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Texas Higher Education Coordinating Board

# Higher Education Assistance Fund Proposed Reallocation

## FY 2011 - FY 2015

**Report and Recommendations**
**Higher Education Assistance Fund**
**Reallocation Advisory Committee**

**December 2008**

**Division of Planning and Accountability**
**Finance and Resource Planning**

## Texas Higher Education Coordinating Board

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## Mission of the Coordinating Board

The Texas Higher Education Coordinating Board's mission is to work with the Legislature, Governor, governing boards, higher education institutions and other entities to help Texas meet the goals of the state's higher education plan, *Closing the Gaps by 2015*, and thereby provide the people of Texas the widest access to higher education of the highest quality in the most efficient manner.

## Philosophy of the Coordinating Board

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.

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

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## Executive Summary

Chapter 62 of the Texas Education Code requires that the Coordinating Board, in conjunction with institutions eligible for funds from the Higher Education Assistance Fund (HEAF), make recommendations to the Texas Legislature every five years regarding adjustment to the fund allocations. To start this process, the Texas Higher Education Commissioner appointed an advisory committee in August 2008 to develop recommendations for consideration. The committee recommends the following reallocation of HEAF appropriations for fiscal year 2011 through fiscal year 2015:

- $262,500,000 million should be allocated according to the complexity, deficit, and condition factors for all but the Texas State Technical College System institutions (TSTCS); TSTCS's allocation is $5,775,000 (2.2 percent).

- Unadjusted predicted square feet should be used from the space projection model and no adjustment should be made to the replacement values for approved but not on-line projects.

- No "Hold Harmless" calculations be applied.

The committee also recommends that:

- The fall 2008 space models and replacement values be used for the final allocation. This is dependent upon:

    - Distribution of the updated allocation and fall 2008 information for the space projection models and fall 2008 replacement values by January 31, 2009.

    - Review and verification by all institutions by February 15, 2009.

- The Coordinating Board adopt a Hold Harmless funding policy

If these recommendations are adopted by the Coordinating Board, the HEAF distributions presented to the 81st Texas Legislature will differ slightly from the amounts indicated in Table 1 because the most currently available data will be used in the calculations.

## Background

Article VII, Section 17 of the Texas Constitution established the Higher Education Assistance Fund by adding Chapter 62 to the Texas Education Code. Amendments to the Texas Constitution provided for the appropriation of $100 million annually, beginning in September 1985, from the first money coming into the state treasury not otherwise appropriated by the constitution for the purpose of:

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

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

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

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

In 2005, the 79th Legislature enacted HB 3001 to increase the Higher Education Assistance Fund (HEAF) allocation from $175 million to $262.5 million per year, beginning September 1, 2007. Every ten years, the Coordinating Board is required to conduct a study with the full participation of the eligible institutions and present recommendations to the Legislature regarding the allocation of the money to be appropriated as the HEAF allocation. An additional review by the Coordinating Board every five years determines if the allocations should be adjusted.

In August 2008, the Commissioner of Higher Education appointed an advisory committee to fulfill the mandated 5-year review. Members of the committee represented the institutions and systems that are eligible to receive HEAF revenues (See Appendix A). Between August and November 2008, the Committee met on four occasions to review the current allocation formula and make recommendations for the HEAF allocation during the five-year period, FY 2011 through FY 2015.

The HEAF formula allocates dollars to the eligible institutions. This formula is recommended by the committee to the Commissioner of Higher Education, who in turn may accept or modify it prior to consideration by the Texas Higher Education Coordinating Board.

Note: This table will be updated with the availability of the Fall 2008 Space Projection Model and E&G Replacement Value Reports.

