



TEXAS HIGHER EDUCATION COORDINATING BOARD

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March 6, 2007

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Mr. John O'Brien
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Dear Mr. O'Brien:

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The Coordinating Board has authorized me to forward to you the following **Educational Impact Statement on Senate Bill 211**, which would establish Texas A&M University-Central Texas when the enrollment at Tarleton State University System Center-Central Texas reaches 1,000 full-time student equivalents (FTSE), which would be calculated based on the semester credit hours generated during three consecutive semesters, instead of the current level calculated based on enrollment during one fall semester.

Based on Coordinating Board calculations using the methodology in this bill as filed, the annual FTSE count would exceed 1,000 (FTSE count of 1,098 for Fiscal Year 2006). If this bill is passed, the System Center would become a university effective September 1, 2007. However, there is currently no mechanism in the bill to ensure that appropriations would flow to the new university to build the infrastructure needed to support a stand-alone institution. The Coordinating Board recommends that, if passed, a transition period be included in the bill, with an effective date of fall 2009 for the new university so that all necessary processes can be put into place.

The Coordinating Board continues to endorse the Supply/Demand Pathway and its standard of 3,500 FTSE over four fall semesters as the most effective and efficient way to determine when and where to establish new universities. The proposed 1,000 FTSE enrollment does not demonstrate the continuing demand necessary to support a range of high-quality programs and services with an appropriate economy of scale required to support a stand-alone higher education institution. In addition, the recalculation of FTSE proposed in SB 211 is an ineffective way to reach the minimum FTSE enrollment threshold.

Background. Federal legislation passed by Congress and signed into law by President Bush in October 2004 provides for conveyance of 662 acres of land valued at \$1.7 million to the Texas A&M University System for the purpose of establishing Texas A&M University-Central Texas. The Texas A&M University System requested a Tuition Revenue Bond (TRB) in the amount of \$46 million for Texas A&M University-Central Texas during the 3rd called special session of the Texas Legislature (TEC Sec. 55.1751). The amount of \$25 million was authorized with the condition that the System Center-Central Texas reach 1,500 FTSE by 2010. The

authorized TRB would be used to plan, construct, furnish, and equip new facilities and related infrastructure on the conveyed land.

Ramifications of Proposed Legislation

Economies of Scale. At lower enrollment levels, universities spend a significantly higher percentage of state funds on administration rather than instruction. For example, in 2006 the average per FTSE expenditure on administration (institutional support) at universities with fewer than 3,500 FTSE was \$2,631, compared with the statewide average of \$1,428 for institutions with more than 3,500 FTSE. Previous Texas Legislatures have acknowledged this inefficiency with a \$750,000 annual supplemental appropriation for institutions with fewer than 5,000 students.

State Appropriations per FTSE. All institutions must have in place a minimum set of services to support students. (See infrastructure below.) Institutions with small enrollments require higher percentages of state funds per FTSE in order to provide these services. State appropriations per FTSE are significantly greater for small institutions than for medium-size and large institutions. In 2006, the average appropriation to institutions with fewer than 3,500 FTSE was \$9,760 per FTSE. The average appropriation to institutions with between 3,500 and 20,000 FTSE was \$6,147 per FTSE. The average appropriation to institutions with more than 20,000 FTSE was \$5,939. These facts support the use of the Supply/Demand Pathway Model with its 3,500 FTSE standard as the most efficient way to determine the need for a new institution of higher education.

Infrastructure. Creating an institution of higher education requires long-term planning and sufficient resources to develop and implement operations. In addition, there is currently no mechanism in place for the transition from Tarleton State University to becoming a stand-alone institution. A transitional period would be needed to allow the stand-alone institution to build all of the infrastructure needed to function effectively. Minimally, the new university would need to do the following — all of which are currently done for the System Center-Central Texas by Tarleton State University employees — in order to obtain SACS accreditation:

- Obtain degree-granting authority, including developing an adequate number of degree programs to meet student demand;
- Develop a Quality Enhancement Plan;
- Develop an adequate institutional effectiveness and assessment process;
- Create an institutional research office responsible for reporting and planning;
- Hire an adequate number of full-time faculty and staff to replace those from Tarleton State University who now support the System Center;
- Create a finance and accounting office;
- Develop an adequate array of student services including financial aid, student advising, computing resources, bookstore, services for students with disabilities, health services, and counseling services;

