



FORMULA FUNDING RECOMMENDATIONS 2014

April 2014



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.

Table of Contents

Executive Summary	3
Authority for Funding Formula Development.....	4
Summary of Recommendations	5
Community/Technical Colleges Formula Advisory Committee (CTCFAC) Recommendation Report for the FY 2016-2017 Biennium	10
General Academic Institution Formula Advisory Committee (GAIFAC) FY 2016-2017 Biennial Appropriations Report on the Commissioner’s Charges	31
Texas Health-Related Institutions Funding Formulas for the 2016-2017 Biennium Recommendations of the Health-Related Institutions Formula Advisory Committee (HRIFAC)	40

Executive Summary

The Coordinating Board's formula funding recommendations for the 2016-2017 biennium recognize the need for a more balanced focus to achieve the student participation goals of the state's higher education plan, *Closing the Gaps by 2015*, and meet the state's student success goals. Texas higher education and the leadership of the state deserve recognition for significant gains in student enrollments over the past twelve years since *Closing the Gaps* was first adopted – and those gains must continue. However, to realize fully the goals of *Closing the Gaps*, more emphasis must be placed on student success and the effective use of state, institutional, and student resources in retaining and graduating students. This emphasis includes the following:

- Continue the Student Success funding for community colleges in which institutions compete against themselves.
- Continue the Returned-Value Model funding for the Texas State Technical College System with a modification to include dual credit students. This change addresses the interest expressed in House Bill 5, 83rd Texas Legislative Session, to prepare more high school students for a skilled workforce.
- Work to develop a consensus among the General Academic Institutions that will provide incentives for improved outcomes.

The funding levels recommended by the formula advisory committees recognize the needs of the institutions to pay for increased costs and growth in student enrollments.

The following report contains the formula recommendations of the formula advisory committees appointed by the Coordinating Board, along with the THECB's recommendations.

Sector	2014-15 Biennium Appropriations (millions)	2016-17 Biennium Appropriations (millions)	Change Amount (millions)	Percent Change
Texas Public Community Colleges	\$1,767.9	\$2,011.0	\$243.1	13.8%
Texas Public State Colleges	39.3	44.5	5.2	13.2%
Texas State Technical Colleges	105.7	119.9	14.2	13.4%
Texas Public General Academic Institutions	4,368.0	4,884.0	516.0	11.8%
Texas Public Health Related Institutions	1,756.9	2,076.5	319.6	18.2%
Total	\$8,037.8	\$9,135.9	\$1,098.1	13.7%

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.

Summary of Recommendations

Community and Technical Colleges Formula Advisory Committee (CTCFAC) Recommendations

- Provide \$1,824 million in formula funding for instruction and administration.
 - Provide an average contact hour multiplier of \$6.12 for Public Community Colleges, which is equivalent to the 2008-09 biennium
 - Provide an average contact-hour multiplier of \$7.97 for the Lamar State Colleges because they do not participate in either Core Funding or Student Success Funding.
- Provide \$50 million in Core Funding allocated at \$1 million per community college district.
- Provide \$172.2 million in Student Success Funding at a rate no less than what was funded for the 2014-15 biennium. Use a three-year rolling average to determine the number of success points earned for the 2016-17 biennium.
- Fund Lamar State Colleges \$9.3 million to the Infrastructure (including Small Institution Supplement) formula for the biennium (\$0.4 million, or 4.2 percent more than the \$8.9 million appropriated for the 2014-15 biennium). This funding level assumes a rate of \$5.78 per square foot (\$0.22, or 4.0 percent more than the \$5.56 funded for the 2014-15 biennium) and 1.6 percent increase in square feet between fall 2012 and fall 2014. This is an aggregate amount of funding for infrastructure, which has historically been funded with a combination of General Revenue (GR) and General Revenue – Dedicated (GR-D); the actual amounts that will be attributed to each of these sources are yet to be determined by the Legislative Budget Board (LBB).
 - Split the recommended Infrastructure rate between “utilities” and “operations and maintenance” components using FY 2014 utility rates, update the utility rate adjustment factors using the FY 2014 utilities expenditures, and allocate the Infrastructure formula using the fall 2014 space model predicted square feet; and
 - Fund the Small Institution Supplement using the same methodology and rate as the 2014-15 biennium.
- Continue funding Developmental Education contact hours using the existing methodology of the same rate as lower division hours until a developmental education appropriation can be secured, in addition to the current appropriation. Additionally, clarification of expectations and standards for reporting the “other operating expenses” should be established to ensure consistency in reporting to reduce the wide variations in reported costs.
- An exception should be developed that allows physical education courses that are taught in Early College High School Programs to be counted in the contact hour funding.
- No change is recommended to calculations using competency-based instruction until data from the South Texas College (STC) program have been evaluated.
- Recommend no change to current methodology for funding critical-needs fields. The THECB is encouraged to conduct reviews of critical needs, considering regional as well as statewide workforce requirements.

The funding formulas allocated \$1,579 million in general revenue to community and technical colleges for the 2014-15 biennium. If the CTCFAC recommendations are adopted and fully

funded by the Legislature for the 2016-17 biennium, the estimated formula appropriation would be \$1,824 million, an increase of \$246 million (15.6 percent). The committee recommends no increases to non-formula items.

THECB's Recommendations

The THECB supports the CTCFAC recommendations for funding and the method for funding Student Success Points. The requested exception for funding physical education at Early College High School Programs will require legislative action and will be discussed in more detail when the Board's legislative agenda is discussed. The result is a total increase in funding to \$1,824 million, which is a 15.6 percent increase over current biennial funding.

The CTCFAC's recommendations addressing the committee charges begin on page 9.

Texas State Technical College System (TSTCS)

The TSTCS, Legislative Budget Board staff, and Coordinating Board staff have been reviewing the Returned-Value funding model implemented for the 2014-15 biennium and recommend the Legislature continue to fund on the Returned-Value model and discontinue setting funding levels using contact hours. This recommendation allows TSTC to better fulfill its mission of ensuring students are provided the best possible technical education in the fewest possible contact hours.

- Fund \$119.9 million to the formulas for the biennium (\$14.2 million, or 13.4 percent more than the previous biennium).
- Fund \$103.3 million to Returned-Value formula for the 2016-17 biennium (\$13.5 million), or 15 percent more than the \$89.8 million appropriated for the 2014-15 biennium. The recommendation funds an increase in the funding rate from 66 percent to 73.9 percent of the State's portion of the increased value added to the state from TSTC graduates. With full funding as a goal, this increase moves the funding rate a quarter of the way to that end. It also includes modifications to the previous Returned-Value formula to account for dual-credit and continuing education and a 2.95 percent increase for inflation.
- Fund \$16.6 million to the Infrastructure (includes Small Institution Supplement) formula for the biennium (\$0.7 million, or 4.5 percent more than the \$15.9 million appropriated for the 2014-15 biennium). This funding level assumes a rate of \$5.78 per square foot (\$0.22, or 4.0 percent more than the \$5.56 funded for the 2014-15 biennium) and 1.6 percent increase in square feet between fall 2012 and fall 2014.
- Split the recommended Infrastructure rate between "utilities" and "operations and maintenance" components using FY 2014 utility rates, update the utility rate adjustment factors using the FY 2014 utilities expenditures, and allocate the Infrastructure formula using the fall 2014 predicted square feet.
- Fund the Small Institution Supplement using the same methodology and rate as the 2014-15 biennium.

The formula allocated \$105.7 million in formula funding for the 2014-15 biennium. If the TSTCS recommendations are adopted and fully funded by the Legislature for the 2016-17 biennium, the estimated formula appropriation would be \$119.9 million (13.4 percent increase).

THECB's Recommendation

The THECB supports the formula committee's revised recommendations for funding, specifically:

- Funded the Returned-Value formula \$103.3 million versus the \$92.3 million initially recommended by the committee.
- Fund the Infrastructure formula \$16.6 million, no change from the initial recommendation.

The result is a total increase in funding to \$119.9 million, which is a 13.4 percent increase over current biennial funding.

The committee's recommendations begin on page 58.

General Academic Institutions Formula Advisory Committee (GAIFAC) Recommendations

- Fund \$235 million on outcomes based metrics outside the formula at a level equal to 10 percent of the undergraduate formula funding after fully funding the other formulas. Allocate funds using the scaled three-year rolling average of seven defined metrics. Fund using the latest available data and permit institutions to individually weight metrics to account for institutional mission and student characteristics.
- Fund \$4,649 million to the formulas for the biennium (\$281 million, or 6.4 percent more than the previous biennium)
 - \$3,915 million to Instruction and Operations (including Teaching Experience)
 - \$734 million to Infrastructure (includes Small Institution Supplement)
 - The committee requested the following stipulations be considered when determining actual allocations:
 - The Infrastructure rate be split between utilities and operations and maintenance using FY 2014 utility rates
 - The utility rate adjustment factors be set using FY 2014 expenditures
 - The Fall 2014 space model predicted square feet be used
 - The 2014-2015 biennium small institution supplement methodology be used
 - The total operational funding received by Texas general academics from the State was 26.5 in FY 2012 compared to 32.7 percent for their national peers be considered
- Fund competency-based education using the existing formulas for the 2016-2017 biennium and conduct an expenditure study specific to this form of instruction

The formula allocated \$4,368 million in formula funding for the 2014-15 biennium. If the GAIFAC recommendations are adopted and fully funded by the Legislature for the 2016-17 biennium, the estimated formula appropriation would be \$4,884 million (11.8 percent increase).

THECB's Recommendations

The THECB accepts the GAIFAC recommendations for funding and the method for funding outcomes.

The GAIFAC's recommendations addressing the committee charges begin on page 29.

Health-Related Institutions Formula Advisory Committee (HRIFAC) Recommendations

In 2007, the HRIFAC formulated a plan of *Closing the Formula Funding Gap* to enable HRIs to receive sufficient resources to meet the established goals of *Closing the Gaps*. The committee chose to continue this approach for the 2016-17 biennium. The HRIFAC recommends continuation of the *Closing the Formula Funding Gap* plan developed in 2007. The plan consists of restoring the formula's per-unit funding rates to FYs 2000 and 2001 levels (without any adjustment for inflation) over three biennia. It is recognition of the significant price tag of this restoration that leads the HRIFAC to recommend this three-biennium approach. The amounts projected for 2016-17 include per-unit growth (such as FTSE enrollment growth) from 2014-15 levels, as well as the proposed two-thirds restoration of per-unit rate funding, from current to original 2000-01 levels.

- The HRIFAC recommends that additional funds be added to ultimately restore the FY 2000-01 per FTSE funding rates.
 - Instruction & Operations formula – a 20.8 percent increase or \$225.7 million
 - Infrastructure formula – a 52.3 percent increase or \$129.8 million
 - Research Enhancement formula – a 61.7 percent increase or \$42.4 million
- The HRIFAC recommends Mission-Specific funding for UTMDACC and UTHSC-Tyler funding be increased by the “average growth in funding” recommended for the I&O formula. This recommendation translates into a 20.8 percent increase or \$62.9 million.
- Given the importance of residency positions in retaining graduating residents in the state, the HRIFAC recommends that the Graduate Medical Education (GME) formula funding rate be increased for the FY 2016-17 biennium by an additional 38.9 percent, or \$20.9 million.

The funding formulas allocated \$1,756.9 million to HRIs for FY 2014-15. If the HRIFAC's recommendations are adopted and fully funded by the Legislature for the FY 2016-17 biennium, the estimated formula appropriation would be \$2,238.6 million, an increase of 27.4 percent or \$481.7 million.

THECB's Recommendation

- The THECB recommends different funding levels than those proposed by the committee in most areas:
 - Instruction and Operations formula – a 16.9 percent increase or \$173.8 million
 - Infrastructure formula – a 24.5 percent increase or \$60.9 million
 - Research Enhancement Formula – a 22.7 percent increase or \$15.6 million

- In regards to Mission-Specific funding, the Commissioner believes a 16.0 percent increase or \$48.4 million to be appropriate
- The THECB concurs with the HRIFAC's recommendation in regards to GME funding.

The THECB recommends an HRI formula appropriation of \$2,076.5 million, an increase of \$319.6 million or 18.2 percent.

The HRIFAC's recommendations addressing the committee charges begin on page 39.

Community/Technical Colleges Formula Advisory Committee (CTCFAC) Recommendation Report for the FY 2016-2017 Biennium

In accordance with the biennial Formula Advisory Committee process, the Community/Technical Colleges (CTCs) submitted their report for consideration by the Commissioner of the Texas Higher Education Coordinating Board (THECB).

Committee Background

The Commissioner of the THECB delivered his charge to the CTCFAC at its first meeting on August 14, 2013. The committee elected Dr. Erma Johnson Hadley, Chancellor, Tarrant County Community College District, as the chair and Diane Snyder, Vice Chancellor Administration and Finance, Alamo Community College District, as vice chair.

The CTCFAC held three additional meetings between September 2013 and November 2013. A list of CTCFAC members is provided in Appendix C. The minutes of the meetings are provided in Appendix D.

Executive Summary

The CTCs of Texas are the primary producers of the state's health care workers and technicians in the fields of engineering, computer information, and education. The population of Texas, according to the 2010 U.S. Census, experienced the fifth largest growth rate among states over the last decade at nearly 21 percent. This population growth will likely continue to stress our state's capacity to meet the workforce needs and demands of our citizens. Texas is already facing substantial workforce shortages of technicians in the fields of petroleum, construction, and medical technologies. These shortages are only expected to become more severe.

Training a workforce in this environment of continuing growth and increasing need will put even more pressure on Texas' CTCs. Unfortunately, these pressures are occurring at the same time that critical funding for instruction and operations is declining.

