The Budgeting Process for Public Universities in Texas

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Agenda

- State Budget Overview
- Higher Education Formula Funding – General Academic Institutions
- Higher Education – Legislative Funding Issues
- Institutional Funding and Budgeting Activities

State Budget Overview

State Funding Sources

- State Tax Collections
- Federal Funds
- Fees, Fines, Licenses
- Interest and Investment Income
- Lottery
- State Land Income
- Other

Method of Finance – State Budget

General Revenue (GR)

State's Primary Operating Fund

- State Tax Revenues
- Lottery Proceeds
- Investment Income
- Many State Fees

General Revenue (GR) -Dedicated

- Tuition Revenue
- State Parks
- Department of Insurance Operating

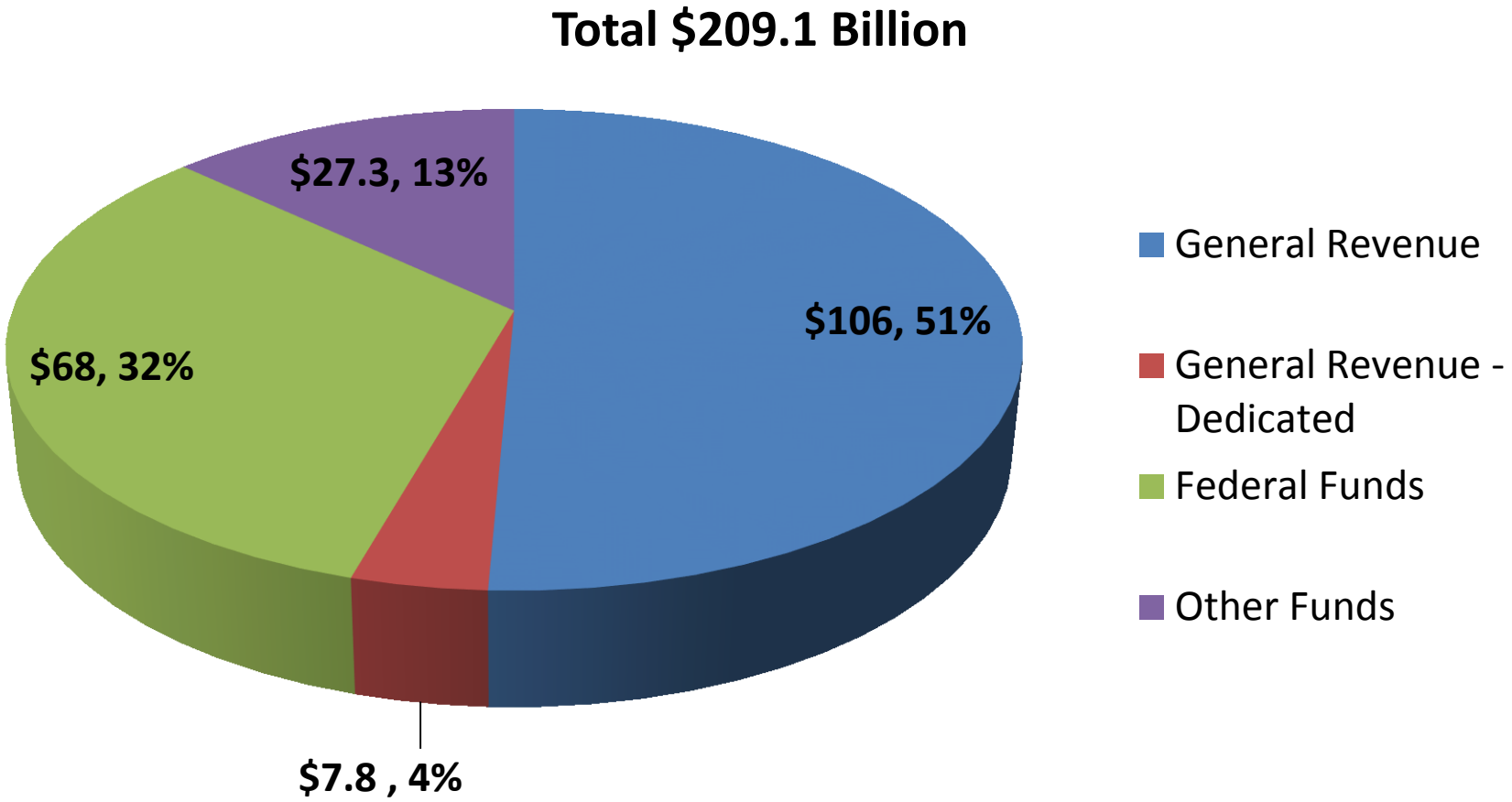
Federal Funds

- Grants from Federal Government
- Employee Benefits on Federal Programs

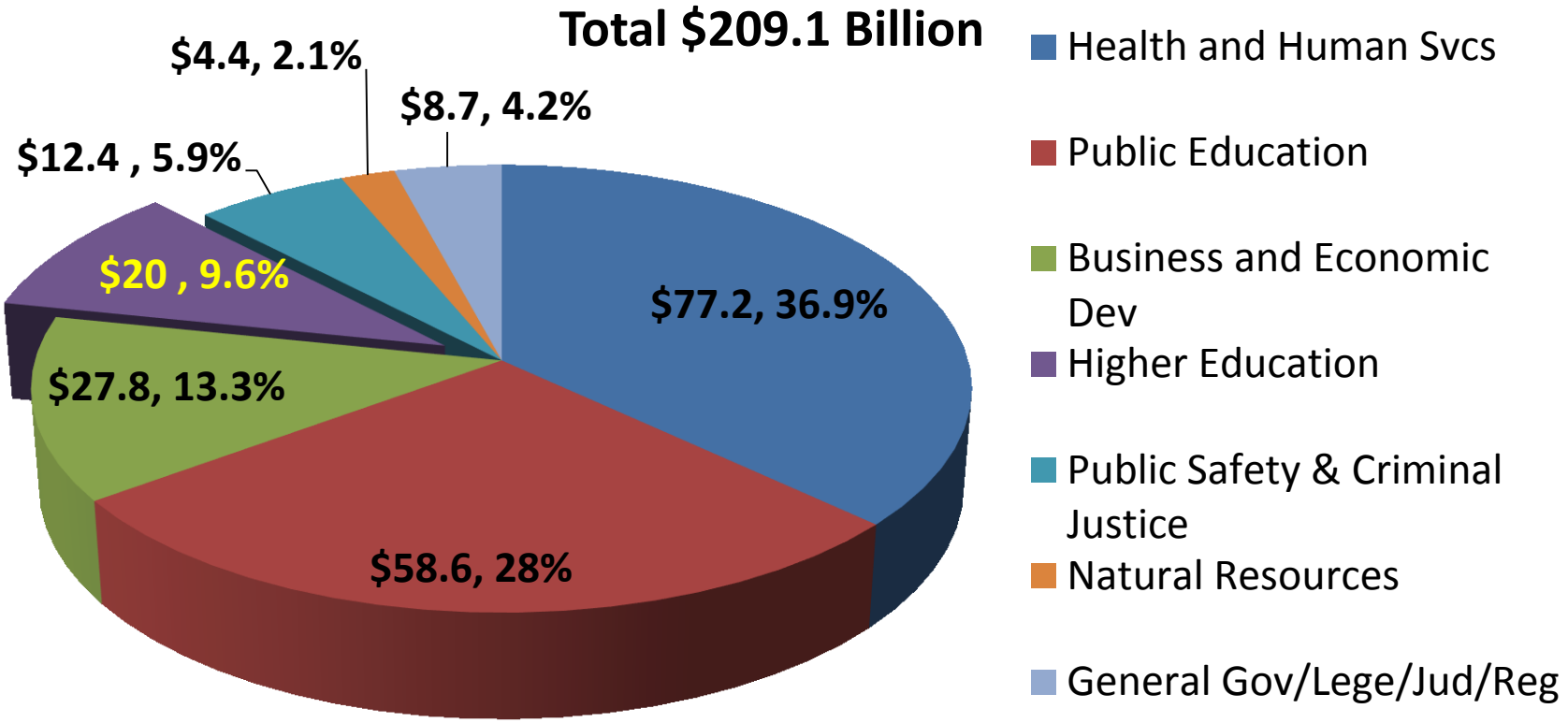
Other Funds

- State Highway Fund
- Texas Mobility Fund
- Bond Proceeds
- Trust Funds
- Available University Fund (AUF)