**Table 1 - Final Committee Recommendation for the Higher Education Assistance Fund Allocation**
**FY 2011 - FY 2015**

| Institution | Complexity | Deficit | Condition | Total | Proposed Percent of Allocation | Revised FY 2009 Allocation | Revised FY 2009 Percent of Allocation | Gain/Loss | Percent Gain/Loss |
|---|---|---|---|---|---|---|---|---|---|
| The University of Texas - Pan American | 6,101,922 | 4,072,517 | 2,577,165 | 12,751,604 | 4.86% | 13,078,650 | 4.98% | (327,046) | -2.50% |
| The University of Texas at Brownsville | 1,497,506 | 3,085,591 | 623,210 | 5,206,307 | 1.98% | 4,252,048 | 1.62% | 954,259 | 22.44% |
| Subtotal | 7,599,428 | 7,158,108 | 3,200,375 | 17,957,911 | 6.84% | 17,330,698 | 6.60% | 627,213 | 3.62% |
| Texas A&M University - Corpus Christi | 3,448,191 | 3,173,393 | 1,122,330 | 7,743,913 | 2.95% | 8,407,075 | 3.20% | (663,162) | -7.89% |
| Texas A&M University - Kingsville | 2,970,759 | - | 1,803,634 | 4,774,393 | 1.82% | 5,129,104 | 1.95% | (354,711) | -6.92% |
| Texas A&M International University | 1,796,347 | 889,389 | 830,934 | 3,516,670 | 1.34% | 3,178,231 | 1.21% | 338,439 | 10.65% |
| West Texas A&M University | 2,766,853 | - | 1,849,326 | 4,616,180 | 1.76% | 4,849,736 | 1.85% | (233,556) | -4.82% |
| Texas A&M University - Commerce | 3,571,805 | - | 1,387,408 | 4,959,213 | 1.89% | 5,571,257 | 2.12% | (612,044) | -10.99% |
| Texas A&M University - Texarkana | 628,259 | 664,933 | 186,490 | 1,479,682 | 0.56% | 1,671,842 | 0.64% | (192,160) | -11.49% |
| Subtotal | 15,182,214 | 4,727,715 | 7,180,122 | 27,090,050 | 10.32% | 28,807,245 | 10.97% | (1,717,195) | -5.96% |
| University of Houston | 15,874,483 | 11,589,859 | 8,252,245 | 35,716,587 | 13.61% | 35,819,739 | 13.65% | (103,152) | -0.29% |
| University of Houston - Clear Lake | 3,137,752 | 515,846 | 1,249,167 | 4,902,765 | 1.87% | 5,571,028 | 2.12% | (668,263) | -12.00% |
| University of Houston - Downtown | 3,167,709 | 3,080,337 | 1,459,964 | 7,708,010 | 2.94% | 9,575,380 | 3.65% | (1,867,370) | -19.50% |
| University of Houston - Victoria | 1,069,993 | 1,112,774 | 194,867 | 2,377,633 | 0.91% | 2,318,089 | 0.88% | 59,544 | 2.57% |
| Subtotal | 23,249,936 | 16,298,816 | 11,156,243 | 50,704,996 | 19.32% | 53,284,236 | 20.30% | (2,579,240) | -4.84% |
| University of North Texas | 13,164,818 | 8,802,882 | 5,910,754 | 27,878,454 | 10.62% | 26,794,203 | 10.21% | 1,084,251 | 4.05% |
| Texas Tech University | 13,798,599 | 5,605,683 | 5,477,192 | 24,881,475 | 9.48% | 27,240,930 | 10.38% | (2,359,455) | -8.66% |
| Angelo State University | 2,200,045 | - | 1,398,742 | 3,598,787 | 1.37% | 3,640,265 | 1.39% | (41,478) | -1.14% |
| Subtotal | 15,998,644 | 5,605,683 | 6,875,934 | 28,480,262 | 10.85% | 30,881,195 | 11.76% | (2,400,933) | -7.77% |
| Lamar University | 4,741,207 | 3,009,885 | 2,397,969 | 10,149,061 | 3.87% | 10,305,946 | 3.93% | (156,885) | -1.52% |
| Lamar University | 3,785,821 | 1,909,340 | 2,128,410 | 7,823,571 | 2.98% | 8,255,752 | 3.15% | (432,181) | -5.23% |
| Lamar Institute of Technology | 955,386 | 1,100,544 | 269,560 | 2,325,490 | 0.89% | 2,050,194 | 0.78% | 275,296 | 13.43% |
| Lamar State College - Orange | 696,958 | 231,991 | 302,603 | 1,231,552 | 0.47% | 1,132,179 | 0.43% | 99,373 | 8.78% |
| Lamar State College - Port Arthur | 826,522 | 205,913 | 363,424 | 1,395,859 | 0.53% | 1,208,122 | 0.46% | 187,737 | 15.54% |
| Sul Ross State University | 849,317 | - | 672,018 | 1,521,335 | 0.58% | 2,075,188 | 0.79% | (553,853) | -26.69% |
| Sul Ross State University Rio Grande College | 352,864 | 143,907 | - | 496,771 | 0.19% | 385,412 | 0.15% | 111,359 | 28.89% |
| Sam Houston State University | 5,868,097 | 4,976,697 | 1,905,897 | 12,750,691 | 4.86% | 10,094,769 | 3.85% | 2,655,922 | 26.31% |
| Texas State University - San Marcos | 9,932,143 | 7,665,027 | 4,510,495 | 22,107,666 | 8.42% | 20,105,258 | 7.66% | 2,002,408 | 9.96% |
| Subtotal | 23,267,109 | 16,233,420 | 10,152,406 | 49,652,935 | 18.92% | 45,306,874 | 17.26% | 4,346,061 | 9.59% |
| Midwestern State University | 2,108,474 | 47,675 | 1,181,990 | 3,338,139 | 1.27% | 3,685,034 | 1.40% | (346,895) | -9.41% |
| Stephen F. Austin State University | 4,425,433 | 1,327,633 | 2,243,254 | 7,996,321 | 3.05% | 6,947,019 | 2.65% | 1,049,302 | 15.10% |
| Texas Southern University | 4,353,510 | 1,447,599 | 3,030,065 | 8,831,174 | 3.36% | 11,241,079 | 4.28% | (2,409,905) | -21.44% |
| Texas Woman's University | 5,385,260 | 2,461,829 | 2,226,976 | 10,074,065 | 3.84% | 8,551,514 | 3.26% | 1,522,551 | 17.80% |
| Subtotal | 16,272,678 | 5,284,736 | 8,682,285 | 30,239,699 | 11.52% | 30,424,646 | 11.59% | (184,947) | -0.61% |
| Texas State Technical Colleges | | | | 5,775,000 | 2.20% | 5,775,000 | 2.20% | - | 0.00% |
| General Academic Subtotal | 114,734,828 | 64,111,359 | 53,158,120 | 237,779,307 | 90.58% | 238,604,097 | 90.90% | (824,790) | -0.35% |
| University of North Texas Health Science Center at Fort Worth | 4,776,500 | 2,190,238 | 1,737,640 | 8,704,378 | 3.32% | 8,042,914 | 3.06% | 661,464 | 8.22% |
| Texas Tech University Health Sciences Center | 8,851,172 | 3,231,906 | 3,933,237 | 16,016,315 | 6.10% | 15,852,989 | 6.04% | 163,326 | 1.03% |
| Health-Related Subtotal | 13,627,672 | 5,422,144 | 5,670,877 | 24,720,693 | 9.42% | 23,895,903 | 9.10% | 824,790 | 3.45% |
| **Total** | **128,362,500** | **69,533,503** | **58,828,997** | **262,500,000** | **100.00%** | **262,500,000** | **100.00%** | **-** | **0.00%** |