Here are some key Texas facts and figures to consider when assessing the state's workforce shortages and needs:

- Based on the projections of the Texas Workforce Commission¹ (TWC), the Texas workforce will need approximately 790,000 additional workers with a post-secondary credential by 2020 when compared to 2010.
- The average annual openings for jobs requiring a post-secondary credential is projected to be 146,000. TWC estimates that an additional 246,000 jobs will require a post-secondary certificate or associate's degree.
- An additional 440,000 jobs that currently require a bachelor degree are projected to be added to the workforce.

¹ TEXAS Long-Term Occupation Projections
(<http://www.tracer2.com/publication.asp?PUBLICATIONID=826>)

- Thirty-five percent of graduates with a baccalaureate degree in 2012 earned greater than 30 semester credit hours at a two-year college.

In the past eleven years, state budgets forced the state to underfund community colleges. State funds per full-time student equivalent (FTSE) dropped 29 percent from FY 2000 to FY 2012. Meanwhile, tuition and fees increased significantly (a 139 percent increase from fall 2000 to fall 2012). Community colleges have, in turn, reported many negative changes caused by underfunding from the state:

- Fewer support materials and copies of information being available to students
- Fuller classes, resulting in less interaction and support from professors
- Hiring delays, making it harder to get help from counselors, librarians, and tutors
- Inflexible class schedules and increasing costs, causing students to delay or prolong their college educations because they cannot get into classes that fit their family/work schedules or budgets

Although state funding per contact hour has eroded in the last 11 years, the number of community college students has risen dramatically. Fall headcount enrollment increased 65 percent from fall 2000 to fall 2012. The cost of equipping colleges with the latest technologies to ensure up-to-date instruction has also risen dramatically. Colleges have proactively taken measures to control costs through efficient operations, but FTSE expenditures per student have increased only 15 percent from FY 2000 to FY 2012. With inflation, this is a decrease of 13 percent.

Increased student population combined with decreases in funding endangers the community college systems of Texas, which are already operating on smaller budgets than universities. The Legislature should work with community colleges to provide funding that will ensure the success of all our students. The Legislature's investment in community college education will create opportunities, spur business growth, and expand the state's tax base. Funding for Texas community colleges is essential to the economic health of our state.

The major source of state funding for community and state colleges is the Instruction and Operations formula, which is based on contact hours taught in academic and vocational/technical areas. The committee recommends that the Legislature fund contact-hour enrollment at \$6.12 per contact hour for the community colleges and \$7.97 per contact hour for the Lamar State Colleges (general revenue funds). The committee recommends basing the allocation of the enrollment funding on the expenditure-based formula rates established by the Coordinating Board.

The 83rd Session of the Texas Legislature created two additional funding strategies for public community colleges: core operations and student success points.

The committee recommends that the core operations funding for community colleges be set at \$500,000 per year.

The committee recommends student success points be funded at a rate no less than the rate of student success points' funding for the 2014-15 biennium (\$185 per student success point). The committee also recommends that the student success funding be allocated based on a college's performance by comparing the three-year average of FY 2012, FY 2013, and FY 2014 to the

base period of FY 2010, FY 2011, and FY 2012.

The details of these recommendations and the recommendations made in response to other charges are included in this report.

Commissioner Charges and Committee Recommendations

Charge

Study and make recommendation for the appropriate funding levels for the contact hour, core, and the student success funding.

Recommendation

We recommend continuation of the new funding strategy implemented during the 83rd legislative session, which provides a systematic and strategic basis for formula funding levels. With this new funding model, we will realize maximum efficiency and effectiveness by enrolling the rapidly growing college-age population and help students earn the educational credentials that will benefit the state's economy.

The total amount for instructional funds appropriated for the next biennium (FY 2016 and FY 2017) should be based on

- core college operations – \$50 million for the 2016-17 biennium, \$1 million per community college district;
- student success points – To incent improvements in student success, stable or increased funding is required. For the 2016-17 biennium, student success points should be funded at a multiplier no less than the rate of student success points funding for the 2014-15 biennium (\$185.00 per student success point) based on the methodology recommended by Subcommittee #2; and
- contact hour – To provide stable contact-hour funding necessary to keep student tuition low and support enrollment growth, the multiplier applied to the number of instructional contact hours each public community college and Lamar State College generates should be a minimum of \$6.12 and \$7.97 per contact hour, respectfully (see Appendix A). This state funding level provides adequate funding to cover inflation (nine percent² since 2008) and relieve increases in institutional reliance upon tuition and fees, which have increased 29 percent³ during the same period.

Charge

Study and make recommendations for an allocation system for student success points for the 2016-17 biennium. The allocation system should allocate funds to college districts for improvement in student achievement. The allocation system shall be developed in a manner that compares the performance of the college district to itself using the allocation for student success points in the 2014-15 biennium as the baseline for comparison.

2 Source: www.bls.gov/data/inflation_calculator.htm

3 Source: Calculated from the spring 2009 to spring 2013 TACC Tuition & Fee Surveys, Average Tuition & Fees for 12 credit hours for the 50 Texas Community Colleges

Recommendation

For the 2016-17 biennium, student success points should be funded at a rate no less than the rate of student success points' funding for the 2014-15 biennium (\$185 per student success point). A three-year average of Success Points (FY12-FY13-FY14) should be the basis for determining how many points each college district has earned for the 2016-17 biennium. Since FY 2014 certified data will not be available at the beginning of the 84th Legislature, a preliminary three-year average of success points (FY11-FY12-FY13) should be used in the introduced versions of the General Appropriations Act.

Charge

Study and make recommendations on changes to the funding model of developmental education that will increase the effectiveness of the programs delivered, including the development of funding formula recommendations on a weighted contact hour basis, under Sec. 61.059, Education Code, for semester-length and non-semester-length developmental education interventions (including course-based, non-course based, alternative-entry/exit, modules, paired courses, and competency-based courses, and other intensive developmental education activities) based on existing developmental education cost studies, ongoing research studies, and survey data.

Background

Through various discussions, including input from Jenny Goerdle (staff for Representative Patrick), the charge is narrowed to a possibility of funding developmental education, regardless of delivery format, on a weighted contact-hour basis. The following Coordinating Board report was analyzed:

- Background: Educational and General Expenditures Summarized by Elements of Institutional Costs
 - Part A, Fundable Operating Expenses
 - Section 1, Instructional Programs
 - This part of the report produces the instructional portion of contact-hour value for the various disciplines collecting the following for each discipline:
 - Contact hours
 - Faculty salaries
 - Other salaries and wages
 - Staff benefits
 - Other operating expenses
 - Section 2, Other Fundable Staff Benefits: This part of the report produces a portion of the contact hour value.
 - Section 3, Other Allocated Administration Expenses:
 - This part of the report produces a portion of the contact-hour value, collecting cost information on the following:
 - Institutional Support
 - Student services
 - Academic support
 - Research
 - Scholarships and fellowships
 - Equipment depreciation

- Comments: Given that the current contact-hour formula is truly an allocation model and not a formula that produces funding, any particular cost component that is given a weighted value will take funding from one, some, or all of the other components unless specific funding for developmental education is added to the final appropriation. One solution is to distribute funds identified specifically for developmental education and then distribute all other funds for all other instructional programs. This solution was not deemed practical in the current legislative process of appropriation.
- Comments: Costs associated with developmental programs that are not reported in Section 1 as instructional costs are reported in some component of Section 3. The concern that the contact-hour values do not reflect tutoring, mentoring, computer labs, etc., is offset by the fact that those costs are captured in Section 3 and computed as a portion of the contact-hour value for each discipline.
- Comments: There is great variance in the instructional cost per contact hour among the institutions for developmental education. In the most recent cost study, the average for developmental math is \$7.85, while the range was \$4.27 to \$14.81. The average for developmental English/reading was \$8.17, while the range was \$3.77 to \$14.82. If one assumes that the reporting of faculty salaries, other salaries and wages, and staff benefits is consistent among the institutions, then another assumption is that the reporting of "other operating expenses" is inconsistent. Again, any costs not reported as "other operating expenses" are being reported in a component of Section 3.

Recommendation

The current contact-hour funding methodology for disciplines should continue until a developmental education appropriation is secured, in addition to the current appropriation. There should be clarification of expectations and National Association of College and University Business Officers (NACUBO) standards on reporting for the "other operating expenses" for Section 1 to ensure consistency among the institutions and to reduce the wide variance in reported instructional costs for developmental math and developmental English/reading.

Charge

Study and make recommendations on a funding methodology that excludes semester credit hours related to physical education courses for students who are registered to receive both high school and college credit.

Recommendation

Recommend that contact-hour funding not be allowed for physical education activity courses for students who are registered to receive both high school and college credit. An exception to this recommendation shall be students enrolled in early college high school programs. Regardless of the program of study (recommended program or advanced/distinguished program), early college high school students must earn one credit (two courses) of physical education to receive a high school diploma. We recommend that colleges be allowed to submit the required physical education courses for early college high school students for contact-hour funding.

Charge

Study and make recommendations on the treatment of competency-based courses in formula allocations.

Recommendation

The committee has recommended that the treatment of competency-based courses in formula allocations be evaluated after the pilot program at South Texas College (STC) has yielded sufficient data. Upon this initial evaluation, recommendations for funding this type of instruction, including is the instruction being utilized in the pilot, shall be considered. Significant amounts of work and resources have been dedicated to this project at STC, and this committee will remain in contact with the STC officials to monitor progress of the project.

Charge

Study and make recommendations on changes to the funding model that will improve the success of colleges to meet the goals of *Closing the Gaps* in areas of critical need to the state.

Recommendation

We recommend the Coordinating Board continue to request that the Legislature fund identified critical fields, contact hours with a premium of 10 percent over and above the full formula funding rate determined by the Report of Fundable Operating Expenses (RFOE) cost study. The critical fields shall include computer science, engineering, mathematics, physical science, nursing, allied health, and life sciences. In addition, funding for non-college credit, workforce development contact hours should include provisions for funding "local identified needs," as established by the area workforce boards and local colleges for specific regions of the state.

Appendix A

Public Community Colleges

To provide stable contact-hour funding necessary to keep student tuition low and support enrollment growth, the multiplier applied to the number of instructional contact hours that each college generates should be a minimum of \$6.12 per contact hour (the sum of the rate that contact hours were funded for the 2014-15 biennium of \$5.29 per contact hour plus \$0.83 per contact hour to fully restore instructional funding to the 2008-09 biennium levels prior to the economic downturn). The amounts funded in 2008-09 biennium, as restated to be comparable to the current funding methodology of base, student Success Points, and contact-hour funding are shown below.

	<u>General Revenue</u>
2008-2009 CH Funding	\$ 1,693,177,164
2008-2009 Base CH	<u>241,839,512</u>
Average rate per CH	\$ 7.00
2014-2015 CH Funding	\$ 1,548,137,545
2014-2015 Base CH	<u>292,410,192</u>
Average rate per CH	\$ 5.29
2008-2009 CH Funding	\$ 1,693,177,164
Plus: Small School Supplement	<u>\$ 1,201,558</u>
Equivalent 2008-2009 Funding	\$ 1,694,378,722
Less: Core Funding	<u>\$ 50,000,000</u>
Remainder	\$ 1,644,378,722
90 percent for CH Funding	\$ 1,479,940,850
2008-2009 Base CH	<u>241,839,512</u>
Average rate per CH	\$ 6.12

Lamar State Colleges

To provide stable contact-hour funding necessary to keep student tuition low and support enrollment growth, the multiplier applied to the number of instructional contact hours that each college generates should be a minimum of \$7.97 per contact hour (the sum of the rate that contact hours were funded for the 2014-15 biennium of \$6.89 per contact hour, plus \$1.08 per contact hour, to fully restore instructional funding to the 2008-09 biennium levels prior to the economic downturn).

	<u>General Revenue</u>
2008-2009 CH Funding	\$ 29,730,526
2008-2009 Base CH	3,730,710
Average rate per CH	<u>\$ 7.97</u>
2014-2015 CH Funding	\$ 30,384,122
2014-2015 Base CH	4,411,695
Average rate per CH	<u>\$ 6.89</u>

Appendix B

Student Success Points Funding: 2016-17 Biennium Recommendation of the Metrics Task Force

The 83rd Texas Legislature provided three revenue strategies for funding instructional programs at public community colleges (\$1.77 billion for the 2014-15 biennium):

1. Core Operations – (\$500,000 each fiscal year per district, \$50 million total for the 2014-15 biennium)
2. Student Success – (\$172 million for the 2014-15 biennium, 10 percent of instructional funds appropriated after first deducting the core amount)
3. Contact-Hour Funding – (\$1.548 billion for the 2014-15 biennium, 90 percent of instructional funds appropriated after first deducting the core amount)

Student success points funding is based on a student achievement points system. Success Points are earned as students progress along a continuum from successful completion of college readiness courses to intermediate success measures (e.g., pass first college math course) to successful outcome metrics (e.g., degree awarded, transfer to university). For the 2014-15 biennium, the student success points appropriation was distributed to the 50 college districts by the following method:

- Determine the amount appropriated for student success points(\$172 million),
- Determine the number of student success points earned by the 50 public community/junior college districts (three-year average of student success points(929,188) based on FY10-FY11-FY12),
- Divide the appropriated amount (\$172 million) by the total number of points (929,188) to determine the dollar amount per point (\$185), and
- Fund each district \$185 per point for the 2014-15 biennium.

General Appropriations Act, SB 1, 83rd Texas Legislature, page III-205, Rider 23 in the Public Community/Junior College section of the General Appropriations Act passed by 83rd Texas Legislature states:

“The Public Community/Junior Colleges and the Texas Higher Education Coordinating Board shall jointly develop recommendations for an allocation system for student success points for the 2016-17 biennium. The allocation system should allocate funds to college districts for improvement in student achievement. The allocation system shall be developed in a manner that compares the performance of the college district to itself using the allocation for student success points in the 2014-15 biennium as the baseline for comparison. The Texas Higher Education Coordinating Board shall report these recommendations to the Legislative Budget Board and the Governor no later than August 1, 2014” (p. III-200).

