
| New Methodology | Develop relative weights for the I&O matrix based on costs with a phase-in | Budget Neutral |
| Incremental Adjustment | Adjust I&O formula rate for inflation | \$243.0 million |
| Incremental Adjustment | Adjust Infrastructure formula to current cost plus inflation | \$326.8 million |
| | Estimated Increase in Spending – Formula Items | \$569.8 million |
| | Non-Formula Items | |
| Participation and Success | Fully fund known growth | \$65.3 million |
| Participation and Success | Fund projected growth (@ 1% for 2008-09 biennium) | \$34.2 million |
| Success | Reimbursement of Instructional Costs for Hurricane Katrina Displaced Students | \$ 4.6 million |
| | Estimated Increase in Spending – Non-Formula Items | \$104.1 million |
| | Total Estimated Increase, Formula & Non-Formula Items plus Growth in Base Year Funding | \$673.9 million |

Appendix A

Authority for Funding Formula Development

Texas Education Code, Section 61.002(b)

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, 79th Legislature, page III-251

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, 2006.

**APPENDIX B
FORMULA ADVISORY AND FORMULA STUDY COMMITTEES
FOR THE 2008-09 BIENNIUM**

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(*) Formula Advisory Committee Member

APPENDIX C

Commissioner's Charge to the University Formula Advisory Committee (UFAC) for the 2008-09 Biennial Appropriations Texas Higher Education Coordinating Board

The UFAC has two general formulas and two supplemental formulas to address. The regular formulas are: Instruction and Operations (I&O) Formula and Infrastructure Formula. The two supplemental formulas are: Small Institutions Supplement for institutions with less than 5,000 headcount enrollment and Teaching Experience Supplement for providing an incentive to increase tenured and tenure-track faculty teaching undergraduate classes.

While formulas for the universities have been in place since the mid-1960s, the current group of formulas has only been in place since the 1998-1999 biennium. Beginning with the 2006-07 biennium, the I&O Formula matrix of relative weights is calculated from a university cost-study covering three years of cost data. The formula is based on semester credit hours earned applied to a cost matrix of discipline area and level of instruction. The Legislature approved a rate per weighted semester credit hour of \$55.72 for the 2006-07 biennium. Weighting is determined by the following matrix:

| | <u>Lower- Division</u> | <u>Upper- Division</u> | <u>Master's</u> | <u>Doctoral</u> | <u>Special Professional</u> |
|----------------------|----------------------------|----------------------------|-----------------|-----------------|---------------------------------|
| LIBERAL ARTS | 1.00 | 1.86 | 4.07 | 10.89 | |
| SCIENCE | 1.66 | 3.00 | 7.63 | 19.72 | |
| FINE ARTS | 1.63 | 2.74 | 5.91 | 12.31 | |
| TEACHER ED | 1.34 | 1.91 | 2.89 | 8.41 | |
| AGRICULTURE | 2.06 | 2.62 | 7.14 | 13.43 | |
| ENGINEERING | 2.43 | 3.28 | 7.21 | 18.35 | |
| HOME ECONOMICS | 1.32 | 1.97 | 3.70 | 8.47 | |
| LAW | | | | | 3.39 |
| SOCIAL SERVICE | 2.01 | 2.30 | 4.59 | 12.10 | |
| LIBRARY SCIENCE | 1.28 | 1.33 | 3.59 | 8.85 | |
| VOCATIONAL TRAIN | 2.14 | 2.52 | | | |
| PHYSICAL TRAINING | 1.35 | 1.30 | | | |
| HEALTH SERVICES | 2.10 | 2.80 | 6.10 | 12.75 | |
| PHARMACY | 2.45 | 3.98 | 13.75 | 22.72 | 6.37 |
| BUSINESS ADMIN | 1.24 | 1.61 | 3.95 | 16.59 | |
| OPTOMETRY | | | 5.46 | 19.12 | 7.00 |
| TEACHER ED- PRACT | 1.75 | 2.19 | | | |
| TECHNOLOGY | 1.93 | 2.46 | 5.59 | | |
| NURSING | 3.58 | 4.96 | 5.89 | 13.49 | |
| DEVELOPMENTAL ED | 1.00 | | | | |
| VET MED | | | | | 15.44 |

These weights are currently cost-based and were the subject of intense discussion in both the regular legislative session and the UFAC. The cost data will be updated in November 2006 and March 2007 for transmittal to the Legislature, pending the Coordinating Board's formula

recommendations in April 2006. The I&O Formula, including the Teaching Experience Supplement described below, represents about 84 percent of formula funds to the universities (and the College of Veterinary Medicine at Texas A&M University).