1. UT Brownsville Fall 2007 Space Projection Model adjusted to exclude UT Southmost space.
2. FY 2009 Percent of Allocation adjusted to revised calculation.
3. Lamar University and Lamar Institute of Technology breakout required for Sources and Uses publication.

## Charge to the Committee

At the first meeting of the Higher Education Assistance Fund (HEAF) Reallocation Advisory Committee on August 19, 2008, Susan Brown, Assistant Commissioner for Planning and Accountability, provided the charge to the committee, from the Commissioner of Texas Higher Education:

- Conduct an open, public process. Provide an opportunity for persons and institutions not represented on the committee to provide input into the process.

- Complete the work so that any changes to the formula could be distributed for comment and then considered by the Coordinating Board at its January 2009 meeting.

- Review the sections of the Constitution and the Education Code that authorize the Higher Education Assistance Fund and the allocation of Higher Education Assistance Funds and be guided by the instructions contained therein.

- Review the assumptions and the data that were used in making the previous allocations to ensure that they are still appropriate. Recommend changes in the allocation as appropriate, especially any that would help achieve the goals of *Closing the Gaps by 2015*.

- Changes to the recommended allocation should be justified in a form that is persuasive to the Commissioner, the Board, and the Legislature.

## Elements of the HEAF Allocation Formula

During the period FY 2006 through FY 2010, the HEAF allocation was based on three elements: institutional complexity, space deficit, and facilities condition. For the period FY 2011 through FY 2015, the committee is recommending continued use of these three elements as the foundation of the allocation formula. (See Appendix B for a list of the elements of the proposed formula).