General Appropriations Act, SB 1, 83rd Texas Legislature, page III-205, Rider 23 requires a new methodology for student success point distribution for the 2016-17 biennium. As stated in the rider, student success points for the 2014-15 should be the baseline for the 2016-17

distribution. A description of a new distribution methodology for use in the 2016-17 biennium is provided below. This methodology was developed by the Metrics Task Force of the Texas Association of Community Colleges with funding provided by the Texas Success Center. The task force is chaired by Dr. Brenda Hellyer, Chancellor, San Jacinto College. The task force is comprised of community college leaders (CEOs, Business Officers, Registrars, Institutional Researchers) and Coordinating Board staff. A complete list of task force members is provided on page 12.

Proposed Student Success Points Methodology for the 2016-17 Biennium

For the 2016-17 biennium, student success points should be funded at a rate no less than the rate of student success points' funding for the 2014-15 biennium (\$185 per student success point). A three-year average of success points (FY12-FY13-FY14) should be the basis for determining how many points each college district has earned for the 2016-17. Since FY 2014 certified data will not be available at the beginning of the 84th Legislature, a preliminary three-year average of success points (FY11-FY12-FY13) should be used in the introduced versions of the General Appropriations Act.

As shown below, the proposed methodology compares the student success performance of each college district to itself.

Notes

- This recommendation is for the 2016-17 biennium only. A similar method may be appropriate for future biennia. Issues such as whether the baseline for success points should be reset and what the baseline time period should be, are issues that will need to be resolved in the future.
- This recommendation assumes the use of identical metrics for the comparison between 2014-15 and 2016-17. Adjustments should be made for any changes in the metrics for 2016-17.

Illustration of 2016-17 Biennium Methodology (Hypothetical Example)

The second column in Table 1 shows the number of student success points earned by the six hypothetical colleges for the 2014-15 biennium. The third column shows the student success amount appropriated for each college (\$185 multiplied by the number of points). The points earned during the 2014-15 biennium will be used as a baseline for the 2016-17 student success appropriation.

Table 1
2014-15 Biennium Points and Dollars Appropriated

College	2014-15 Points	2014-15 Dollars
A	20,000	\$3,700,000
B	5,000	\$925,000
C	40,000	\$7,400,000
D	12,000	\$2,220,000
E	7,000	\$1,295,000
F	30,000	\$5,550,000

In Table 2, the second column provides the student success points earned by each of the six hypothetical colleges for the 2016-17 biennium. The student success points for 2014-15 are provided in the third column, and the last two columns show the increase/decrease in student success points for the 2016-17 biennium. College A had an increase of 1,000 student success points (+5 percent). By contrast, College B had a decrease of 50 student success points (-1 percent). The net increase for these six hypothetical colleges is 1,000 points (+1 percent). Overall, there is a 1,000-point increase (+1 percent) for the six hypothetical colleges.

Table 2
Comparing Student Success Points in 2016-17 Biennium with Baseline 2014-15 Points

College	2016-17 Points	2014-15 Points	Difference from 2014-15	
A	21,000	20,000	+1,000	+5%
B	4,950	5,000	-50	-1%
C	41,000	40,000	+1,000	+3%
D	11,800	12,000	-200	-2%
E	7,250	7,000	+250	+4%
F	29,000	30,000	-1,000	-3%
<i>Total</i>	<i>115,000</i>	<i>114,000</i>	<i>+1,000</i>	<i>+1%</i>

Table 3 shows the application of the \$185-per-student success point recommendation.

Table 3
*2016-17 Biennium Points and
Dollars Appropriated*

College	2016-17 Points	\$ Per Point	2016-17 Dollars
A	21,000	\$185	\$3,885,000
B	4,950	\$185	\$915,750
C	41,000	\$185	\$7,585,000
D	11,800	\$185	\$2,183,000
E	7,250	\$185	\$1,341,250
F	29,000	\$185	\$5,365,000
<i>Total</i>	<i>115,000</i>		<i>\$21,275,000</i>

Table 4 compares the appropriated dollars between the two biennia. The pattern for increase/decrease is identical to the percentages in Table 2. Using this methodology, each college is compared to itself. If the college's student success points increase in 2016-17 from 2014-15, then the student success appropriation also increases. If there is a decline in the student success points in 2016-17, then the student success appropriation will be lower in 2016-17 than in 2014-15.

Table 4
*Comparing Student Success Appropriation in 2016-17 Biennium with
2014-15 Appropriation*

College	2016-17 Dollars	2014-15 Dollars	Difference from 2014-15	
A	\$3,885,000	\$3,700,000	+\$185,000	+5%
B	\$915,750	\$925,000	-\$9,250	-1%
C	\$7,585,000	\$7,400,000	+\$185,000	+3%
D	\$2,183,000	\$2,220,000	-\$37,000	-2%
E	\$1,341,250	\$1,295,000	+\$46,250	+4%
F	\$5,365,000	\$5,550,000	-\$185,000	-3%
<i>Total</i>	<i>\$21,275,000</i>	<i>\$21,090,000</i>	<i>+185,000</i>	<i>+1%</i>

Metrics Task Force Membership

Chair: **Brenda Hellyer**, Chancellor, San Jacinto College District

Susan Brown, Assistant Commissioner, Planning and Accountability, Texas Higher Education
Coordinating Board

Serkin Celtek, Director of Research and Analytical Services, South Texas College

Dennis Crowson, Vice President for Student Services, Blinn College

George Gonzalez, Director of Institutional Research, San Jacinto College

Don Hudson, Vice President - Data & Research, Texas Association of Community Colleges

Paul Illich, Vice President - Research, Planning, and Information Technology, McLennan Community
College

Gary Johnstone, Deputy Assistant Commissioner, Planning and Accountability, Texas Higher Education
Coordinating Board

Kenneth Lynn, Vice Chancellor of Fiscal Affairs, San Jacinto College

Staci Martin, Registrar and Director of Admissions, Kilgore College

Tom Martin, Associate Vice President for Research & Institutional Effectiveness, Collin College

Betty McCrohan, President, Wharton County College

Van Miller, Vice President, Administrative Services and Chief Financial Officer, Temple Community
College

Wanda Munson, College Registrar, San Jacinto College

Paul Turcotte, Program Director, Planning and Accountability, Texas Higher Education Coordinating
Board

Neil Vickers, Associate Vice President - Finance & Budget, Austin Community College

Donald Wood, Vice President for Institutional Advancement, Odessa College

Appendix C

Community/Technical College Formula Advisory Committee for the 2016-2017 Biennium

Name/Title	Institution	Accountability Group	Term
Institutional Representatives:			
Ms. Wendy Gunderson Professor, History	Collin College - Preston Ridge Campus	Faculty Representative	2016
Dr. Paul J. Szuch President	Lamar Institute of Technology	Lamar	2014
Dr. Greg Powell President	Panola College	Small	2014
Dr. Dusty R. Johnston President	Vernon College	Small	2016
Dr. Gregory Williams President	Odessa College	Medium	2014
Dr. Paul Illich Director Institutional Research	McLennan College	Medium	2016
Dr. Mark Escamilla President	Del Mar College	Large	2016
Mr. Eleazer Gonzalez Chief Administrative and Financial Officer	Laredo Community College	Large	2016
Dr. Richard Rhodes President	Austin Community College District	Very Large	2014
Dr. Erma Johnson Hadley Chancellor	Tarrant County College District	Very Large	2016
Ms. Diane Snyder Vice Chancellor Administration and Finance	Alamo Community College District	Very Large	2016
Ms. Kelli Shomaker Chief Financial Officer and Senior Vice President of Finance and Administrative Services	Blinn College	Large	2018
Dr. Brad Johnson President	Northeast Texas Community College	Small	2018

Appendix D

**Meeting of the Community/Technical College Formula Advisory Committee
Texas Higher Education Coordinating Board
Lone Star Room, Second Floor
1200 East Anderson Lane, Austin
Wednesday, August 14, 2013
1:00 p.m.**

Minutes

Attendees: Ms. Kelli Shomaker, Mr. Brad Johnson, Ms. Wendy Gunderson, Dr. Paul J. Szuch, Dr. Greg Powell, Dr. Dusty Johnston, Dr. Gregory Williams, Dr. Paul Illich, Dr. Mark Escamilla, Mr. Eleazar Gonzalez, Dr. Richard Rhodes, and Ms. Diane Snyder

Absent: Ms. Erma Johnson Hadley

THECB Staff: Mr. Gary Johnstone and Ms. Linda Battles

Also in attendance: Ms. Teri Walker; Ms. Emily Deardorff, Legislative Budget Board; Ms. Leslie Cannon; Mr. Remmele Young; and Mr. Richard Moore

1. The meeting was called to order at 1:15 p.m.
2. Rhodes, convening chair, called for a nomination for chair. Johnston nominated Erma Johnson Hadley; Powell seconded the nomination, and the members present unanimously voted Erma Johnson Hadley as committee chair.
3. Rhodes, convening chair, called for a volunteer for vice chair. Snyder indicated that she would serve; Shomaker seconded the nomination, and the members present unanimously voted Diane Snyder as committee vice chair. Rhodes asked Snyder to take over the meeting.
4. Johnstone provided a brief overview of the funding formulas and a review of supporting documentation.
5. The vice chair reviewed the Commissioner's 2016-2017 Biennium charges and asked committee members to indicate their preference for working on the charges.
 - a. Charge 1 – Study and make recommendations for the appropriate funding levels for the contact hour, core, and the student success funding.
 - b. Charge 2 – Study and make recommendations for an allocation system for student success points for the 2016-17 biennium. The allocation system should allocate funds to college districts for improvement in student achievement. The allocation system shall be developed in a manner that compares the performance of the college district to itself using the allocation for student success points in the 2014-15 biennium as the baseline for comparison.Charge 3 – Study and make recommendations on changes to the funding model of developmental education that will increase the effectiveness of the programs delivered including the development of funding formula recommendations on a weighted contact hour basis, under Sec. 61.059, Education Code, for semester length

and non-semester length developmental education interventions (including course-based, non-course-based, alternative-entry/exit, modules, paired courses, and competency-based courses, and other intensive developmental education activities) based on existing developmental education cost studies, ongoing research studies, and survey data.

- c. Charge 4 – Study and make recommendations on a funding methodology that excludes semester credit hours related to physical education courses for students who are registered to receive both high school and college credit.
- d. Charge 5 – Study and make recommendations on the treatment of competency-based courses in formula allocations.
- e. Charge 6 – Study and make recommendations on changes to the funding model that will improve the success of colleges to meet the goals of Closing the Gaps in areas of critical need to the state.

Charge 1 – Shomaker (lead), Powell, Szuch, Gonzales, Gunderson, Illich

Charge 2 – Williams (co-lead), Illich (co-lead), Szuch, Gunderson, Snyder, Gonzales

Charge 3 – Johnston (lead), Johnson, Escamilla, Gonzales, Powell

Charge 4 – Powell (lead), Johnston, Rhodes, Gunderson

Charge 5 – Escamilla (lead), Rhodes, Johnson, Williams

Charge 6 – Szuch (lead), Shomaker, Johnston

- 6. The vice chair asked the committee if the future meeting dates and times distributed with the agenda was ok with the committee. A suggestion was made to move the meeting time to 11:00 a.m. A vote was taken and the 11:00 a.m. start time was unanimously chosen.
- 7. The members working on Charge #2 tentatively agreed to meet at 9:00 a.m. on September 17th.
- 8. The meeting was adjourned at 2:30 p.m. until September 17, 2013 at 11:00 a.m.

Prepared by Gary Johnstone

**Meeting of the Community/Technical College Formula Advisory Committee
Texas Higher Education Coordinating Board
Lone Star Room, Second Floor
1200 East Anderson Lane, Austin
Tuesday, September 17, 2013**

Minutes

Attendees: Ms. Erma Johnson Hadley, chair, Ms. Diane Snyder, vice chair, Ms. Kelli Shomaker, Mr. Brad Johnson, Ms. Wendy Gunderson, Dr. Greg Powell, Dr. Paul Illich, Dr. Mark Escamilla, Mr. Eleazar Gonzalez, and Dr. Richard Rhodes

Members attending by teleconference: Dr. Gregory Williams and Dr. Dusty Johnston

Absent: Dr. Paul J. Szuch

THECB Staff: Mr. Gary Johnstone, Mr. Thomas Keaton, Ms. Susan Brown, Ms. Linda Battles, and Mr. Paul Turcotte

Also in attendance: Ms. Teri Walker; Ms. Emily Deardorff, Legislative Budget Board; Ms. Leslie Cannon; Mr. Remmele Young; Mr. Richard Moore; Ms. Sarah Keyton; and Mr. Don Hudson, Texas Association of Community Colleges.