The Infrastructure Formula provides physical plant and utilities support and is based on both the Coordinating Board's Space Projection Model for each institution and its cost of utilities, adjusted for differences in unit costs for purchases utilities, natural gas, water and wastewater, and thermal energy. The average rate per square foot is \$6.37. The Infrastructure Formula, including the Small Institution Supplement described below, represents about 16 percent of the formula funds to the universities (and the College of Veterinary Medicine at Texas A&M University).

The Teaching Experience Supplement is intended to provide an incentive to encourage more tenured and tenure-track faculty to teach undergraduates. Although the rider's stated intent anticipates an increase in the weight of 10 percent for each following biennium, up to a maximum of 50 percent of matrix weights, the Supplement is currently calculated at 10 percent of the discipline area weight multiplied by the number of undergraduate semester credit hours taught by tenured and tenure-track faculty. Originally established at 5 percent for FY 1998, the Supplement was increased to its current level of 10 percent beginning in FY 2002.

The Small Institution Supplement (SIS) recognizes the fixed infrastructure costs of institutions with smaller student bodies and provides additional resources to address physical plant requirements for all the institutions, as well as minimum instruction and operation needs for universities. Eight of 35 universities will receive an additional \$750,000 per year and all seven technical and state colleges will receive an additional \$375,000 per year. The SIS for the technical and state colleges was increased from 10 percent to 50 percent of the university amount beginning in FY 2006.

Current UFAC members offered suggestions for the next UFAC to address. Because the UFAC has a very heavy workload this fall, it is not recommended that the UFAC be charged to address the one item below.

- Begin development of a formula element to address additional funding for excellence. (Note: Accountability System activities will include discussing and developing methods for defining and measuring excellence.)

However, other items suggested by the UFAC members are included in priority order in the draft charge to the next UFAC.

Similar to the other formula advisory committees, the UFAC is asked to:

1. Conduct an open, public process, providing opportunities for all interested persons, institutions, or organizations that desire to provide input to do so.
2. Propose a set formulas with appropriate levels of funding and financial incentives necessary to best achieve the four major goals included in the *Closing the Gaps*.
3. Provide the Commissioner with a preliminary written report of the Committee's activities and recommendations by December 15, 2005 and a final written report February 1, 2006.

The UFAC is also specifically charged, in priority order, to:

1. Continue to refine the cost-based matrix for the Instruction and Operations Formula (I&O), with special emphasis on Student Services and Departmental Operating Expense cost centers. (Some members of the current UFAC suggested we address these cost centers in particular.) Make recommendations as appropriate. *(Instruction and Operations Study Committee)*
2. While maintaining the integrity of the cost-based matrix, consider whether a “premium” applied to the matrix should be made to address the state’s identified critical fields. These fields currently include computer science, engineering, mathematics, physical science, nursing, and allied health. This mechanism is similar to the “high tech bonus” mechanism used in the current Community and Technical College I&O Formula. Make recommendations as appropriate. *(Instruction and Operations Study Committee)*
3. Examine the balance of the utilities and the maintenance and operations (M&O) components of the Infrastructure Formula. (Staff and some members of the current UFAC believe the current proportions of 67 percent and 33 percent, respectively, should be more balanced. This would be the first time a base for M&O was established.) Make recommendations as appropriate. *(Infrastructure Study Committee)*
4. Examine whether the current Infrastructure Formula elements for the universities should be continued or whether the HRI Infrastructure Formula elements should be adopted. (Staff are concerned that there is a lack of consistency between the two infrastructure formulas, and we haven’t been able to identify a compelling reason for the difference.) Make recommendations as appropriate. *(Infrastructure Study Committee)*
5. Examine whether the current Teaching Supplement is achieving its intended goal of having more tenured and tenure-track faculty teaching undergraduate students, and if so, whether the amount of funding or 10 percent increase in SCH funding for the Supplement is sufficient to produce the desired effect. Make recommendations as appropriate. *(Instruction and Operations Study Committee)*
6. Examine whether the current Small Institution Supplement is achieving its intended goal of providing sufficient funds to universities with small enrollments, and if so, whether the amount of funding for the Supplement (\$750,000 per year) is an adequate augmentation to support the physical plants of universities with small enrollments. Examine whether the current threshold of a 5,000 student headcount is an appropriate threshold. Make recommendations as appropriate. *(University Formula Advisory Committee)*
7. Explore the advantages and disadvantages of establishing a mission-specific differential and a region-specific differential for distributing formula funds to universities. Explore options for funding mechanisms to distribute formula funds that would implement these two types of differentials. Make recommendations as appropriate. *(University Formula Advisory Committee)*
8. Explore ways to increase the efficient use of facilities in the context of responding to *Closing the Gaps by 2015*. Explore ways to assure institutions are using their space as efficiently as possible, especially for regional institutions that do not have traditional students. Recommend incentives to maximize the use of facilities. *(Infrastructure Study Committee)*