### Institutional Complexity Element

The complexity element reflects the cost of implementing the range and level of an institution's academic programs. More complex institutions are those that offer degree programs at the bachelor's, master's, doctoral, and professional levels and have extensive research and public service programs. After the TSTCS set-aside (see page six) is subtracted, the committee is recommending allocating 50 percent of the remaining annual HEAF allocation formula appropriation, $128,362,500, on the basis of complexity. Complexity is measured by using the all-funds formula appropriation for FY 2008 and FY 2009. The total amount received from the all-funds formula appropriation by the HEAF institutions is computed and each institution's percentage of that total appropriation is multiplied by $128,362,500 to determine its share of the complexity portion of the HEAF allocation. Table 1 shows the proposed distribution of the Institutional Complexity allocation.

### Space Deficit Element

The space deficit element is based on the difference between each institution's actual Education and General (E&G) assignable space and the space needs projected by the Space Projection Model. The Committee used fall 2007 data in its model, but recommends that the fall 2008 data be used for the final allocation. The HEAF allocation formula provides no funds to institutions that do not have a space deficit. If an institution has a projected deficit, the HEAF allocation formula first determines the amount per year necessary to eliminate the deficit or annual deficit value, and then provides funds in an appropriate proportion relative to the condition element of the model. In past models, the space deficit has been adjusted for approved but not on-line buildings. The Committee recommends that this adjustment not be included in calculations to determine the Space Deficit allocation.

To calculate the annual deficit value, the education and general net assignable square feet (NASF) from the Space Projection Model is multiplied by 1.5 to convert it to gross square feet. The gross square feet figure is then multiplied by $200 to produce a monetary value. The $200 value represents an average construction cost per gross square foot. The Committee believes this factor should be adjusted in the future to an amount reflecting the actual cost per gross square foot. The value obtained is the total deficit value. This value is then divided by 10, representing the full allocation period FY 2006 through FY 2015, to obtain an annual value.

The deficit and condition elements account for 50 percent of the total allocation less the TSTCS set-aside. The annual allocation for addressing the space deficit ($167,362,256) and the condition component ($141,597,260) are pro-rated to the amount available $128,362,500. Thus, the annual amount available for allocation via the space deficit is $69,533,503 (or 54.2 percent of $128,362,500)

### Facilities Condition Element

The facilities condition element provides funds for renovation and maintenance of each institution's academic facilities and is equal to two percent of the FY 2008 replacement value of each institution's E&G space, as reported in the Fall Facilities Inventory. The Committee used fall 2007 in its model, but recommends that the fall 2008 model be utilized for the final allocation.

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

In past models, the replacement value has been adjusted for approved but not on-line buildings. The Committee recommends that this adjustment not be included in calculations to determine the Facilities Condition allocation.

After the TSTCS set-aside (see page six) is subtracted, the committee recommends allocating $58,828,997 (45.8 percent of $128,362,500) of the annual HEAF allocation formula appropriation on the basis of institutional facilities condition. Table 1 shows the proposed distribution of the Facilities Condition allocation.

## Set-Aside

During the period FY 2008 through FY 2010, the HEAF allocation included a set-side for the Texas State Technical College System (TSTCS) of $5,775,000. The Committee recommends that $5,775,000, or 2.2 percent of the total $262.5 million be set aside for TSTCS for FY 2011 - 2015.

## *Closing the Gaps*

The committee discussed the charge of considering effects of any recommendations on achieving the goals of *Closing the Gaps*. It was agreed that the complexity element's wide scope addresses all of the components of *Closing the Gaps* because it is based on the proposed formula funding system for the 2008 – 2009 biennium, which includes a cost-based Instruction and Operations formula for universities and technical colleges. In addition, the Infrastructure formulas for universities, technical colleges, and health-related institutions are based on the Space Projection Model, which considers expenditures, enrollments, and academic programs. The committee decided that the goals of *Closing the Gaps* had been addressed by its assignment of a 50 percent weight to the complexity element in the HEAF allocation formula.

## Additional Recommendations

Because of the update of the parameters used in the HEAF allocations, a reallocation of the HEAF funding occurred. This reallocation resulted in 12 institutions receiving increased funding for FY 2011 - 2015, compared to FY 2008 - 2010, while 14 institutions received decreased funding. The Committee discussed at length whether Hold Harmless funding should be allocated to those institutions that received significantly less through this redistribution. The final recommendation by the Committee was that no Hold Harmless funding be considered.

The Committee does recommend that the Coordinating Board develop a policy to guide future reallocation or formula changes that result in significantly adverse reductions to institutions, i.e. a Hold Harmless Policy. Specifically, the policy would address the following, which occurs as the result of a reallocation or formula change:

- Establishment of a funding reduction threshold which would require additional funding to compensate for significant funding reductions in funding - an example might be reductions greater than three percent.

- The amount and source of the additional Hold Harmless amount to be provided.