Attending by teleconference: Ms. Rosemond Ann Moore

1. The meeting was called to order at 11:00 a.m. The chair expressed her appreciation for everyone's attendance and their confidence in selecting her to chair this committee.
2. The chair asked, "Are there any corrections to the minutes of the August 14, 2013, meeting?" Corrections were noted to the spelling of names. Rhodes moved that the minutes be approved with the noted correction. The motion was seconded by Escamilla and unanimously approved.
3. Charge 5 – Study and make recommendations on the treatment of competency-based courses in formula allocations. Johnstone provided a brief overview of the competency pilot program planned for South Texas College (STC), describing how modules related to courses before being reported to the Coordinating Board. Students may attend six, seven-week terms in a year for \$750 per term and attempt as many modules as they like. Each module attempted must be completed with a mastery of 80 percent within the following term after its start. Only when all the modules of a course are successfully mastered is the course reported. Students will have varying demand on available resources. Students may require limited interaction with the offered content or require intense instructor assistance to complete the course. Students showing mastery by testing out will enroll in Excelsior College and transfer credit in. The current funding structure does not fund transfer credits. Moore, from STC, was available to answer questions. She noted the program is set to begin January 2014, pending (SACS) issues, with an estimated enrollment of 80 students at the end of the calendar year. The courses offered in the pilot program are currently offered in traditional format at the two institutions in other programs. Pearson developed the lower division and elective course content for the pilot program. It was the intent to make this content available to other startup programs.
4. The chair asked the members leading the review of charges to report on the progress made by the groups.
 - a. Charge 1 – Study and make recommendation for the appropriate funding levels for the contact hour, core, and the student success funding. Shomaker reported

that the group had met by conference call. They had several questions about the expected result from the group. Discussion followed related to allocation versus total funding levels.

- b. Charge 2 – Study and make recommendations for an allocation system for student success points for the 2016-17 biennium. The allocation system should allocate funds to college districts for improvement in student achievement. The allocation system shall be developed in a manner that compares the performance of the college district to itself using the allocation for student success points in the 2014-15 biennium as the baseline for comparison. Illich reported that the group had met prior to this meeting to hear the results of the Metric Taskforce appointed by TACC. The group will be ready to make a recommendation by the next meeting of the committee.
 - c. Charge 3 – Study and make recommendations on changes to the funding model of developmental education that will increase the effectiveness of the programs delivered including the development of a funding formula recommendations on a weighted contact hour basis, under Sec. 61.059, Education Code, for semester length and non-semester length developmental education interventions (including course-based, non-course-based, alternative-entry/exit, modules, paired courses, and competency-based courses, and other intensive developmental education activities) based on existing developmental education cost studies, ongoing research studies, and survey data. Johnson reported that the group had not met. He requested that other members send him information related to successful remediation programs. Following a discussion of non-course remediation and reporting of the interventions, the chair and Johnson asked for a list of colleges that were reporting (NCB) remediation.
 - d. Charge 4 – Study and make recommendations on a funding methodology that excludes semester credit hours related to physical education courses for students who are registered to receive both high school and college credit. Powell reported that the group had a recommendation that the statute provide for an exception for early college high school students taking physical education courses.
 - e. Charge 6 – Study and make recommendations on changes to the funding model that will improve success of colleges to meet the goals of *Closing the Gaps* in areas of critical need to the state. Shomaker reported for the group. The recommendation is to continue the 10 percent bonus rate for identified critical fields and to have the degrees and certificates reported for success points weighted at 2.25 for the critical fields. The chair asked that the recommendation be sent to all members of the committee. Following a discussion of the identification of regional critical fields, the chair asked that the THECB look at the possibility of including that option in the overall workforce studies being conducted by the Texas Workforce Commission (TWC) and the THECB.
5. There being no further business to conduct, the meeting was adjourned at 12:30 p.m. until October 15, 2013, at 11:00 a.m.

Prepared by Gary Johnstone

**Meeting of the Community/Technical College Formula Advisory Committee
Texas Higher Education Coordinating Board
Lone Star Room, Second Floor
1200 East Anderson Lane, Austin
Tuesday October 15, 2013**

Minutes

Attendees: Ms. Erma Johnson Hadley, chair, Ms. Diane Snyder, vice chair, Ms. Kelli Shomaker, Mr. Brad Johnson, Ms. Wendy Gunderson, Dr. Greg Powell, Dr. Paul Illich, Dr. Mark Escamilla, Mr. Eleazar Gonzalez, Dr. Richard Rhodes, Dr. Paul J. Szuch Dr. Gregory Williams, and Dr. Dusty Johnston

THECB Staff: Mr. Gary Johnstone, Mr. Thomas Keaton, Ms. Susan Brown, Mr. John Wyatt, and Mr. Paul Turcotte

Also in attendance: Ms. Emily Deardorff, Legislative Budget Board; Mr. Don Hudson, Texas Association of Community Colleges; and Ms. Jenny Goerdel, Representative Diane Patrick's office. There were several other attendees who did not sign in.

1. The meeting was called to order at 11:00 a.m. The chair expressed her appreciation for everyone's attendance.
2. The chair asked if there were any corrections to the minutes of the September 17, 2013, meeting. There being no corrections, the minutes were approved.
3. The chair asked the members leading the review of charges to report on the progress made by the groups.
 - a. Charge 1 – Study and make recommendation for the appropriate funding levels for the contact hour, core, and the student success funding. Shomaker reported that the group had met by conference call. They would like to hear from the Charge #2 workgroup before making a recommendation.
 - b. Charge 2 – Study and make recommendations for an allocation system for student success points for the 2016-17 biennium. The allocation system should allocate funds to college districts for improvement in student achievement. The allocation system shall be developed in a manner that compares the performance of the college district to itself using the allocation for student success points in the 2014-15 biennium as the baseline for comparison. Illich reported that the group had met prior to this meeting to hear the results of the Metric Taskforce appointed by TACC. Mr Illich presented to the committee the proposal that is being discussed for changes to the student success model for the 2016-17 biennium. Following the presentation, there was discussion of the proposal specifics on how the changes would impact other formulas. Members expressed concerns about how to write the proposal to convey the intent of the recommendation. The workgroup intends to have the recommendation ready for the committee to consider at the next meeting.
 - c. Charge 3 – Study and make recommendations on changes to the funding model of developmental education that will increase the effectiveness of the programs

delivered including the development of a funding formula recommendations on a weighted contact hour basis, under Sec. 61.059, Education Code, for semester length and non-semester length developmental education interventions (including course-based, non-course-based, alternative-entry/exit, modules, paired courses, and competency-based courses, and other intensive developmental education activities) based on existing developmental education cost studies, ongoing research studies, and survey data. Johnston reported that the group had met prior to the committee meeting. Following a discussion of non-course remediation and reporting of the interventions, and a January 2013 THECB report, there was a discussion of what relationship exists between competency-based and non-course based remediation. Jenny Goerdel, from Representative Diane Patrick's office, spoke briefly on the need for more data to prove that good developmental education takes more money to be effective. Johnston indicated that the workgroup should have a recommendation ready for the next committee meeting.

- d. Charge 4 – Study and make recommendations on a funding methodology that excludes semester credit hours related to physical education courses for students who are registered to receive both high school and college credit. Powell moved that the recommendation included in the meeting materials be adopted by the committee. The motion was seconded by Escamilla, and approved unanimously.
 - e. Charge 5 – Study and make recommendations on the treatment of competency-based courses in formula allocations. Escamilla discussed the charge and the need for more data from STC and SACS. He has discussed the charge with staff at the Coordinating Board and STC. Implementation of the new program has been delayed.
 - f. Charge 6 – Study and make recommendations on changes to the funding model that will improve the success of colleges to meet the goals of *Closing the Gaps* in areas of critical need to the state. Szuch reported for the group. The draft recommendation was included in the meeting materials. Following discussion of suggested changes to the proposal, Szuch agreed to make those changes and send the proposed recommendation to Johnstone.
4. There being no further business to conduct, the meeting was adjourned at 12:35 p.m. until November 5, 2013, at 11:00 am.

Prepared by Gary Johnstone

**Meeting of the Community/Technical College Formula Advisory Committee
Texas Higher Education Coordinating Board
Lone Star Room, Second Floor
1200 East Anderson Lane, Austin
Tuesday, November 05, 2013**

Minutes

Attendees: Ms. Erma Johnson Hadley, chair, Ms. Diane Snyder, vice chair, Ms. Kelli Shomaker, Ms. Wendy Gunderson, Mr. Eleazar Gonzalez, Dr. Paul J. Szuch, and Dr. Dusty Johnston

THECB Staff: Mr. Thomas Keaton, Ms. Susan Brown, Mr. John Wyatt, and Mr. Paul Turcotte

Also in attendance: Mr. David Young, Governor's office. There were several other attendees who did not sign in.

1. The meeting was called to order at 9:05 a.m. The chair expressed her appreciation for everyone's attendance and expressed the opinion the committee can conclude in-person meetings today and handle the rest via electronic means.
2. The vice chair reviewed a presentation developed by Dr. Lee Holcomb as she heard it at a class she attended at the University of Texas at Austin.
 - a. Group discussion ensued regarding the real effectiveness of efficiency measures
 - b. Further discussion of growth factors and the integration of them in the process
3. The chair asked if there were any corrections to the minutes of the October 15, 2013 meeting. There being no corrections, the minutes were approved.
4. The chair asked the members leading the review of charges to report on the progress made by the groups.
 - a. Charge 6 – Study and make recommendations on changes to the funding model that will improve the success of colleges to meet the goals of *Closing the Gaps* in areas of critical need to the state. Discussion considered moving away from a 90-10 split to a rate per success point. Success should stand alone and not be a percentage of the overall appropriation. This allows more dollars as success points increase. A minimum amount of funding should be established to avoid competing between each other. Szuch recommended folding Charge #6 into Charges #1 & #2. Group discussed and agreed to amend presented response by removing all after highlighted portion (third sentence). Moved and approved with changes.
 - b. Charge 5 – Study and make recommendations on the treatment of competency-based courses in formula allocations. Brief discussion and recommended to consider using the results of the pilot study to monitor progress without opposition.
 - c. Charge 4 – Study and make recommendations on a funding methodology that excludes semester credit hours related to physical education courses for students who are registered to receive both high school and college credit. Previously approved.
 - d. Charge 3 – Study and make recommendations on changes to the funding model of developmental education that will increase the effectiveness of the programs delivered including the development of a funding formula recommendations on a

weighted contact hour basis, under Sec. 61.059, Education Code, for semester length and non-semester length developmental education interventions (including course-based, non-course-based, alternative-entry/exit, modules, paired courses, and competency-based courses, and other intensive developmental education activities) based on existing developmental education cost studies, ongoing research studies, and survey data. Due to this being an allocative process, no change is indicated until a new funding stream is identified above and beyond current funding levels. Moved and approved unanimously.

- e. Charge 2 – Study and make recommendations for an allocation system for student success points for the 2016-17 biennium. The allocation system should allocate funds to college districts for improvement in student achievement. The allocation system shall be developed in a manner that compares the performance of the college district to itself using the allocation for student success points in the 2014-15 biennium as the baseline for comparison. Decided to support the TAC recommendation and wording. Recommendation will be for \$185 per success point and use 2013-2014 as the base period for 2015-2016. Change the presented recommendation to include a sentence linking this recommendation to Charge 6. Johnston offered that \$185 may actually need to be approximately \$200 to account for inflation. The group decided to leave the amount at \$185 with no additional changes to point structure indicated.
 - f. Charge 1 – Study and make recommendation for the appropriate funding levels for the contact hour, core, and the student success funding.
 - i. Shomaker addressed the funding levels in terms of three “buckets”:
 - 1. Core - \$50 million
 - 2. Success – follow Charge #2 at \$185 per point
 - 3. Contact Hours – fund back with growth calculated to 2010-2011 levels
 - ii. Discussion ensued regarding moving away from a restoration and more toward a set amount of funding. Johnston recommended we
 - 1. pick a point in time,
 - 2. calculate a cost per contact hour,
 - 3. factor in growth, inflation, etc., and
 - 4. determine a set amount of funding.
 - iii. Recommendation to continue work on Charge #1 and collaborate via email to develop final response was unanimously agreed upon.
5. There being no further business to conduct, the meeting was adjourned at 10:25 a.m. until December 3, 2013, at 11:00 a.m., if needed.

Prepared by Thomas Keaton

General Academic Institution Formula Advisory Committee (GAIFAC) FY 2016-2017 Biennial Appropriations Report on the Commissioner's Charges

The (GAIFAC), organized in August 2013 (Appendix A), met to address the charges identified by the Commissioner relating to formula funding for the 2016-2017 biennium (Appendix B). The GAIFAC met on the following days: August 14, September 16, October 2, November 18, and December 4, 2013. The committee is scheduled to meet next on March 13, 2014.

Charge 1

Study and make recommendations for alternative approaches to incorporating undergraduate student success measures into the funding formulas and compare the effects on funding the success measures within the formula versus applying the success measures as a separate formula.

Recommendation

The GAIFAC recommends the following:

Basic Principles

Allocate \$235 million: The committee recommends an outcomes-based funding pool, to be allocated by the metrics defined below, should be funded by the Legislature at \$235 million. This pool should be outside of and in addition to enrollment-based instruction and operations formula funding. This recommendation is contingent on funding the Instruction and Operations and Infrastructure formulas at or above \$4.649 billion. In the event the Instruction and Operations and Infrastructure formulas are funded below this level, the committee does not recommend allocating funds on outcomes.

Phase-in: Phase the model in over three biennia. No institution's funding should vary more than 0.5 percent of the percent funded if allocated through the Instruction and Operations formula for the 2016-2017 biennium and no more than 1 percent for the 2018-2019 biennium. For the 2020-2021 biennium and onward, the model should be allowed to function without such restrictions, as institutions will by then have had several student cohorts with whom to focus on increasing outcomes.

A biennial committee review of the model. The model's equity should be reconsidered if the funding level is significantly increased or funded inside of the Instruction and Operations formula model.

Allocation Metrics

The metrics should measure actual outcomes (rather than institutional increases in performance) as this provides a more stable, predictable, and equitable funding stream for institutions. Allocate outcomes-based funding among institutions using a three-year rolling average of the below metrics and update the metrics during the Legislative session to allocate on the latest data available. Full definitions of these metrics are provided at the end of this section.