**Texas Public Health-Related Institutions
Funding Formula Recommendations
for the
2008-09 Biennium**

April 2006

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

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Executive Summary Health-Related Institutions

For the fourth successive biennium, health-related institutions received a substantial portion of their appropriations through funding formulas in the 2006-07 biennium. The Texas Education Code and the General Appropriations Act give the Texas Higher Education Coordinating Board authority to review and recommend changes to these formulas (Appendix B). This document contains the Coordinating Board recommendations based on the results of that review.

For reference purposes, Article III, Section 31 of the 2006-07 Appropriations Act that covers “Special Provisions Relating Only to State Agencies of Higher Education” has been provided in Appendix A. Section 31 provides formula funding rates and other funding requirements for Health-Related Institutions.

To achieve the goals of *Closing the Gaps by 2015*, the Texas higher education plan, a significant financial investment will need to be made by the State of Texas. The recommendations of the Coordinating Board are summarized below by the *Closing the Gaps* objectives, and expanded upon in subsequent sections of the report. The recommendations are separated into two areas, one for formula funding and one for other funding.

Coordinating Board’s Recommendations for Formula Funding

- Adjust 2006-07 biennial amounts by known growth in enrollment between the last two base periods. (Estimated biennial increase of \$37.6 million.)
- Adjust 2006-07 biennial amounts for projected inflation between the current and the next base period for Instruction and Operation formula items. (Estimated biennial increase of \$66.5 million.)
- Create a formula weight for master’s and doctoral levels of nursing. (Estimated biennial increase of \$2.1 million.)
- Adjust the formula weights for biomedical science and include health informatics under the biomedical discipline. (Estimated biennial increase of \$16.2 million.)
- Provide funding for an increase in Hispanic and African-American students enrolled. (Estimated biennial increase of \$6.0 million.)
- Provide an Infrastructure base rate for FY 2008-09 of \$15.62 for all institutions, a change from \$8.06 and \$8.47 in FY 2006-07, to cover known growth in Infrastructure predicted square footage due to increases in the Space Model between the last two base periods, increases in infrastructure costs, and funding for additional qualified Multi-Campus Adjustment sites. (Estimated biennial increase of \$221.5 million.)
- In addition to the base Research Enhancement funding of \$1,412,500, fund known growth in Research Enhancement expenditures between the last two base periods. (Estimated biennial increase of \$2.9 million.)
- Provide a biennial increase of 2.5 percent of reported research expenditures. (Biennial increase of \$18.9 million.)

Mission-Specific Strategies

- Adjust 2006-07 biennial amounts for projected inflation Mission Specific Strategies (estimated biennial increase of \$4.1 million).
- Restore FY 2004-05 rates for Mission Specific Strategies for The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler (estimated biennial increase of \$3.3 million)

Graduate Medical Education

- Adjust 2006-07 biennial amounts for projected inflation for Graduate Medical Education (excluding Baylor College of Medicine) (estimated biennial increase of \$1.5 million).

The funding formulas allocated **\$1,256,871,623** to Health-Related Institutions for Instruction & Operations, Infrastructure, Research Enhancement Expenditures, Mission-Specific Strategies, and Graduate Medical Education in the 2006-07 biennium. If the recommendations contained in this report are adopted and fully funded by the Legislature for the 2008-09 biennium, the estimated appropriation would be **\$1,637,464,043**, an increase of **\$380,592,420** or 30.3 percent.

Nursing Shortage Reduction Program (CB Trusted Funding)

- Adjust 2006-07 biennial amounts for projected inflation for the Nursing Shortage Reduction Program between the current and the next base period. (Estimated biennial increase of **\$0.5** million.)