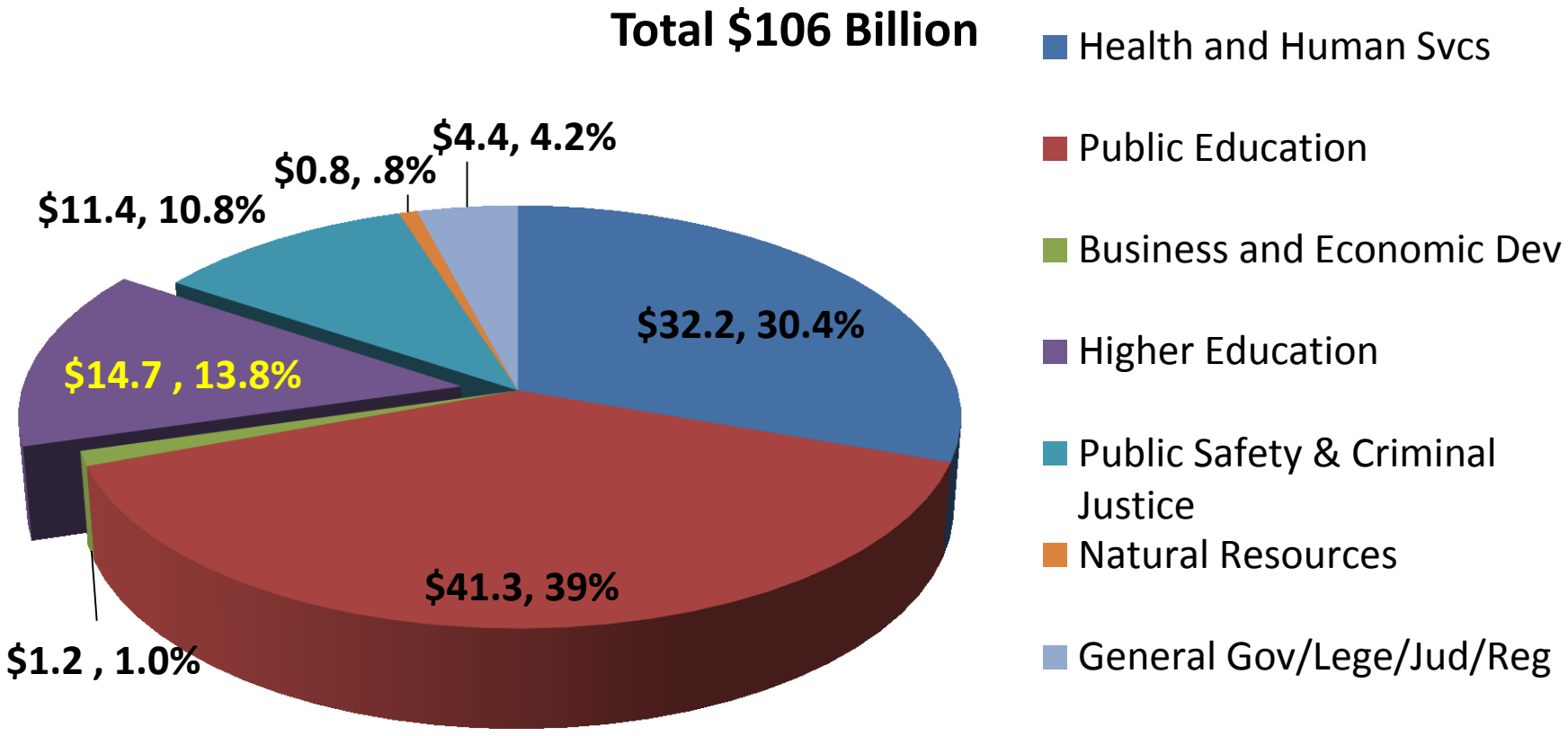
State Budget – All Funds
2016-2017 Biennial Appropriations by Method of Finance



State Budget – All Funds
2016-2017 Biennial Appropriations by Function



State Budget – General Revenue 2016-2017 Biennial Appropriations by Function



Higher Education Formula Funding – General Academic Institutions

Higher Education Funding Components – General Academic Institutions

- **Formula Funding**

The formulas are used to equitably distribute available state funds to state higher education institutions.

- **Non-Formula Funding**
  - Special Items – activities not funded by the formula, but specifically designated by the Legislature for state support
  - Available University Fund (AUF)
  - Higher Education Fund
  - Group Insurance – funds health insurance benefits for employees funded by General Revenue

What Functions are the Formulas Designed to Fund?