- Develop adequate processes for student admissions and remediation, registration, and acceptance of transfer credit;
- Develop a mechanism for student records retention to ensure security and confidentiality;
- Develop the governance and administrative structure of the institution;
- Build an adequate library collection to support all degree programs and research;
- Develop institutional policies and procedures;
- Acquire and/or build adequate facilities and create the physical plant to maintain them;
- Identify and obtain the funding sources required to support and maintain the institution's operations, including developing a competitive and cost-effective tuition and fee structure; and
- Build the technological infrastructure to support all parts of the institution.

Without plans to ensure that all of these processes and structures are in place, an institution would not be positioned to provide the high-quality academic offerings and support services to students that are a prerequisite to accreditation. It should also be noted that faculty on the tenure track with Tarleton State University may wish to continue to be Tarleton State faculty and not accept positions with the new university. Sufficient time to recruit and hire new faculty may be needed to continue to support academic offerings.

Comparison Campus. As a point of comparison, consider the smallest upper-level institution in Texas, Texas A&M University-Texarkana (TAMUT). Established by the Texas Legislature in 1971 as an upper-level institution called at the time East Texas State University, TAMUT offers the same number of degree programs as the System Center-Central Texas: 25 bachelor's programs and 14 master's programs. It should be noted that TAMUT has grown slowly over time, but the last five years have seen more rapid growth. The fall 1995 FTSE was 607, the fall 2000 FTSE was 640, and the fall 2005 FTSE was 1,072.

The institution has 193 employees, 66 of whom are faculty (57 full-time, 9 part-time). Total instructional costs for FY06 were \$7.1 million. In addition, like the System Center-Central Texas, it currently shares a campus with Texarkana College, the local community college; thus, the operational costs (non-instructional costs were \$8.4 million in FY06) for this small institution are less than would be needed to operate on a separate campus.

TAMUT has recently begun construction of a new campus, and two Tuition Revenue Bonds have been authorized for instructional and administrative facilities and a central plant, which will serve as a support facility for the campus. The project cost for the Science and Technology building is \$19.2 million for 45,727 gross square feet of space. The project cost for the Multi-Purpose Library building and Central Plant is \$75 million for 172,000 gross square feet of space. The total for the two

construction projects (\$94.2 million) and the FY06 operation budget (\$15.5 million) is \$109.7 million.

If the Tarleton System Center-Central Texas were to become a stand-alone university, it would need approximately the same number of faculty and staff as TAMUT to support the degree programs it currently offers, in addition to all of the support services and facilities mentioned above. The state investment in creating a new university would be substantial, as evidenced by the costs to build a new campus for TAMUT.

In addition, the FY07 expenditures at the System Center-Central Texas are estimated to be \$11.5 million. This is \$4 million less than TAMUT needed to operate in FY06. Sufficient funds would be needed to ensure that the new university could operate effectively and at a high quality.

Capacity. The need for additional facilities and the establishment of new institutions of higher education must be viewed in the context of existing institutional capacity to accept and serve additional students. Based on the Coordinating Board space model, some Texas institutions have a space surplus and could accept additional students. Some Texas institutions have a space deficit and could only accept more students with additional funds to build and expand facilities or to develop more distance education programs. State resources could be spent in assisting existing institutions to meet the needs of the state by increasing enrollment before diverting limited funds to the creation of new institutions in locations that have not demonstrated sufficient student demand. Moreover, state resources could be spent creating teaching sites or new institutions in areas of high population but low access to higher education.

Additional Considerations

FTSE at Tarleton State University System Center-Central Texas. Tarleton State University System Center-Central Texas has not experienced significant growth during the last four years. The FTSE count has remained relatively constant during this period. Since 2003, if the calculation of FTSE were done using the semester credit hours generated over the fall, spring and summer semesters in a Fiscal Year (FY) as indicated in SB 211, the annual FTSE count would show more modest increases than the fall semester headcount: fall 2002 FTSE: 800, FY03 FTSE: 1,041; fall 2003 FTSE: 785, FY04 FTSE: 1,059; fall 2004 FTSE: 846, FY05 FTSE: 1,079; and fall 2005 FTSE: 949, FY06 FTSE: 1,098.