For the Nursing Shortage Reduction Program (which provides funds for all sections of higher education including private institutions), the 2006-07 appropriation was **\$6,000,000**. If the recommendations contained in this report are adopted and fully funded, the Nursing Shortage Reduction Program appropriation would be **\$6,453,284**, an increase of **\$453,284**, or 7.6 percent.

Formula Advisory Committee Background Information and Recommendations

Until the 2000-01 biennium, health-related institutions had been funded through a continuation and special item process. However, the 76th Legislature adopted a new set of funding formulas to allocate funds for Instruction and Operations, Infrastructure, Research, and Mission Specific Support. These formulas are intended to provide for an equitable allocation of funds among institutions and to establish the level of funding required to support higher education adequately. 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.

The Commissioner of Higher Education appointed a Health-Related Institution Formula Advisory Committee (HRIFAC) to assist in this review. Dr. Nancy Dickey, President, The Texas A&M Health Science Center, chaired the HRIFAC, and Dr. Mike McKinney, Vice-President, The University of Texas Health Science Center at Houston, served as the co-chair. Mr. Richard Moore, Vice President for Business and Administration, The University of Texas Medical Branch at Galveston, chaired the Instruction and Operations Subcommittee. All nine of the health-related institutions were represented on the committee, as indicated in the list of members in Appendix C. The meetings occurred in September through December 2005. Minutes are available at <http://www.thecb.state.tx.us/AdvisoryCommittees/Fin/>.

The HRIFAC's primary recommendations for the 2008-09 biennium:

- Return to the level of funding in the 2002-03 biennium for the Instruction and Operation, Infrastructure, and Research Enhancement formulas
- Increase formula weights for the Graduate Nursing and Biomedical Science disciplines
- Establish an Under-Represented Minority Initiative
- Increase the funding rate for Research Enhancement expenditures to 2.5 percent
- Increase funding for Graduate Medical Education
- Adjust for Inflation from FY 2002 figured on the HEPI Index for the Instruction and Operation, Infrastructure, and Research Enhancement formulas

Coordinating Board Recommendations

After a careful analysis, evaluation, and consideration of the Formula Advisory Committee's recommendations, the Coordinating Board recommends basing 2008-09 appropriations on the 2006-07 base period. This is consistent with the recommendations made for the general academic institutions.

For formula funding, the Coordinating Board recommends:

- Increasing discipline formula weights in Graduate Nursing and Biomedical Science
- Establishing an Under-represented Student Initiative based upon increased graduates
- Increasing the Infrastructure portion of formula funding, adjusting for the increased cost of infrastructure
- Increasing the Research Enhancement percentage to 2.5 percent.
- Adjusting for inflation from FY 2006 calculated on the Higher Education Cost Adjustment (HECA) Index for the Instruction and Operations formula

Additionally, the Coordinating Board recommends the following other funding for 2008-09:

- Restore the Mission Specific strategies to the levels of 2004-05
- Adjust Mission Specific strategies for inflation from FY 2006 calculated on the HECA Index
- Maintain the level of funding for Graduate Medical Education and adjust for inflation from FY 2006 calculated on the HECA Index.
- Maintain the level of funding for the Nursing Shortage Reduction Program and adjust for inflation from FY 2006 calculated on the HECA Index.

Detailed Funding Recommendations

Change in Weights for Specific Disciplines

- Create a new formula weight for master's- and doctoral-level nursing programs and set the rate at 110 percent of the current nursing rate (an increase from 1.138 to 1.252) to encourage graduate enrollment and compensate for the higher costs associated with the low student-to-faculty ratio required for the graduate-level programs. It is recommended that the 1.252 weight be applied only if there is new money to support this change. (For the purposes of determining which programs have fewer than 200 students, and therefore receive the Small Instructional Program Supplement, graduate and undergraduate nursing enrollment will be added.) This recommendation is consistent with the charge to assess the effectiveness of funding to target critical workforce shortage areas in the state (estimated biennial cost is \$2.1 million).
- Create a new formula weight for Biomedical Science from 1.018 to 1.292 to reflect the costs of biomedical education more accurately, and consider Health Informatics as a discipline included under Biomedical Science. Biomedical Science is one of the more expensive programs to fund, because of its high cost.