- Faculty Salaries
- Departmental Operating Expense
- Libraries
- Instructional Administration
- Research Enhancement
- Student Services
- Institutional Support
- Infrastructure Support

What Functions are NOT Included in the Formula Funding?

- Special Items
- Tuition Revenue Bonds
- Texas Research University Fund
- Texas Research Incentive Program
- Comprehensive Research Fund
- AUF, Auxiliary, and Other Institutional Funding

Components of Formulas for General Academic Institutions

There are two major formulas and one smaller one:

- Instruction and Operations
- Infrastructure Support *
- Teaching Experience

*Additionally, some institutions qualify for a Small Institution Supplement to recognize the reduced economies of scale.

The Importance of Credit Hours

All three formulas are driven solely or partly by semester credit hours taught

- The **Instruction and Operations** formula is driven by expense per credit hour
- The **Infrastructure Support** formula, in addition to credit hours taught, includes academic program mix, staff size, research expenditures, and library collection size.
- The **Teaching Experience** formula is driven by the number of undergraduate credit hours taught by tenured or tenure track faculty

How Does the Instructions and Operations Formula Generate Funds?

- Two basic concepts:
  - Base Period
  - Weighted Semester Credit Hours

The “Base Period”

- The base period is the 12 month period used to measure the SCH to be included in the appropriations formulas.
- It is the summer and fall of even numbered years and the spring of odd numbered years.
- This “base period” provides the most recent year of semester credit hour data available when the legislature meets in the spring of odd numbered years.
- Base period SCH determines formula appropriations for the next two years.

What are Weighted Credit Hours?

Institutions are funded by the number of credit hours taught in the base period, but not all credit hours are funded at the same dollar value.

- Conceptually, the formula weighting reflects the differences in cost related to teaching courses at different levels and different academic fields.
- Graduate courses, for example, are expected to be taught in smaller class sections than undergraduate classes so graduate credit hours are weighted heavier than undergraduate credit hours.
- Courses in different fields are also weighted relative to each other. For example, a credit hour in a lower division History course earns less formula funding than a lower division course in Art or Engineering.
- All these weightings are displayed in a chart called the “Formula Matrix”.
- Formula Matrix Amounts are Based on THECB Annual Expenditure Study.

Weighted Credit Hours

Weighted credit hours are credit hours taught multiplied by the weighting matrix

Examples:

- A 3 hour lower division history course with 20 students enrolled would generate 60 weighted SCH (20 students x 3 SCH x 1.00 weight)
- A 3 hour masters level business course with 20 students enrolled would generate 196 weighted SCH (20 students x 3 SCH x 3.26 weight)
- A 3 hour doctoral education course with 20 students enrolled would generate 415 weighted SCH (20 students x 3 SCH x 6.91 weight)

*Institutions are Funded based on the state-wide average cost for the programs.

The Formula Matrix

2018-2019 Biennium

Weighting	Lower Div	Upper Div	Masters	Doctoral	Special Prof
Liberal Arts	1.00	1.73	4.01	10.90	-
Science	1.64	2.81	7.04	20.70	-
Fine Arts	1.46	2.51	6.07	7.48	-
Teacher Education	1.53	2.07	2.39	6.91	-
Agriculture	2.08	2.58	6.54	11.80	-
Engineering	2.15	3.22	5.50	17.15	-
Home Economics	1.11	1.76	2.79	9.09	-
Law					4.77
Social Services	1.57	1.89	2.47	19.33	-
Library Science	1.44	1.54	3.35	14.64	-
Vocational Training	1.16	2.74	-	-	-
Physical Training	1.46	1.26	-	-	-
Health Services	1.02	1.55	2.54	10.19	2.50
Pharmacy	2.46	4.73	28.55	32.17	4.23
Business Admin	1.16	1.83	3.26	24.70	
Optometry	-	-	-	-	7.65
Teacher Ed Practice	1.91	2.18	-	-	-
Technology	2.08	2.32	3.42	14.79	-
Nursing	1.49	2.04	3.00	9.57	-
Developmental Ed	1.00	-	-	-	-
Veterinary Medicine	-	-	-	-	23.30