Scales: Because the total points generated by some metrics are very disproportionate to others, scale the metrics for mathematical comparability to make all the metrics meaningful. Apply the following scaling factors to the metrics:

Metric	Scale
Total Undergraduate Degrees	1.0
Total Undergraduate Degrees, adjusted by 6-Year Graduation Rate	7.0
Total Undergraduate Degrees, per 100 Undergraduate FTSE	25.0
At-Risk Students	7.0
Retention to 30 Semester Credit Hours	1.5
Retention to 60 Semester Credit Hours	2.5
Retention to 90 Semester Credit Hours	4.0

Weights: In addition to scaling the metrics and to better account for the varying missions of the institutions, the committee recommends permitting each institution to weigh its metrics individually by selecting weights from the list of weights below. Each weight must be used once and only once. The weights for each institution's metrics will sum to 100 percent. The committee recommends one of the weight options to be 0 percent to permit an institution to omit its least advantageous metric. The recommendation is for each institution to submit selected metric weights by October 1, 2014 with the intent these weights would not be modified for the following three biennia.

Selection	Weight
1	25%
2	25%
3	20%
4	15%
5	10%
6	5%
7	0%
Total	100%

Definitions

Total Undergraduate Degrees: Undergraduate degrees reported on the Graduation Report in the given fiscal year (includes AAS degrees). Total undergraduate degrees is the primary outcome measure under the premise that most students enroll at a general academic institution with the intent that the outcome will be the award of a degree.

Total undergraduate degrees adjusted by 6-Year Graduation Rate: Total undergraduate degrees multiplied by 6-Year Graduation Rate (3-Year Graduation Rate for Upper-Level only institutions). The adjustment for graduation rate provides an incentive to have students graduate in a timely manner.

Total undergraduate degrees per 100 undergraduate FTSE: Total undergraduate degrees divided by fall Full-Time Student Equivalents (FTSE) as reported in the accountability system

and multiplied by 100. FTSE is calculated by dividing the undergraduate fall semester credit hours (SCH) reported on the fall Class Report (includes state funded and non-state funded hours) by 15. Total undergraduate degrees per 100 undergraduate FTSE produces a comprehensive outcomes ratio that converts enrollments into degrees awarded. This aggregate measure captures outcomes of all undergraduate students, including part-time and transfer students, and provides a common "level field" basis for comparing and incentivizing degree productivity regardless of institutional size or mission.

At-Risk (Pell): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were Pell grant recipients (FADS). At-Risk Pell is a surrogate that compensates for the additional expense of graduating a financially challenged at-risk student. It incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of a degree.

At-Risk (SAT/ACT): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students whose SAT/ACT score is below the national average for the year taken.

At-Risk (Part-Time): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were concurrently enrolled in fewer than 12 SCH when first reported on the Student Report.

At-Risk (GED): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who received a GED.

At-Risk (first-time undergraduate 20 or Over): Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were first reported on the Student Report at age 20 or older.

(All at-risk factors are designed to compensate for the additional expense of graduating an at-risk student who may be academically challenged. It incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of an award.)

While the at-risk metric is designed to adjust for the varying student characteristics at individual institutions and the effort needed to see the student succeed, it is noted that the data for measuring student characteristics is not as reliable or readily available as the committee would prefer. The committee recommends that the THECB staff study this issue and make recommendations to the 2015 GAIFAC for potential improvements to the model.

Retention (30, 60, and 90 SCH): Count of undergraduate students having cumulatively earned 30, 60, or 90 college-level SCH at their current institution. Excludes hours earned prior to the student attending the institution reporting the hours. A point can be earned for a student who completes multiple thresholds in a given fiscal year. These measures are designed to incentivize the use of effective persistence policies.

Charge 2

Study and make recommendations for the appropriate funding levels for the Instruction and Operations and Infrastructure formulas and the percent split between the "utilities" and

“operations and maintenance” (O&M) components of the infrastructure formula.
Recommendation:

Recommendation

The GAIFAC recommends the legislature **return formula funding rates to the 2010-2011** biennium appropriated rates (\$62.19 for the Instruction and Operations formula and \$6.21 for the Infrastructure formula) by phasing in these increases over the next three biennia. While the GAIFAC understands the Legislature reduced funding due to a reduction in state revenue, the committee is confident institutions cannot continue to meet the *Closing the Gaps* goals at current funding levels and urges Legislators to find funds to support higher education, specifically to

- fund \$4,649 million to the formulas for the biennium (\$281 million, or 6.4 percent more than the \$4,368 million appropriated for the 2014-15 biennium);
- fund \$3,915 million to the Instruction and Operations (includes Teaching Experience) formula for the biennium (\$265 million, or 7.3 percent more than the \$3,650 million appropriated for the 2014-15 biennium). This funding level assumes a rate of \$57.30 per weighted semester credit hour (SCH) (\$2.44, or 4.4 percent more than the \$54.86 funded for the 2014-15 biennium) and a 2.7 percent increase in weighted semester credit hours between the 2013 and 2015 base years. Funding should be allocated using a relative weight matrix using a three-year rolling average expense per semester credit hour based on fiscal years 2012, 2013, and 2014;
- fund \$734 million to the Infrastructure (includes Small Institution Supplement) formula for the biennium (\$16 million, or 2.2 percent more than the \$718 million appropriated for the 2014-15 biennium). This funding level assumes a rate of \$5.78 per square foot (\$0.22, or 4.0 percent more than the \$5.56 funded for the 2014-15 biennium) and 1.6 percent increase in square feet between fall 2012 and 2014;
- split the recommended Infrastructure rate between “utilities” and “operations and maintenance” components using FY 2014 utility rates, update the utility rate adjustment factors using the FY 2014 utilities expenditures, and allocate the Infrastructure formula using the fall 2014 space model predicted square feet;
- fund the Small Institution Supplement using the same methodology and rate as the 2014-15 biennium; and
- consider, as a basis for comparison, that the percentage of total operational funding received by Texas general academic institutions from the state was 26.5 percent in FY 2012, versus 32.7 percent at national peer institutions (Higher Education Policy Institute and IPEDs). This six-percentage point gap equates to \$985 million in FY 2012 state appropriations.

Charge 3

Study and make recommendations on the treatment of competency-based courses in formula allocations.

Recommendation

The committee recommends that funding for these courses use the existing formula calculation and updated expenditure-based weights for the 2016-17 biennium. The expenditure study should include the courses' expense and hours reported for the respective fiscal years in the expenditure study, and institutions should report course hours to the Coordinating Board upon the completion of all modules associated with the course.

The committee recommends that the formula should fund course hours for courses where the student attained mastery of the subject at the institution through instruction or independent study, but exclude course hours where the student obtained mastery of the entire course prior to enrolling in the program. Credit obtained through CLEP tests or similar evaluation practices should not be reported for formula funding purposes.

The committee requests Texas A&M University-Commerce to provide competency-based course expenditure data as a subset of the data they provide for the expenditure study for the Fiscal Years 2013 and 2014. The GAIFAC for the 2018-19 biennium should be charged with reviewing this information to determine if the expense per funded semester credit hour for these courses varies significantly enough from the statewide ratios to warrant additional formula-to-fund, competency-based education courses. The committee notes that funding additional competency-based programs as a single program at a single institution will not provide enough data to determine if an alternate formula is required.

1. In addition to the Commissioner's charges, the committee considered the effects of the following:
 - A. The committee considered the practice of differentiating students by enrollment classification in the expenditure study and formula calculations. The committee's consensus was that, while this practice added complexity to the expenditure study and formula, its removal would be unnecessarily disruptive and would have significant effects on the allocation of funding.

The committee noted that the issued reporting guidance has taken this adjustment into account and would need modification prior to removing the adjustment. For example, students enrolled in a doctoral program are classified as master's students for the first 30 SCHs of a doctoral program. The courses are reported in the course inventory as doctoral courses, and the hours are adjusted to the master's level in the formula funding calculations. If the adjustment were removed, these students would be funded at the doctoral level for the first 30 SCHs.

Therefore, the committee recommends continuing the enrollment classification adjustment.

- B. The committee considered including undergraduate hours taught by all full-time teaching faculty (in addition to tenured and tenure-track faculty) to the teaching experience supplement. Because the intent of the supplement is to improve the quality of undergraduate education, the committee explored whether dedicated full-time faculty would fulfill this intent in addition to tenured and tenure-track faculty.

However, the redistribution in allocation associated with this change led the committee to believe institutions have become dependent on adjunct faculty because of funding

reductions, and the implementation of this change would not satisfy the legislative intent.

Therefore, the committee does not recommend including the undergraduate hours taught by full-time faculty to the teaching experience supplement at this time.

Appendix A

General Academic Institution Formula Advisory Committee Roster

Name	Institution/Address	Email/Phone/Fax
<u>Institutional Representatives:</u>		
Dr. John Opperman, Chair Vice Chancellor for Policy and Planning	Texas Tech University System P.O. Box 42013, Lubbock, TX 79409	
Dr. Marc A. Nigliazzo, Vice Chair President	Texas A&M University-Central Texas 1001 Leadership Place Killeen, TX 76549	
Mr. Martin V. Baylor Vice Chancellor for Policy and Planning	The University of Texas at Pan American, 1201 W. University Dr. Edinburg, TX 78539	
Dr. Allen Clark Vice Provost for Academic Resources For Ms. Jean R. Bush Senior Associate Vice President for Finance Ms. B.J. Crain Vice President for Finance and Administration	University of North Texas Hurley Administration Building Room 213, 1501 W. Chestnut St. Denton, TX 76201 Texas A&M University Division of Finance 1181 Rudder Tower, 8th Floor College Station, TX 77843	
Dr. F. Dominic Dottavio President	Tarleton State University P.O. Box T-0001 Stephenville, TX 76402	
Dr. Dana L. Gibson President	Sam Houston State University Box 2027, Huntsville, TX 77341	
Ms. Martha Hilley Distinguished Professor in the College of Fine Arts	The University of Texas at Austin Butler School of Music 2406 Robert Dedman Dr., stop E3100 Austin, TX 78712	
Dr. Edward T. Hugetz Interim Provost and Senior Vice President for Academic and Student Affairs	University of Houston-Downtown 203 E. Cullen Building Houston, TX 77204	
Dr. Rodney H. Mabry President	The University of Texas at Tyler 3900 University Blvd. Tyler, TX 75799	
Mr. Jim McShan Vice President for Finance and Chief Financial Officer	Texas Southern University Hannah Hall, 145A 3100 Cleburne St. Houston, TX 77004	
Dr. Perry Moore	Texas State University System	

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Appendix B

Commissioner's Charge to the General Academic Institution Formula Advisory Committee (GAIFAC) for the 2016-2017 Biennial Appropriations Texas Higher Education Coordinating Board Background

The GAIFAC addresses the instruction and operations, infrastructure, small institution supplement, and teaching experience supplement formulas. The general academic formulas first used in the mid-1960s were reworked for the 1998-99 biennium and first funded with an expenditure-based, relative weight matrix in the 2010-2011 biennium.

The Instruction and Operations formula funds faculty salaries, departmental operating expenses, library, instructional administration, research enhancement, student services, and institutional support and is allocated based on weighted SCHs. Appropriated at \$54.86 per weighted SCH for the 2014-15 biennium, the formula allocates 84 percent of the general academic formula funds (teaching experience supplement included). The teaching experience supplement incentivizes the use of tenured faculty instructors in undergraduate courses and allocated 2014-15 biennium funds with a 10 percent bonus of weighted SCH.

The Infrastructure formula funds plant-related and utility expenses and allocates on predicted space. Appropriated at \$5.50 per predicted square foot for the 2014-15 biennium, the formula allocates 16 percent of the formula (small institution supplement included). The small institution supplement distributes additional resources on headcount for the reduced economies of scale associated with operating small institutions.

Commissioner's Charges

The GAIFAC, conducted in an open and public forum, is charged with proposing a set of formulas that provide the appropriate funding levels and financial incentives necessary to best achieve the four major goals of *Closing the Gaps*. A preliminary written report of its activities and recommendations is due to the Commissioner by December 3, 2013, and a final written report is due by February 3, 2014. The GAIFAC's specific charges are to

1. Study and make recommendations for alternative approaches to incorporating undergraduate student success measures into the funding formulas and compare the effects on funding the success measures within the formula versus applying the success measures as a separate formula. (TEC, Section 61.0593)
2. Study and make recommendations for the appropriate funding levels for the Instruction and Operations and Infrastructure formulas and the percent split between the "utilities" and "operations and maintenance" (O&M) components of the infrastructure formula. (TEC, Section 61.059 (b))
3. Study and make recommendations on the treatment of competency-based courses in formula allocations.

Texas Health-Related Institutions Funding Formulas for the 2016-2017 Biennium Recommendations of the Health-Related Institutions Formula Advisory Committee (HRIFAC)

In accordance with the biennial Formula Advisory Committee process, the Health-Related Institutions (HRIs) submitted their report for consideration by the Commissioner of the Texas Higher Education Coordinating Board (THECB).

Background

The Commissioner of the THECB delivered his charge to the HRIs Formula Advisory Committee (HRIFAC) at its first meeting on August 14, 2013 (Appendix B). The HRIFAC held three additional meetings from September 2013 through November 2013 to consider and discuss the Commissioner's charges. A list of the current HRIFAC members is provided in Appendix C.

Executive Summary

The HRIs are the primary producers of the state's physicians, nurses, dentists, pharmacists, public health leaders, biomedical scientists, and allied health professionals. The population of Texas, per the 2010 U.S. Census, experienced the fifth largest growth rate among states at nearly 21 percent over the last decade. This population growth will likely continue to stress our state's capacity to meet the healthcare needs and demands of our citizens. Texas is already facing substantial workforce shortages in most of the health professions. These shortages are expected to become more severe.