Health Informatics is populated by students who already possess an undergraduate degree and in many cases a professional health degree (MD, DDS, and DSN) or a PhD. degree in a biomedical science area. Funding Health Informatics at the Biomedical Science rate is based on the cost and complexity of the evolving field of Health Informatics as it expands into new areas, i.e., computational biomedicine, large-scale health information systems, intelligent drug design, innovative drug delivery systems, and systems designed to reduce medical errors and increase patient safety. (Estimated biennial cost \$16.2 million)

Growth and Infrastructure Adjustments

- Adjust 2006-07 biennial amounts by known enrollment growth (8.99 percent) between the last two base periods (estimated biennial cost is \$37.6 million).
- Provide an Infrastructure Base Rate for FY 2008-09 of \$15.62 for all institutions, a change from \$8.06 and \$8.48 in FY 2006-07, to cover known growth in predicted square footage due to increases in the Space Model between the last two base periods and adjust for increased infrastructure costs, as well as funding for additional, qualified Multi-Campus Adjustment sites (estimated biennial cost of \$221.5 million).

The Health-Related Formula Advisory Committee reviewed and formally approved the qualifying criteria for sites to be included for Multi-Campus Adjustment as a part of the Infrastructure formula. The criteria are as follows:

- The site must be specifically authorized by legislative actions (such as a rider or change to the statute to establish the separate site of the campus).
- The site must not be in the same county as the parent campus.
- There may be more than one site (a recognized campus entity or branch location) in the separate location if the separate site meets all of the criteria for eligibility.
- The facilities must be in the facilities inventory report certified by the institution at the time the Space Projection Model is calculated.
- The parent campus must demonstrate responsibility for site support and operations.
- Only the Education and General (E&G) square feet of the facilities are included in the calculation of the Space Projection Model.

Based upon the criteria listed above, the Coordinating Board has recommended the following new sites to be included in the Multi-Campus Adjustment for the Infrastructure formula:

- Texas A&M University System Health Science Center
 - Baylor College of Dentistry - Dallas
 - Institute of Biosciences and Technology
- The University of Texas MD Anderson Cancer Center
 - Dept of Veterinary Sciences - Bastrop
 - Science Park Operations - Research Division - Smithville
- In addition to the base Research Enhancement appropriation of \$1,412,500 per institution, adjust formula appropriations for Research Enhancement to add \$21.8 million for the biennium (including \$2.9 million growth in research expenditure base), an increase from 1.73 percent in 2006-07 to 2.5 percent of research expenditures reported in the FY 2005 Research Expenditures Report.
- Restore FY 2004-05 rates for Mission Specific Strategies for The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler to FY 2004-05 rates (estimated biennial increase of \$3.3 million)

Inflation Adjustments

- Increase the Base Value per Weighted Student in the Instruction and Operations Formula from \$10,987 to \$11,853 to reflect changes in the Higher Education Cost Adjustment (HECA) Index (estimated biennial cost is \$66.5 million).
- Mission Specific Strategies – Adjust 2006-07 biennial amounts for projected inflation for The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler between the current and the next base period according to the HECA index (estimated biennial cost is \$4.1 million).

- Graduate Medical Education – Adjust 2006-07 biennial amounts for projected inflation between the current and the next base period according to the HECA Index (estimated biennial cost is \$1.5 million).
- Nursing Shortage Reduction Program (CB Trusteed Funding excluding Baylor College of Medicine) – Adjust 2006-07 biennial amounts for projected inflation between the current and the next base period according to the HECA index (estimated biennial cost is \$0.5 million).

Trusteed Funds:

- Provide a supplement for demonstrated increases in under-represented graduates from Texas medical schools aimed at supporting efforts to close the gaps in participation and success (estimated biennial cost is \$6.0 million).

The Coordinating Board recommendations are summarized in the following tables:

Table 1
Coordinating Board Formula Funding Recommendations
Health-Related Institutions
2008-09 Biennium

| Recommended Increases for Formula Funding by Closing the Gaps Goals | Estimated Biennial Increase |
|---|--|
| Participation and Success | |
| Adjust 2006-07 biennial amounts by known growth in enrollment between the last two base periods | \$37.6 million |
| Adjust 2006-07 biennial amounts for projected inflation between the current and the next base period for Instruction and Operation formula items | \$66.5 million |
| Create a new formula weight for master's and doctoral levels of nursing | \$2.1 million |
| Adjust the formula weight for biomedical science and include Health Informatics | \$16.2 million |
| Provide results-based funding for an increase in Hispanic and African-American graduates | \$6.0 million |
| Provide an Infrastructure base rate of \$15.62 for FY 2008-09 for all institutions, a change from \$8.06 and \$8.47 in FY 2006-07, to cover known growth in Infrastructure square footage due increases in the Space Model between the last two base periods, increases in infrastructure costs, and funding for additional qualified Multi-Campus Adjustment sites | \$221.5 million |
| Research | |
| Fund known growth in Research Enhancement expenditures between the last two base periods (Note: research expenditures for the health-related institutions increased from \$1,055,779,708 in FY 2003 to \$1,225,956,412 in FY 2005). | \$2.9 million |
| Provide an increase for Research Enhancement funding calculated at 2.5 percent of reported research expenditures | \$18.9 million |
| Total Estimated Cost | \$371.7 million |