Getting from weighted SCH to Instruction and Operations income

Each biennium, the appropriations act specifies the dollar value of each weighted semester credit hour

- For the 2018-2019 biennium, the value is $55.82 per weighted SCH

So, looking at our examples again:

- The lower division history course earned **$3,349** (60 wsch x $55.82)
- The masters business course earned **$10,941** (196 wsch x $55.82)
- The doctoral education course earned **$23,165** (415 wsch x $55.82)

Income from a 3 credit hour class with 20 students enrolled

I/O Income	Lower Div	Upper Div	Masters	Doctoral	Special Prof
Liberal Arts	$ 3,349	$ 5,805	$ 13,453	$ 36,506	-
Science	$ 5,470	$ 9,434	$ 23,556	$ 69,328	-
Fine Arts	$ 4,912	$ 8,429	$ 20,318	$ 25,063	-
Teacher Education	$ 5,135	$ 6,922	$ 7,982	$ 23,165	-
Agriculture	$ 6,978	$ 8,652	$ 21,881	$ 39,521	-
Engineering	$ 7,201	$ 10,773	$ 18,421	$ 57,439	-
Home Economics	$ 3,740	$ 5,917	$ 9,322	$ 30,422	-
Law	$ -	$ -	$ -	$ -	$ 15,965
Social Services	$ 5,247	$ 6,308	$ 8,261	$ 64,751	-
Library Science	$ 4,801	$ 5,135	$ 11,220	$ 49,010	-
Vocational Training	$ 3,907	$ 9,154			-
Physical Training	$ 4,912	$ 4,242			-
Health Services	$ 3,405	$ 5,191	$ 8,485	$ 34,106	$ 8,373
Pharmacy	$ 8,261	$ 15,853	$ 95,620	$ 107,733	$ 14,178
Business Admin	$ 3,907	$ 6,140	$ 10,941	$ 82,725	
Optometry					$ 25,621
Teacher Practice	$ 6,419	$ 7,312			-
Technology	$ 6,978	$ 7,759	$ 11,443	$ 49,512	-
Nursing	$ 4,968	$ 6,810	$ 10,048	$ 32,041	-
Developmental Ed	$ 3,349				-
Veterinary Medicine					$ 78,036

Infrastructure Support

- Driven by **predicted square feet** (PSF) derived from the Coordinating Board's space projection model
- ***Not* all the space each campus actually *has***
- PSF X Institutional Infrastructure Rate = formula amount
- Provides support for utilities (Rate is adjusted for each institution to reflect local utility rates)
- Small Institution Supplement – provides additional funds to institutions with a smaller student headcount

Coordinating Board Space Model

5 Dimensions	Variables
Teaching Space	Programmatic areas and level of SCH
Library Space	FTE faculty, FTE Students, approved programs
Research Space	Research expenditures, FTSE
Office Space	FTE Faculty, FTE non-faculty, current fund E&G Expenditures
Support Space	9 percent of total predicted square feet for all other factors

**Note: THECB recommended changes.*

Teaching Experience

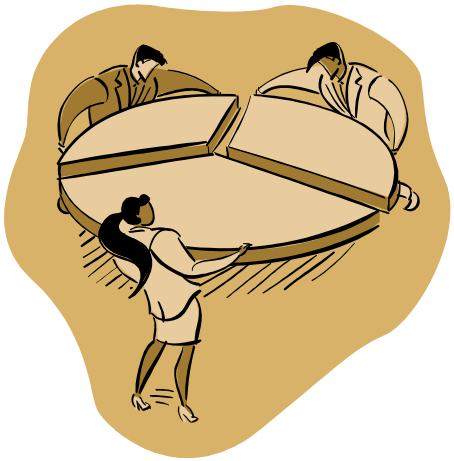
- This is a simple add-on to the Instruction and Operations formula.
- Designed to provide bonus or incentive for the institution to assign tenure/tenure track faculty to teach undergraduate students
- For 2018-2019 Biennium – extra 10% weight
- The intent is to reward institutions for NOT using TAs and Adjuncts to teach undergraduates.