The proposed bill would create a new university that has extremely low student headcount and semester credit hour generation. If it continued to grow at its present pace, the formula funding it received would be insufficient to sustain an institution of high quality. If additional funding were appropriated to support the institution, this support would likely come from the existing pool of higher education funding. The result would be more funding devoted to a small and largely static

institution pulled from funding that might have gone to growing institutions in areas of the state with large numbers of unrepresented students. There is no assurance that enrollments would increase if the FTSE threshold were lowered; thus, the high cost per FTSE associated with small institutions would remain.

Other Centers. Both the University of North Texas System Center at Dallas and Texas A&M University-Kingsville System Center-San Antonio have had their FTSE threshold lowered from the Coordinating Board suggested level of 3,500 FTSE. Enrollments at these Centers have not increased substantially during the last three years. The FTSE count at UNT System Center at Dallas was 494 in fall 2003, 423 in fall 2004, and 548 in fall 2005. The FTSE count at TAMU-K System Center-San Antonio was 408 in fall 2003, 543 in fall 2004, and 527 in fall 2005. Using the annual calculation, the FY06 total at UNT System Center at Dallas would be 679, and the FY06 total at TAMU-K System Center-San Antonio would be 589. When and if these two Centers reach their new FTSE thresholds, the state would have two more new and very small institutions sharing the limited pot of higher education funding.

The Round Rock Higher Education Center (RRHEC), established in 1998, offers 8 baccalaureate degrees, 13 master's degrees, and 5 certificate programs. Although the city of Round Rock and the surrounding area have experienced considerable growth in population during the last 15 years (179 percent growth in Round Rock between 1990 and 2005; 139 percent growth in Williamson County), the RRHEC has not grown substantially. The fall semester FTSE count has remained relatively stable, at about 500 FTSE each semester (661 FTSE for FY05 and 608 FTSE in FY06), during the last several years. The creation of a new university in Killeen could negatively impact this higher education teaching center, which is approximately 60 miles away.

Meeting Higher Education Needs in the Killeen Area. To help meet the area's needs, the state established the System Center-Central Texas in October 1998 when it acquired the independent University of Central Texas. The Center is located in Killeen and next to Central Texas College and Fort Hood, one of the nation's largest active-duty military bases. The Center currently offers upper-division coursework leading to 25 bachelor's degree programs in the liberal arts, business, nursing, computer information systems, and other fields. It also offers 14 master's degree programs in education, business, criminal justice, curriculum and instruction, history, and mathematics, among others.

Approximately 85 percent of Bell County's adult population has at least a high school diploma, a rate that is higher than the state average of 76 percent. However, only about 20 percent of Bell County's population has a bachelor's degree or higher, compared to a statewide average of 23 percent. The System Center helps narrow this gap by providing area residents access to a range of courses and programs. When the state acquired the facility, it enrolled 1,159 students. Between 2000 and 2005, Bell County grew by approximately 8 percent. Enrollments at the System

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Center-Central Texas have remained relatively stable in the last several years, indicating that the Center serves area student demand but has limited potential for growth. It would likely take a long time for the System Center in Central Texas to draw students from outside of its immediate area to increase enrollment enough to justify the existence of a permanent, stand-alone institution. Furthermore, the Coordinating Board has not seen any evidence showing that the System Center is not meeting the needs of the community.

Recommendation

The Coordinating Board opposes the lowering of the FTSE threshold to 1,000 as the Texas Legislature has done with two other System Centers. The Coordinating Board also opposes the proposed recalculation of FTSE from the current method of using the semester credit hours generated during one semester to one using the semester credit hours generated over an academic year. Making these two changes would be very costly to the state of Texas and sets a bad precedent for the future. The Coordinating Board continues to support the Supply/Demand Pathway as the model for determining the need for an institution of higher education in areas of high demand.

Finally, there is no evidence to suggest that students in the area supported by the System Center-Central Texas are poorly served. The flat enrollment patterns at the System Center-Central Texas do not warrant the creation of a stand-alone university.

Sincerely,

Raymund A. Paredes

c: Coordinating Board Members
David Gardner

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