Table 2
Other Coordinating Board Funding Recommendations
Health-Related Institutions
2008-09 Biennium

| Recommended Increases for Other Funding by <i>Closing the Gaps</i> Goals | Estimated Biennial Cost |
|--|--|
| Participation and Success | |
| Mission Specific Strategies – Restore 2004-05 Mission Specific Strategies for The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Science Center at Tyler | \$3.3 million |
| Mission Specific Strategies – Adjust 2006-07 biennial amounts for projected inflation for Mission Specific Strategies for M.D. Anderson and UT Health Center - Tyler between the current and the next base period | \$4.1 million |
| Graduate Medical Education – Adjust 2006-07 biennial amount for projected inflation between the current and the next base period. | \$1.5 million |
| Nursing Shortage Reduction Program (CB Trusteed Funding) – Adjust 2006-07 biennial amounts for projected inflation between the current and the next base period | \$0.5 million |
| Total Estimated Cost | \$9.4 million |

Appendix A

Health-Related Institutions Formula Funding General Appropriations Act, 79th Legislature, page III-251 2006-07 Biennium

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

1. Instruction and Operations Support Formula. The Instruction and Operations Support Formula shall provide funding on a per student or full time equivalent basis. Funding for each instructional program is based on the following funding weights per student, with a base value per weighted student of \$10,987:

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

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

2. Infrastructure Support Formula. Funding to the health-related institutions for plant support and utilities shall be distributed by the infrastructure support formula which is driven by the predicted square feet for the health related institutions produced by the Space Projection Model developed by the Texas Higher Education Coordinating Board. The rate per square foot is \$8.47 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 \$8.06. 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 1.73 percent of its research expenditures as reported to the Texas Higher Education Coordinating Board.

4. Graduate Medical Education Formula. The Graduate Medical Education Formulas shall provide funding on a per medical resident basis. Funding is based on a base value of \$4,806 per medical resident in an accredited program. Appropriations for Graduate Medical Education for fiscal year 2006 are \$2,403 per resident and appropriations for fiscal year 2007 are \$2,403 per resident.

5. Health Related Institution Graduate Medical Education. The funds appropriated above in each of the health-related institutions bill pattern titled Graduate Medical Education (GME), shall be spent to increase the number of resident slots in the State of Texas, as well as faculty costs relating to GME. In addition, each health-related institution shall work with the Higher Education Coordinating Board to

develop new performance measures relating to increasing the number of resident slots in the State of Texas.

6. 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.

7. Formula Study Committees. These formulas shall be reviewed and updated by study committees appointed by the Texas Higher Education Coordinating Board and recommended changes forwarded to the Legislature, Legislative Budget Board, and Governor by June 1, 2006.

8. 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 2006 shall be based on the number of new cancer cases reported in 2003, and General Revenue appropriations for fiscal year 2007 shall be based on the number of new cancer cases reported in 2004. The rate per new cancer case shall be \$54.15 in fiscal year 2006 and \$52.98 in fiscal year 2007 for Strategy B.1.3, Science Park Operations: and \$253.08 in fiscal year 2006 and \$256.87 in fiscal year 2007 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 2006 shall be based on the number of new primary chest disease diagnoses reported in 2002, and General Revenue appropriations for fiscal year 2007 shall be based on the number of new primary chest disease diagnoses reported in 2003. The rate per primary chest diagnosis shall be \$5.97 for fiscal year 2006 and \$6.49 for fiscal year 2007.

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

*Modified to correct error.

Appendix B

Authority for Funding Formula Development

Texas Education Code, Section 61.002(b)

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, 79th Legislature, page III-251

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, 2006.

Appendix C

HEALTH-RELATED INSTITUTIONS FORMULA ADVISORY COMMITTEE FOR THE 2008-09 BIENNIUM

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

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