Formula Funding Distribution Across Higher Education Institutions

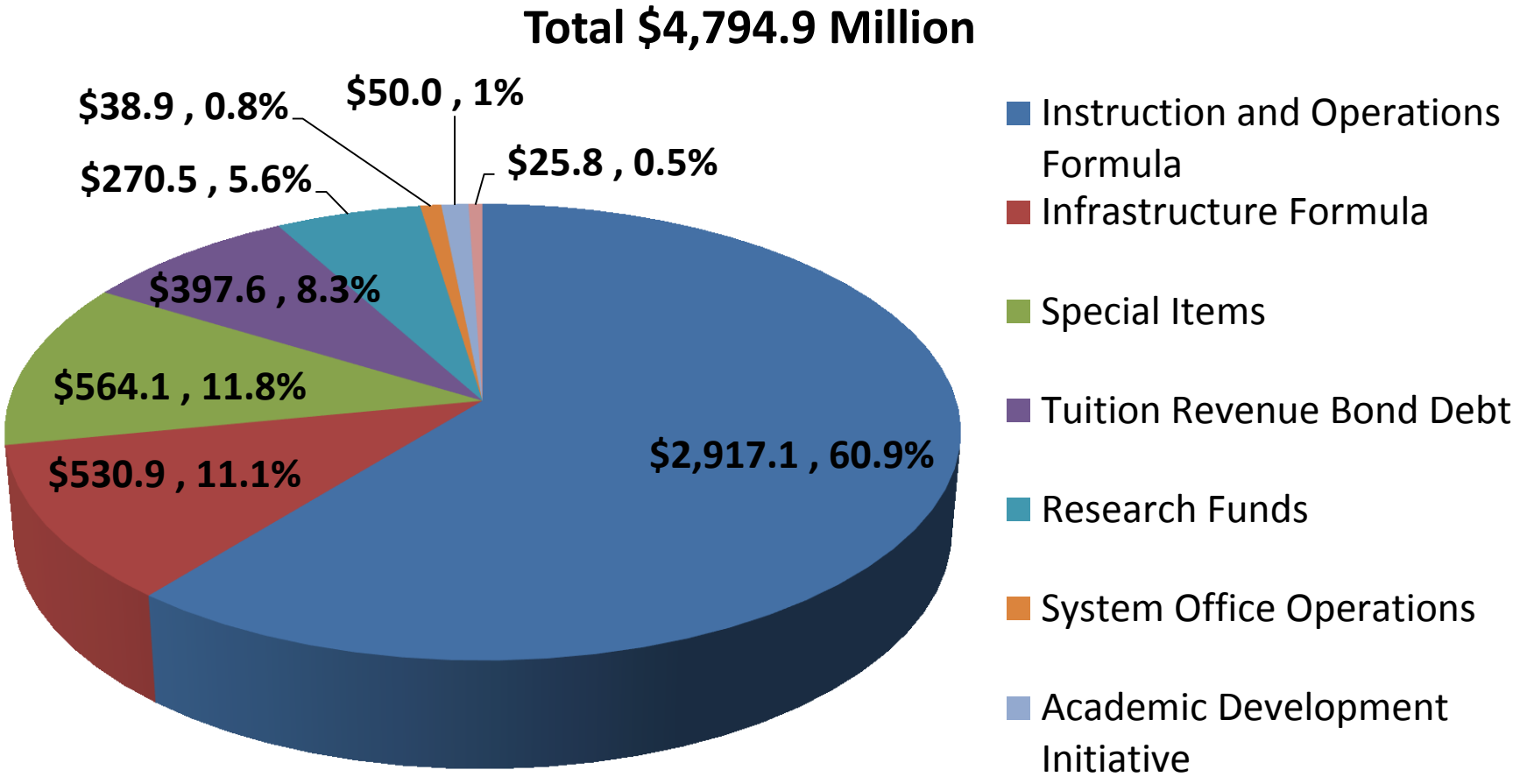
- For Higher Education, it is important to grow in weighted semester credit hours at a rate at least as fast as the state as a whole.

- Why? Because the formulas are used as a mechanism to ***distribute*** higher education funding.

- Universities growing slower than average end up with smaller pieces of the funding pie, while fast growing institutions benefit.



General Academic Institutions 2016-2017 Biennial General Revenue Appropriations by Function



Higher Education – Legislative Funding Issues

Outcomes-Based Funding

Original recommendation of General Academic Institutions Formula Advisory Committee(GAIFAC)

Some state funding for public universities will be allocated among institutions on the basis of their relative performance on certain student success measures.