Training a healthcare workforce in this environment of continuing growth and increasing need will put even more pressure on HRIs in Texas. However, these pressures are occurring at the same time that critical funding for students, space, research, and residents is declining.

Here are some key Texas facts and figures to consider when assessing the state's healthcare workforce shortages and needs:

- Texas currently ranks 41st, up from 46th in 2011, in the U.S. in numbers of active, patient care physicians per 100,000 population. This relatively modest improvement in state ranking occurred despite an overall increase of nearly 5,000 (or almost 12 percent more) new physicians into Texas, since 2009. ⁴
- Texas ranks 47th, up from 48th in 2011, in the number of active, patient care, primary care physicians per 100,000 population. Again, despite over 1,500 (or nearly 11 percent) more primary care physicians added to the state since 2009, Texas' comparative U.S. ranking remains very low.⁵

⁵ Association of American Medical Colleges (AAMC) (2013) *State Physician Workforce Data Book*

- Texas ranks 23rd in the number of medical residents per 100,000 population (despite having the 4th highest number of residents overall), unchanged from 2011.⁵
- Texas ranks 2nd overall in physicians retained in the state who completed undergraduate medical education (UME) within the state, unchanged from 2011.⁵
- Texas ranks 5th in physicians retained who completed graduate medical education (GME) within the state, unchanged from 2011.⁵
- Texas ranks 3rd in physicians retained that completed both UME and GME within the state, unchanged in 2011.⁵

Taken together, the last three points above suggest that Texas' physician workforce challenges are much less about undergraduate medical and resident retention within the state and more about Texas' continued, significant population growth and the sufficiency of Texas' absolute numbers of medical graduates and residents.

- Demand for full-time registered nurses in Texas exceeds supply by 22,000 and this is projected to widen to 70,000 by 2020.⁶
- Texas ranks 43rd in the number of registered nurses per 100,000 population.⁷
- Nearly 85 percent of the public health workforce in Texas has no formal, professional public health training.⁸
- Texas ranks 44th in the number of dentists per 10,000 population.⁹

Given the cuts in per unit formula funding in recent biennia, institutions face the difficult task of maintaining quality programs and expanding to address these critical shortages and limitations. It is imperative for Texas to embark on an effort to restore per-unit funding, back to the original formula funding rates of the 2000-01 biennium.

The state's HRIs are under great pressure in continuing to support Texas' workforce needs and to provide excellence in healthcare-related education, research, and service with the diminishing levels of per-unit support. HRIs have reduced state-funded administrative staff, deferred maintenance, and limited or postponed new programs in order to continue to produce a quality healthcare workforce. Local funding sources, including institutional reserves and clinical enterprise revenue needed for patient care, have also been used to offset formula reductions.

External factors are likely to limit the abilities of HRIs to continue absorbing costs related to the increasing gaps between formula funding rates and associated actual costs. HRIs' clinical

⁶ Texas Center for Nursing Workforce Studies, Texas Department of State Health Services

⁷ Kaiser Family Foundation, Statehealthfacts.org, U.S. Bureau of Labor Statistics and 2010 U.S. Census Data

⁸ The Future of Public Health in Texas: A Report by the Task Force on the Future of Public Health in Texas

⁹ *Health, United States, 2010*, Centers for Disease Control and Prevention, National Center for Health Statistics

enterprises also face major funding uncertainties with the implementation of healthcare reform legislation. Anticipated declines in sponsored research funding levels may require HRIs to provide additional “bridge” funding for faculty researchers’ salaries and research operations to retain productive researchers until they obtain additional external funding. This is most often a cost-effective alternative to program closures and, later, recruiting new, more costly faculty.

We recommend that Texas continue a process of restoration of the per-unit rates of funding for the 2016-17 biennium as detailed below:

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
Instruction & Operations (I&O)				
Funding Rate	\$ 11,383	\$ 9,527	\$ 10,545	\$ 11,383
Infrastructure Rate				
All Other HRIs	\$ 11.18	\$ 6.63	\$ 9.64	\$ 11.18
UTMDACC & UTHSCT	\$ 10.68	\$ 6.09	\$ 9.20	\$ 10.68
Research Enhancement Rate	2.85%	1.22%	2.26%	2.85%
Graduate Medical Education Rate	N/A	\$ 5,122	\$ 6,577	\$ 8,444

It is important to note that amounts projected for 2016-17 include per-unit growth (such as FTSE enrollment growth) from the 2014-15 levels, as well as the proposed two-thirds restoration of per-unit rate funding, from current to original 2000-01 levels.

Enrollment, research, and infrastructure growth without adequate formula funding support carries the potential risk of quality erosion. The path to reduced quality is short but restoring lost quality education, research, and infrastructure takes much longer.

Report and Committee Recommendation

HRIs are funded by four primary formulas: *Instruction and Operations (I&O)*, *Infrastructure*, *Research Enhancement* (all implemented by the 76th Legislature), and *Graduate Medical Education* (GME) (established by the 79th Legislature). The University of Texas M. D. Anderson Cancer Center (UTMDACC) and The University of Texas Health Science Center at Tyler (UTHSC-Tyler) have additional formulas that reflect their unique missions:

- The 80th Texas Legislature converted the UTMDACC Mission-Specific formula into a new "Cancer Center Operations formula."
- The 81st Legislature converted the UTHSC-Tyler Mission-Specific formula into a new "Chest Disease Center Operations formula."

To meet the educational needs of Texas' growing and diverse population and to meet the state's demands for healthcare, it is important that the four HRI formulas be funded at levels that address the requirements of *Closing the Gaps in Participation, Success, Excellence and Research*.

Although the Texas Legislature has increased appropriations for HRI formula funding since the formulas were established in 1999 for the 2000-01 biennium, funding per Full Time Student Equivalent (FTSE), per predicted square foot, and per research dollar expended has declined as follows:

Funding Per Unit	FY 2000-01	FY 2014-15	% Change
Full Time Student Equivalent (FTSE)	\$ 11,383	\$ 9,527	(16%)
Per Square Foot-			
HRIs except UTMDACC & UTHCT	\$ 11.18	\$ 6.63	(41%)
UTMDACC/UTHSC-Tyler	\$ 10.68	\$ 6.09	(43%)
Research Dollars Expended	2.85%	1.22%	(57%)

The Graduate Medical Education (GME) formula did not exist at the inception of HRIs' formula funding in 2000. This formula also has not been funded at sufficient levels to cover the costs of residency education and program administration, estimated to be in excess of \$15,000 per resident per year.

Despite these per-unit reductions in funding, HRIs have made important progress in increasing enrollment and research to serve the workforce and healthcare needs of Texas. However, they have done so by using funds from other sources, including institutional funds; they have also deferred new programs, limited other programs, and delayed investments in technology and facilities infrastructure renewal. All of these factors have hampered education and enrollment growth.

None of the figures above reflect any adjustment for purchasing power changes over the nearly decade and a half since the funding formulas were established.

Instruction and Operations (I&O) Formula

Current funding for students' education and training is provided through the I&O formula, the largest of the formulas or 77.4 percent of the main formulas funding HRIs. A base rate is

established and FTSE are weighted dependent on the student's particular program of study (e.g., medicine, nursing, dentistry, etc.).

The per FTSE I&O formula funding rate has decreased 16 percent between the 2000-01 and 2014-15 biennia (even before considering purchasing power reductions). During the same period, HRIs have served the needs of Texans by increasing their enrollment of medical and health professionals by 85 percent to help address the state's participation and success goals in *Closing the Gaps*. Continuation of this increasing divide between FTSE growth and funding per FTSE is not in the best interest of the State of Texas.

While HRIs are grateful for the significant investment in I&O, at the current rate of funding – \$9,527 per “base” FTSE per year – fully achieving the goals of *Closing the Gaps*, as well as serving the increasing demands for healthcare in Texas, is not attainable. HRIs continue to explore and implement cost-effective and efficient methods to educate quality healthcare professionals. However, costs savings from increases in scale (i.e., enrollment increases) are limited by the nature of healthcare education. Such limitations include costs associated with required faculty supervision and monitoring ratios in clinical settings, additional laboratory facility requirements, and the costs of additional clinical training settings for students.

Recommendation

The committee recommends that additional funds be added to ultimately restore the 2000-01 per FTSE funding rates over the next two biennia as follows:

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
I&O Funding Rate	\$ 11,383	\$ 9,527	\$ 10,545	\$ 11,383

In addition to the recommendation above, the committee requests that the THECB consider proposing to the Legislature a new weight for Health-Related Institutions' formula funding for Biomedical Informatics.

Infrastructure Formula

Current funding for HRIs for physical plant support and utilities is calculated using the Infrastructure Support formula, which is driven by the predicted square feet¹⁰ for HRIs produced by the Space Projection Model. It represents 17.7 percent of the total for the main formulas funding HRIs. Currently in the Space Projection Model, all HRIs are functioning with a deficit in predicted square feet versus actual square feet.

The predicted square footage is based on five factors (teaching, research, office, clinical and support), making it the one formula that truly reflects the complexity of the HRIs. Current infrastructure funding levels only partially cover utility, facility support, and routine maintenance costs. Increased infrastructure rates would allow institutions to address deferred maintenance (which ultimately extends the life of current facilities, a much less expensive alternative to replacing facilities entirely).

¹⁰ “Clinical Space” included in the Space Projection Model is the actual educational and general (E&G) clinical space devoted to the diagnosis and care of patients in the instruction of health professions and allied health professions.

Recommendations

The committee recommends that, over the next two biennia, additional funds be added to restore the infrastructure support rates to their original FY 2000-01 level as follows:

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
	Rates	Rates	Rates	Rates
All Other HRIs	\$ 11.18	\$ 6.63	\$ 9.64	\$ 11.18
UTMDACC & UTHSC-T	\$ 10.68	\$ 6.09	\$ 9.20	\$ 10.68

Research Enhancement Formula

Under the current Research Enhancement formula, each HRI annually receives research enhancement funding in the base amount of \$1,412,500 plus an amount equal to 1.22 percent of each institution's research expenditures (as reported to the Texas Higher Education Coordinating Board). The current Research Enhancement formula represents 4.9 percent of the total for the main formulas funding HRIs. While the base amount of this formula has not changed since the inception of the formulas, the rate has decreased from 2.85 percent to the current level of 1.22 percent, a 57 percent overall decline. The committee believes that this reduction impedes research growth and achievement of the state's excellence and research goals for *Closing the Gaps*.

Recommendation:

Consistent with the formula recommendations above, the committee recommends and requests that additional funds be made available to restore the research factor percentage over the next two biennia to their original FY 2000-01 level (see table below). Doing so would enhance the research capabilities of the HRIs. Most HRIs conduct significant levels of research, which drive new and innovative approaches in medicine and clinical care, benefiting the citizens of Texas. By supporting research, this funding also supports economic growth more generally for the state.

The THECB should consider proposing to the Legislature that research conducted by HRI faculty under contracts with its primary partners to provide clinical education and research services be considered in the formula calculations for the Research Enhancement and E&G Space Support strategies. Many HRIs conduct joint research with affiliates such as the VA and other foundations that benefit the state.

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
Research Enhancement Rate	2.85%	1.22%	2.26%	2.85%

Mission-Specific Formula

Since UTMDACC and UTHSC-Tyler do not provide formal medical education, which qualifies for instruction support under the I&O Support formula, funding for I&O support is allocated to these institutions based on separate criteria. Mission-Specific Support recognizes the patient care, research, and training programs that take place at these institutions. These formulas were established by the 77th Legislature.

The 80th Legislature refined the "Cancer Center Operations Formula" for UTMDACC to provide

funding for its patient care mission based on the total number of Texas cancer patients served. The funding requirement placed on this formula by Article III, Section 29, Special Provisions, Paragraph 8, Mission Specific states, "For formula funding purposes, the amount of growth in total funding from one biennium to another may not exceed the average growth in funding for Health Related Institutions in the Instruction and Operations formula for the current biennium."

Recommendation

In accordance with the above requirement, the committee recommends that funding for UTMDACC and UTHSC-Tyler funding be increased by the "average growth in funding" recommended for the I&O formula.

Graduate Medical Education (GME) Formula

GME has been funded as a separate formula since 2006-07. The committee notes that the current level of funding for the GME formula covers less than one-third of the full GME education costs that were estimated by the Coordinating Board in 2004. The GME formula was initially funded with \$25 million, resulting in a rate of \$2,340 per resident. In the subsequent four biennia, additional funds were added to the formula to approach the education costs estimated by the Coordinating Board, resulting in a rate of \$5,122 per resident in 2014-15.

The GME rate represents another aspect of the *Closing the Formula Funding Gap*, which could put at risk the ability of HRIs to increase the number of accredited residency positions in Texas.

Recommendation

Given the importance of residency positions in retaining graduating residents in the state, the committee recommends that the GME formula funding rate be increased for the 2016-17 biennium by an additional 28.40 percent. As shown in Appendix A, this is the committee's average requested increase for the three main formulas: I&O, Infrastructure and Research Enhancement.

	FY 2006-07	FY 2014-15	FY 2016-17	FY 2018-19
Graduate Medical Education	\$ 2,340	\$ 5,122	\$ 6,577	\$ 8,444

Report and Recommendation Summary

HRI funding formulas have not been implemented as originally envisioned by the Legislature. Current HRI formula funding is already largely "outcome-based" because of our high graduation rates and rapidly expanding research enterprises. Therefore, the structure of existing formulas is appropriate. However, HRI formulas have been implemented simply as a means for allocating available General Revenues. Using the formulas as an allocation vehicle has resulted in a significant reduction in formula funding rates at a time of substantial growth in formula indicators, or "drivers" (i.e., numbers of students, predicted square feet, research expenditures) at HRIs. Current funding levels place institutions at risk of compromising excellence to meet costs. Continued growth in enrollments and research prowess without additional funding, as well as stable per-unit state contributions may negatively impact teaching capacity and accreditation and will increase the backlog of deferred maintenance.