The Committee believes that a consistent policy should be applied to all significant funding reductions occurring as a result of Coordinating Board action. In the past, inconsistent application of Hold Harmless Funding has resulted in ambiguous expectations and results for the affected institutions.

The Committee discussed the THECB Capital Funding Study Committee's recommendations regarding increased flexibility relating to HEAF debt financing. The Committee believes that the recommendations for the elimination of the HEAF debt term limit of 10 years and the increase in the amount available for debt financing to be beneficial to the HEAF institutions.

## Summary of Recommendations

The committee recommends the following annual reallocation of HEAF appropriations for FY 2011 through FY 2015.

- $262,500,000 million should be allocated according to the complexity, deficit, and condition factors for all but the Texas State Technical College System (TSTCS); TSTCS's calculated allocation is $5,775,000 (2.2 percent).

- Unadjusted predicted square feet should be used from the space projection model and no adjustment should be made to the replacement values for approved-but-not-on-line projects.

- No "Hold Harmless" calculations should be applied.

The committee also recommends:

- That the fall 2008 space projection model and fall 2008 replacement values be used for the final allocation. This is dependent upon:

    - Distribution of the updated allocation and fall 2008 information for the space projection model and fall 2008 replacement values by January 31, 2009.

    - Review and verification by institutions by February 15, 2009.

- The Coordinating Board adopt a Hold Harmless funding policy.

If these recommendations are adopted by the Coordinating Board, the HEAF distributions presented to the 81st Texas Legislature will differ slightly from the amounts indicated in Table 1 because the most currently available data will be used in the calculations.

## Appendix A

### Higher Education Assistance Fund Reallocation Advisory Committee

Jim Brunjes, Chair
Vice Chancellor and Chief Financial Officer
Texas Tech University System

Roland Smith
Vice Chancellor for Finance
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Mike Ferguson
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Danny Gallant
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Jim McShan
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Texas Southern University

## Appendix A

### Higher Education Assistance Fund Reallocation Advisory Committee

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James Langabeer
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Andrew Harris
Vice President for Finance and Administration
University of North Texas

Lee Jackson
Chancellor
University of North Texas System

Randy Wallace
Associate Vice Chancellor – Controller and Chief Budget Officer
The University of Texas System

## Appendix B

## Elements of the Proposed HEAF Allocation Formula

The recommended HEAF allocation formula would incorporate the following data elements for presentation to the 81st Texas Legislature in 2009.

### Complexity Element

FY 2008 and FY 2009 All Funds Formula Appropriations

### Space Deficit Element

Fall 2008 space projection model with the total current fund expenditures and research expenditures as reported in the annual financial report due on December 1, 2008

Fall 2008 CBM 004 class report

Each institution's approved program inventory

Fall 2008 certified facilities inventory

Fall 2008 CBM 008 faculty report

### Condition of Facilities

Replacement values for fall 2008

Fall 2008 certified facilities inventory

The Texas State Technical College System will receive $5,775,000 as its base allocation.

### Formula Allocation

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

| | |
|---|---|
| Total allocation after contribution to HEAF Trust Fund: | $ 262,500,000 |
| Less Adjustment: | |
| Texas State Technical College System Set-Aside | $ 5,775,000 |
| Total Formula Allocation: | $ 256,725,000 |

The available allocation of $256,725,000 is weighted at 50 percent for institutional complexity, allowing an allocation of $128,362,500 for this element.

The available allocation of $256,725,000 is weighted at 27.1 percent for institutional space deficit, allowing an allocation of $69,533,503 for this element.

## Appendix B

### Elements of the Proposed HEAF Allocation Formula

The available allocation of $256,725,000 is weighted at 22.9 percent for institutional facilities condition, allowing an allocation of $58,828,997 for this element.

For the complexity factor, the total amount received from the FY 2008 and FY 2009 all-funds formula appropriations by the HEAF institutions is computed. Then, each institution's percentage of that appropriation is multiplied by $128,362,500.

The space deficit element is calculated by multiplying an institution's space deficit, in NASF, as determined by the Space Projection Model by 1.5 and multiplying the result by $200 per square foot. This amount is divided by 10 to obtain an annual value. The sum of all the calculated values equals $69,533,503.

The facilities condition element is calculated by multiplying the total of each institution's facilities replacement value as reported in the Fall Facilities Inventory by two percent. Then, each institution's percentage of that replacement value is multiplied by $58,828,997.

The sum of these three elements for each institution is calculated.

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

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