In 2007, the HRIFAC formulated a plan, *Closing the Formula Funding Gap*, to assist the Commissioner, the Legislative Budget Board, and the Legislature, and enable HRIs to receive sufficient resources to meet the established goals of *Closing the Gaps* educationally. Our committee has chosen to continue this approach for the 2016-17 biennium. It is critically important to note that the committee's recommendation applies to all formula funding areas – Instruction & Operations, Infrastructure, and Research Enhancement – not just to the Instruction & Operations formula. HRIs are proposing continuation of the *Closing the Formula Funding Gap* plan developed in 2007. The plan consists of restoring the formula's per-unit funding rates to 2000-01 level (without any adjustment for inflation) over three biennia. Currently there are two biennia left in which to realize these increases. Our recognition of the significant price tag of this restoration leads us to recommend the multi-biennium approach.

To highlight the need to close the formula funding gap, HRIs have not requested any structural changes to the formulas for the 2016-17 biennium. Details of this plan are provided in the committee's recommendations as discussed above and in the detailed Appendix A.

Within this background and framework, the committee respectfully presents its recommendations to the Commissioner's charges.

Appendix A

Health-Related Institutions Detailed Formula Funding Recommendation for FY 2016-17

The presentation of funding amounts in the report is presented on an "All Funds" basis. This approach is consistent with the historical committee and Coordinating Board approach on providing formula recommendations. The Instruction and Operations and the Infrastructure formulas use an "All Funds" method of finance where approximately 90-95 percent of the formula is General Revenue and the balance is General Revenue-dedicated funds (certain tuition and fee revenues). Other formulas are funded solely from General Revenue. In this report, only All Funds figures are used; no distinction is made between General Revenue or General Revenue-dedicated funds.

A detailed comparison of the HRIs' formula funding amounts for 2014-15 (historical) and 2016-17 (requested) is shown in the table below. It is important to note that amounts projected for 2016-17 include per-unit growth (such as FTSE enrollment growth) from 2014-15 levels, as well as the proposed two-thirds restoration of per-unit rate funding, from current to original 2000-01 levels.

	Per Unit Growth	FY 2014-15 Historical	FY 2016-17 Requested	\$ Change	% Change
Instruction & Operations Formula	9.20%	\$1,083,996,524	\$ 1,309,662,844	\$225,666,320	20.82%
Infrastructure Formula	3.91%	248,358,584	378,162,084	129,803,500	52.26%
Research Enhancement Formula	2.97%	68,683,342	111,114,816	42,431,474	61.78%
Total		\$1,401,038,450	\$ 1,798,939,744	\$397,901,294	28.40%
Mission Specific Graduate Medical Education	9.20%	\$ 302,091,028	\$ 364,980,317	62,889,289	20.82%
	7.38%	53,738,760	74,643,462	20,904,702	38.90%
Total All Formulas		\$1,756,868,238	\$ 2,238,563,523	\$481,695,285	27.42%

Detailed rate and other information are discussed in the following sections:

Instruction & Operations Formula

The Instruction and Operations formula is intended to support the Instruction, Academic Support, Student Services, and the Institutional Support categories. The I&O formula rate recommended for the *Closing the Formula Funding Gap* for 2016-17 is \$10,545.

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
I&O Funding Rate	\$ 11,383	\$ 9,527	\$ 10,545	\$ 11,383

Recommendation

The committee recommends that the Legislature calculate both base student population and the growth according to the most updated FTSE student count (or spring enrollment) at the recommended base rate (\$10,545) and multiply by the discipline weights. This calculation will ensure that the base rates are maintained at the recommended dollar value when growth is considered.

Texas is one of the fastest growing states in the U.S. in terms of population. At the same time, Texas has experienced significant growth in the number of physicians practicing in the state. From U.S. Census estimates, Texas' population has increased by over 2.5 million people, or 10.9 percent, from 2006 to 2012. During this same period, the number of "active physicians" in the state has increased by 16.7 percent (or nearly 8,000). In addition, the number of "active patient care physicians" has increased by 11.6 percent (or 5,000 physicians) since 2009, the first year this data was tracked. This has led to Texas improving from 46th to 41st among U.S. states, in terms of active physicians per 100,000 population.

AAMC State Physician Workforce Data Book¹¹

Data Book Year	2009	2011	2013	% Incr
Texas population	24,326,974	25,213,445	26,059,203	7.1%
Texas Active Physicians	48,782	51,691	54,167	11.0%
Active Physicians Rank (per 100k population)	42	42	42	
Texas Active Patient Care Physicians	42,649	44,395	47,586	11.6%
Active Patient Care Physicians Rank (per 100k population)	46	46	41	

Biomedical Informatics Weight

The THECB should consider proposing to the Legislature a new weight for HRIs formula funding for Biomedical Informatics.

The current weight for Biomedical Informatics is grouped with Allied Health at the lowest possible, or "base," weight of 1.0.

Biomedical Informatics is, in many ways, population-based education and research to improve healthcare and advance biomedical discovery, as well as to develop and use advanced

¹¹ Note: *The AAMC Physician Workforce Data Book* has been issued in its current form every other year since 2007. The data represented is through the year prior to the issuance of the data book, i.e. 2013 includes 2012 data. "Active patient care physicians" was first tracked by AAMC in the 2009 report, and the stated percent increase is from 2009-2013.

informatics tools to solve problems in healthcare. The costs of Biomedical Informatics education and research are significantly increased by hardware needs (e.g., high capacity computers and storage), sophisticated data warehousing infrastructures for large data sets (e.g., clinical and health records; genomic, imaging, public health, and financial data), and advanced software and information systems for education and research (e.g., commercial EHR systems, virtual environments, patient simulators, etc.).

The low formula funding weight puts Texas at a disadvantage in the international competition for Biomedical Informatics faculty and students. With existing programs and burgeoning ones starting up at Texas' HRIs, Texas has an opportunity to be an international leader in the field of Biomedical Informatics education and research.

Infrastructure Formula

Funding for the for plant support and utilities for HRIs is calculated using the Infrastructure Support formula, which is driven by the predicted square feet¹² for the HRIs produced by the Space Projection Model. Currently in the Space Projection Model, all HRIs are functioning with a deficit in predicted square feet versus actual square feet. 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, UTMDACC, and UTHSC-Tyler are included in the total funding for hospital and patient care activities.

When the infrastructure formula was established, a lower rate was set for UTMDACC and UTHSC-Tyler because they did not contribute tuition and fees to the formula. UTMDA has enrolled students since FY 2002 and contributed tuition and fees in the method of finance for the infrastructure formula since FY 2004. UTHSC-Tyler began enrolling students in FY 2012 and will contribute tuition and fees to the formula in FY 2016. UTMDACC and UTHSC-Tyler continue to receive funding at a lower rate than other institutions, despite all HRIs contributing tuition to the infrastructure formula in the 2016-17 biennium.

The Infrastructure formula rates recommended for the *Closing the Formula Funding Gap* for 2016-17 are \$9.20 for UTMDACC/UTHSC-Tyler and \$9.64 for all other HRIs. The following table provides a historical comparison with planned rates for 2016-17:

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
	Rates	Rates	Rates	Rates
All Other HRIs	\$ 11.18	\$ 6.63	\$ 9.64	\$ 11.18
UTMDACC & UTHSC-T	\$ 10.68	\$ 6.09	\$ 9.20	\$ 10.68

Research Enhancement Formula

Under the current Research Enhancement formula, each HRI annually receives research enhancement funding in the base amount of \$1,412,500 and an amount equal to 1.22 percent of each institution's research expenditures as reported to the THECB. While the base amount of

¹² "Clinical Space" included in the Space Projection Model, is the actual educational and general (E&G) clinical space devoted to the diagnosis and care of patients in the instruction of health professions and allied health professions.

this formula has not changed since its inception, the rate has decreased from 2.85 percent to the current level of 1.22 percent.

The committee believes that this generates a relatively small amount of research funding when considering the positive impact research outcomes have on the state and the ability of the HRIs to leverage state dollars. Consistent with the formula recommendations above, the committee recommends that additional funds be made available to raise the research factor percentage from 1.22 percent to 2.26 percent for 2016-17.

	FY 2000-01	FY 2014-15	FY 2016-17	FY 2018-19
Research Enhancement Rate	2.85%	1.22%	2.26%	2.85%

This recommendation is intended to enhance institutions' research capabilities. HRIs conduct significant levels of research, which drive new and innovative approaches in medicine and clinical care, benefiting the citizens of Texas.

Mission-Specific Support

Since UTMDACC and UTHSC-Tyler do not provide formal medical education, which qualifies for instruction support under the I&O Support formula, funding for I&O Support is allocated to these institutions based on separate criteria. Mission Specific Support recognizes the patient care, research, and training programs that take place at these institutions. These formulas were established by the 77th Legislature.

The 80th Legislature refined the "Cancer Center Operations Formula" for UTMDACC to provide funding for its patient care mission based on the total number of Texas cancer patients served. The funding requirement placed on this formula by Article III, Section 29, Special Provisions, Paragraph 8, Mission Specific states, "For formula funding purposes, the amount of growth in total funding from one biennium to another may not exceed the average growth in funding for Health Related Institutions in the Instruction and Operations formula for the current biennium."

In accordance with the above requirement, the committee recommends that UTMDACC's funding be increased by the "average growth in funding" recommended for the I&O formula of 20.82 percent. The recommended amount is shown in the following table:

	FY 2014-15	FY 2016-17	20.82% Increase
UT MD Anderson Cancer Center - Cancer Center Operations	Actual	Request	
Mission-Specific Funding	\$ 247,535,944	\$ 299,067,959	\$ 51,532,015

The Mission-Specific formula for UTHSC-Tyler has remained a separate formula. The committee recommends that the funding be increased by the "average growth in funding" recommended for the I&O formula of 20.82 percent. The recommended amount is shown in the following table:

	FY 2014-15	FY 2016-17	20.82% Increase
UTHSC-Tyler	Actual	Request	
Mission-Specific Funding	\$ 54,555,084	\$ 65,912,358	\$ 11,357,274

Graduate Medical Education

The committee is grateful for the increased funding that was provided for the GME formula, which supports the time spent by faculty in educating residents. However, the committee recognizes that the current level of funding for the GME formula of \$5,122 per year per resident only covers 31 percent of the full GME faculty costs that were estimated by the Coordinating Board in 2004. This represents another aspect of the *Closing the Formula Funding Gap*, which could put at risk the ability of HRIs to maintain and increase the number of accredited residency positions in Texas. Given the importance of residency positions to keep graduating Texas medical school students in the state, the committee recommends that the GME formula funding rate be increased for the 2016-17 biennium to the level of \$6,577 per resident per year, an increase of 28.40 percent.

	FY 2006-07	FY 2014-15	FY 2016-17	FY 2018-19
Graduate Medical Education	\$ 2,340	\$ 5,122	\$ 6,577	\$ 8,444

Appendix B

Texas Higher Education Coordinating Board Commissioner's Charge to the Health-Related Institutions Formula Advisory Committee (HRIFAC) for the FY 2016-2017 Biennium

Background

As a part of the biennial legislative funding process in Texas, the HRIFAC makes formal recommendations for formula funding for HRIs. This process is similar to other formula advisory committees for academic institutions and community colleges.

The HRIFAC met during the summer and fall of 2013 to discuss formula elements and make a formal recommendation to the Commissioner of Higher Education by February of 2014 in regard to funding amounts for the FY 2016-17 biennium.

The current formulas for determining funding levels at HRIs were developed for the FY 2000-01 biennium. Starting in the FY 2006-07 biennium, the formula for Graduate Medical Education was added to fund medical residents. For the FY 2008-09 biennium, two pieces of the Mission-Specific formula for UTMDACC were consolidated into one new formula, Cancer Center Operations. For the FY 2010-11, the mission-specific formula for UTHSC-Tyler was changed to Chest Disease Center Operations and the revised formula includes appropriations previously made outside the formula for patient care activities.

The formula recommendations under discussion relate to appropriations in the bill patterns of the HRIs, and in the case of the Graduate Medical Education for Baylor College of Medicine, funding which is appropriated to the Coordinating Board.

The key elements of each of the HRI formulas are summarized below.

Instruction & Operations (I&O)

The Instruction and Operations (I&O) formula is allocated on a per-student or a full-time student equivalent (FTSE) basis with a funding weight predicated on the instructional program of the student. Programs with enrollments of fewer than 200 receive a small-class-size supplement of either \$20,000 or \$30,000 per FTSE, depending upon the program. The small-class-size supplement addresses the small classes offered at the main campus and at remote satellite sites. The supplement is calculated based on a sliding scale that decreases as the enrollment approaches the 200 limit and is in addition to the base I&O formula amount.

The Legislature appropriated a base value rate of \$9,527 per FTSE for the FY 2014-15 biennium. Formula weights for each discipline, the related amount per FTSE for the small-class-size-supplement, and the calculated funding amount for one student are provided in the following table:

Program	Formula Weight	Small Class Size Supp.	Funding Amt. for One Student
Allied Health	1.000	\$ 20,000	\$ 9,527
Health Informatics (Allied Health)	1.000	\$ 20,000	\$ 9,527
Biomedical Science	1.018	\$ 20,000	\$ 9,698
Nursing - Undergraduate	1.138	\$ 20,000	\$ 10,842
Nursing - Graduate	1.138	\$ 20,000	\$ 10,842
Pharmacy	1.670	\$ 20,000	\$ 15,910
Public Health	1.721	\$ 20,000	\$ 16,396
Dental Education	4.601	\$ 30,000	\$ 43,833
Medical Education	4.753	\$ 30,000	\$ 45,281

The current I&O formula represents 77.4 percent of total I&O, Infrastructure, and Research Enhancement funding to the HRIs, an increase of two percent over the prior biennium. The All Funds I&O formula funding appropriation of \$1,084 million represents a 16.8 percent increase in funding over the FY 2012-13 biennium, compared to an 8.9 percent increase in FTSE.

The I&O funding rate for FY 2014-15 represents 98 percent of the rate requested by the committee in 2011.

Infrastructure

The Infrastructure formula provides for utilities and physical plant support. The formula is based upon the predicted square footage of the HRI space model. The space model projection is based on the following elements:

- Research - research expenditures or reported faculty FTE
- Office – faculty, staff and net E&G expenditures
- Support – percent of total prediction of other factors
- Teaching – level/programs areas of credit hours
- Clinical – actual clinical space used for instruction

The FY 2008-09 HRIFAC outlined and approved the application and approval process for the inclusion of any additional sites to qualify for the multi-campus adjustment to the space projection model for HRIs. The committee recommended the following criteria for qualification for a Multi-campus Adjustment site:

- 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 shall 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 E&G square feet of the facilities are included in the calculation of the space projection model.

The Infrastructure rate per predicted square foot appropriated for FY 2014-15 is as follows:

HRIs except UTMDACC & UTHSC- Tyler	\$ 6.63
UTMDACC & UTHSC-Tyler	\$ 6.09

The current Infrastructure Formula represents about 17.7 percent of total I&O, Infrastructure, and Research Enhancement funding to the HRIs, a decrease of one percent over the prior biennium. The FY 2014-15 total formula funding appropriation of \$248.4 million represents a 4.2 percent increase from the FY 2012-13 biennium, compared to a 4.0 percent increase in predicted square feet.

The Infrastructure funding rate for FY 2014-15 represents 82 and 79 percent of the respective rates requested by the committee in 2011.

Research Enhancement

HRIs generate state appropriations to support research from the Research Enhancement Formula. The Research Enhancement formula provides a base amount of \$1,412,500 for all institutions regardless of research volume. To the base amount, each institution receives an additional 1.22 percent of its research expenditures, as reported to the Coordinating Board.

The current Research Enhancement formula represents 4.9 percent of total I&O, Infrastructure, and Research Enhancement funding to the HRIs, a decrease of one percent over the prior biennium. The FY 2014-15 total formula funding appropriation of \$68.7 million represents a 9.2 percent increase over the amounts for the FY 2012-13 biennium, compared to a 4.0 percent increase in research expenditures.

The Research Enhancement funding rate for FY 2014-15 represents 68 percent of the rate requested by the Committee in 2011.

Mission Specific

Mission specific formulas provide instruction and operations support funding for UTMDACC and UTHSC-Tyler. Total funding for the FY 2014-15 biennium is as follows:

- UTMDACC's total formula funding appropriations are \$247.5 million, an increase of 16.5 percent for the FY 2014-15 biennium.
- UTHSC-Tyler's total formula funding appropriations are \$54.6 million, an increase of 15.6 percent for the FY 2014-15 biennium.

Mission-Specific funding for FY 2014-15 represents 107 percent of the amount requested by the committee in 2011.

Graduate Medical Education (GME)

The formula for bill pattern GME began with the FY 2006-07 biennium. The GME formula funds provide support for qualified Accreditation Council for Graduate Medical Education (ACGME) and American Osteopathic Association (AOA) medical residents trained by state HRIs in Texas. Residents at the Baylor College of Medicine are funded at the same rate as other institutions through an appropriation to the Coordinating Board to be distributed to Baylor.

For the FY 2014-15 biennium, a total of \$53.7 million was appropriated for GME, an increase of 16.9 percent over FY 2012-13, compared to a 5.5 percent increase in residents. Appropriations provide \$5,122 per resident per year.

The GME formula funding rate for FY 2014-15 represents 97 percent of the rate requested by the committee in 2011. Additional GME funding of \$22 million was trusted to the Coordinating Board for FY 2014-15.

Commissioner's Charges

Similar to the other formula advisory committees, the HRIFAC was asked to conduct an open, public process and provide opportunities for all interested persons, institutions, or organizations that desire to provide input on formula funding issues to do so. At the end of this process, the HRIFAC was charged with providing the Commissioner with a preliminary written report of the committee's recommendations by December 15, 2013, and a final written report by February 1, 2014, on the following specific charges:

1. Propose a set of formulas with appropriate levels of funding and financial incentives necessary to best achieve the four major goals included in *Closing the Gaps*. (General Appropriations Act, SB1, 83rd Texas Legislature, Section 29.7, page III-242)
2. Review the current I&O formula weights and determine if new weights should be requested.
3. Review the current I&O programs and determine if any specialties need to be assigned separate weights. If so, recommend requested weight(s) as appropriate.

Appendix C

Health-Related Institutions Formula Advisory Committee for the FY 2016-2017 Biennium

Name/Title	Institution/Address	Email/Phone/Fax
<u>Institutional Representatives:</u>		
Mr. Elmo M. Cavin Executive Vice President	Texas Tech University Health Sciences Center 3601 4th Street Lubbock, TX 79430	elmo.cavin@ttuhsc.edu (806) 743-3080 FAX (806) 743-2910
Dr. Barry C. Nelson Vice President for Finance and Administration	Texas A&M University System Health Science Center Clinical Building 1, Ste 4130 8441 State Hwy 47 Bryan, TX 77807	nelson@tamhsc.edu (979) 436-9202 FAX (979) 436-0075
Dr. Elizabeth Protas Dean of the School of Health Professions	The University of Texas Medical Branch at Galveston 301 University Blvd. Galveston, TX 77555-0126	ejprotas@utmb.edu (409) 772-3001 FAX (409) 747-0772
Mr. Kevin Dillon, Vice Chair Executive Vice President, Chief Operating & Financial Officer	The University of Texas Health Science Center at Houston PO Box 20036 Houston, TX 77225-0036	kevin.dillon@uth.tmc.edu (713) 500-4952 FAX (713) 500-3805
Dr. Leon Leach Executive Vice President	The University of Texas M. D. Anderson Cancer Center 1515 Holcombe Blvd., Box 95 Houston, TX 77030	lleach@mdanderson.org (713) 745-1076 FAX (713) 745-1034
Ms. Andrea Marks, Chair Vice President of Business and Finance	The University of Texas Health Science Center at San Antonio 7703 Floyd Curl Drive San Antonio, TX 78229-3900	marksa@uthscsa.edu (210) 567-7020 FAX (210) 567-7027
Mr. Vernon Moore Vice President of Business and Finance	The University of Texas Health Center at Tyler 11937 US Hwy 271 Tyler, TX 75708	vernon.moore@uthct.edu (903) 877-2831 FAX (903) 877-7899
Mr. John Harman Vice President for Business and Finance	University of North Texas Health Science Center at Fort Worth 3500 Camp Bowie Blvd. Fort Worth, TX 76107-2644	John.Harman@unthsc.edu (817) 735-2523 FAX (817) 735-5050

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Texas State Technical Colleges (TSTC) Funding Formulas for the 2016-2017 Biennium Recommendations

A committee of representatives from each TSTC and the system meet with the THECB and LBB staff from August 2013 to March 2014 and recommended minor modifications to the Returned-Value formula implemented in the 2014-2015 Biennium with a funding level of \$92.3 million,

After reviewing the other sector's formula funding recommendations, the advisory committee revised its funding level recommendation at the THECB April 2014 Board meeting. The THECB deferred approval of the revised recommendation to the Commissioner to allow for additional consideration of the proposal. The TSTC Chancellor formalized the recommendation in a letter to the Commissioner dated May 8, 2014 (next page).



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May 8, 2014

Dr. Raymond Paredes, Commissioner
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711-2788

Re: Request for Change to Funding Recommendation

Dear Commissioner Paredes:

At your request and as a follow-up to the testimony made by officials of the Texas State Technical College System at the most recent THECB board meeting, I'm writing to offer you my request that you consider amending the funding recommendation for the TSTC system. The remainder of this letter contains the rationale for my request and concludes with my specific recommendation for a specific funding amount.

The demand for the sort of training done by TSTC is strong in Texas and is expected to continue to grow. According to research done by the *National Skills Coalition*, middle-skill jobs—those that require more than a high school education, but less than a four-year degree—make up over half (51 percent) of all jobs in Texas, but the supply of trained workers is approximately 40 percent of the total Texas workforce. Particularly relevant to middle-skill jobs are graduates in undergraduate STEM fields, the primary focus of TSTC. In fact, total awards in STEM fields (2-year and 4-year) have increased from nearly 12,000 to nearly 20,000 from 2000 to 2013 (*Source: THECB Accountability System*). While this increase is laudable, this so-called "Skills Gap" is expected to get worse if current trends in supply and demand continue.

Exacerbating this current Gap is a growing number of baby-boomer technicians that are expected to retire in the decade ahead. These projected departures from the skilled workforce must be met with growing supply of well-trained graduates, or the Gap will widen.

Unfortunately, activity in technical education among Texas two-year colleges (excluding health-related programs) has dropped during the last decade from 10 percent of all activity to 9 percent of all activity. This decline comes in spite of requests from Texas business and industry to expand this sector of higher education (*Source: Analysis of two-year college contact hours from the annual THECB cost study – by TSTC*).

This confluence of factors creates an imperative for Texas to focus funding on technical education. Indeed, a strategic priority in workforce and technical education must be launched to avert a severe workforce shortage that could threaten the unique competitive advantages enjoyed by the Texas economy.

Fortunately, Texas leaders have started the move toward more and better technical training. HB 5 is creating more demand for technical education and TSTC is being asked by numerous ISD's to assist. In fact, during the past year TSTC has received more requests for partnerships in technical education than ever received before.

While technical job demand in Texas is growing, funding for TSTC's A&I formula has dropped significantly over the last 3 biennia due to the impacts of the great recession on state finance:

81 st Legislature – for FY 2010/FY 2011	\$98.0 Million
82 nd Legislature – for FY 2012/FY 2013	\$92.5 Million
83 rd Legislature – for FY2014/FY 2015	\$89.8 Million

Adjusted for a 2.5% annual inflation rate, the historical funding levels look like this:

81 st Legislature – for FY 2010/FY 2011	\$98.0 Million
82 nd Legislature – for FY 2012/FY 2013	\$87.9 Million
83 rd Legislature – for FY2014/FY 2015	\$80.8 Million

This funding pattern has resulted in TSTC having to increase tuition to maintain the level and quality of services to students while transforming operations towards the concept of the Returned-Value funding formula. The result has been tighter and tighter budgets and some reduction in the level of services offered (some program enrollments have been capped due to equipment and faculty limitations). Restoration of funding to pre-recession levels is needed to maintain TSTC's efficiency and effectiveness during a period of increasing demand for a technically skilled workforce.

The number of TSTC awards to students is relevant to TSTC's performance, and in the last four years, the number of TSTC awards to students has increased by 41 percent. Meanwhile the aggregate salaries earned by those completers are up by an even greater amount. These increases are a strong indication that the Texas economy needs our skilled graduates.

Funding all segments of higher education at "full formula funding" has always been a goal of the THECB. Under the Returned Value funding formula, the initial recommendation for TSTC's A&I funding was at 66 percent of TSTC's portion of the formula's state tax value-added. At 100 percent of this value, TSTC would be "splitting" the total state tax revenue value-added with the State of Texas. Raising the recommended funding level to 73.9 percent of the TSTC portion of the state tax value-added and applying the proposed 2.95 percent increase for inflation provides TSTC with a modest increase and moves TSTC one-fourth of the way towards "full formula funding."

Based on the rationale outlined above, I respectfully request that you consider the following proposal to fund \$119.9 million to the formulas for the biennium (\$14.2 million or 13.4 percent more than the previous biennium).

- Fund \$103.3 million to the Returned-Value formula for the 2016-17 biennium (\$13.5 million or 15.0 percent more than the \$89.8 million appropriated for the 2014-15 biennium. The recommendation funds an increase in the funding rate from 66 percent to 73.9 percent of TSTC's portion of the increased value added to the state from former TSTC students and graduates. With full funding as a goal, this increase moves the funding rate a quarter of the way to that end. It also includes modifications to the previous Returned-Value formula to account for dual-credit and continuing education and a 2.95 percent increase for inflation.
- Fund \$16.6 million to the Infrastructure formula (includes the Small Institution Supplement) for the biennium (\$0.7 million or 4.5 percent more than the \$15.9 million appropriated for the 2014-15 biennium). This funding level assumes a rate of \$5.78 per square foot (\$0.22, or 4 percent more than the \$5.56 funded for the 2014-15 biennium) and 1.6 percent increase in square feet between fall 2012 and fall 2014.
- Split the recommended Infrastructure rate between "utilities" and "operations and maintenance" components using FY 2014 utility rates, update the utility rate adjustment factors using the FY 2014 utilities expenditures, and allocate the Infrastructure formula using the fall 2014 predicted square feet.
- Fund the Small Institution Supplement using the same methodology and rate as the 2014-15 biennium.

TSTC was allocated \$105.7 million by the Legislature in formula funding for the 2014-15 biennium. If the recommendations above are adopted and fully funded by the Legislature for the 2016-17 biennium, the estimated formula appropriation would be \$119.9 million (13.4 percent increase). We hope you will recommend these levels.

Many thanks for your consideration of this matter. As always, TSTC stands ready to do our part for Texas, for our higher education community, and most especially for the students we serve.

Respectfully,

A handwritten signature in black ink, appearing to read 'Michael L. Reeser', with a long horizontal stroke extending to the right.

Michael L. Reeser
Chancellor



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

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