Fund on *actual* outcomes and not *increases.*

Basic Principles

- Outcomes funded above the base.
- Phase-in
- Biennial Review

Metrics are Scaled and Weighted Based on Priorities of Each Institution

Set-Aside for Hold Harmless

Outcomes-Based Recommended – Success Metrics

Total Undergraduate Degrees	• Total number of Bachelor's Degrees awarded by an institution in a given year.
Total Undergraduate Degrees by Graduation Rate	• Total Bachelor's Degrees multiplied by the school's six-year graduation rate, to incent timely completion.
Total Undergraduate Degrees per 100 FTSE	• Degrees divided by Full Time Student Equivalents (FTSEs) and multiplied by 100. This aggregate measure adjusts for part-time and transfer students, providing a common framework for comparing degree productivity .
At-Risk Undergraduate Degrees	• Degrees awarded to students who meet federal criteria for being at high risk for non-completion.
Retention Metrics	• Points awarded for students who complete their 30th, 60th, or 90th hour at the institution, to incentivize the use of effective persistence policies.

**Note: THECB has recommended changes to replace the above with a Graduation Bonus Model.*

Outcomes-Based Recommended – Simplified
Graduation Bonus Recommended by THECB

Total Undergraduate Degrees

- $500 for each Bachelor's Degrees awarded by an institution in a given year.

At-Risk Undergraduate Degrees

- $1000 for each degree awarded to students who meet federal criteria for being at high risk for non-completion.

These proposed changes were introduced in several bills like HB 430, HB 1241 and SB 34.

Space Projection Model

The THECB was directed by House Bill 1, Article III, Section 55, 84th Texas Legislature to conduct a study of the space projection model and to recommend changes to increase the accuracy of the predictions.

- Limited to General Academic Institutions (GAIs) and Health-Related Institutions (HRIs)
- Recommended three alternative proposals for GAIs and two alternative proposals for HRIs
- THECB recommends that the Legislature replace the current models and select a GAI and an HRI model from the alternative proposals
- The proposals would reallocate funds among institutions and could be disruptive, so THECB recommends that the changes be phased over three biennia

What was the Result?
Non-Formula Support Items and Formula Study

- A special joint interim committee comprised of 5 members appointed by the Lieutenant Governor and 5 members appointed by the Speaker, with the Lieutenant Governor and Speaker each designating a presiding co-chair from amongst their appointments.

- The joint interim committee shall prepare recommendations for realignment and/or possible elimination of non-formula support items and improvements of formula funding for institutions of higher education.

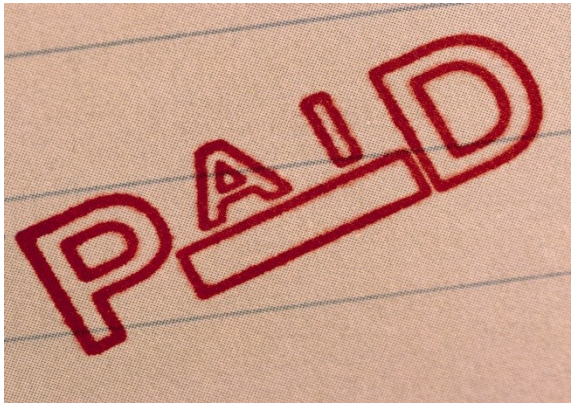
- Committee Report Due April 15, 2018

Fixed Tuition

House Bill 29 of 83rd Legislative Session Required that General Academic Institutions offer a fixed tuition price plan to undergraduate students

- Fixed Tuition Plan - no increases in tuition for at least 12 consecutive semesters

- Effective for New or Transfer Students in Fall 2014



Institutional Funding and Budgeting Activities

General Academic Institution Funding

APPROPRIATED FUNDS

Formula General Revenue

Non-Formula General Revenue *(Special items, Benefits)*

GR-Dedicated, "Local Funds" (Institutions have statutory authority to collect these State funds. The funds are "dedicated" or appropriated back to the institution.)

- Statutory Tuition (Set by the Legislature)
- Special Course and Laboratory Fees
- Organized Activity Fees
- Income from Sale of Educational and General Equipment
- Interest Income on Funds Held in State Treasury

Other Income

- Available University Fund (AUF)
- Tobacco Endowment Proceeds
- Higher Education Fund

General Academic Institution Funding

NON-APPOPRIATED FUNDS, "Institutional Funds"

Designated Funds

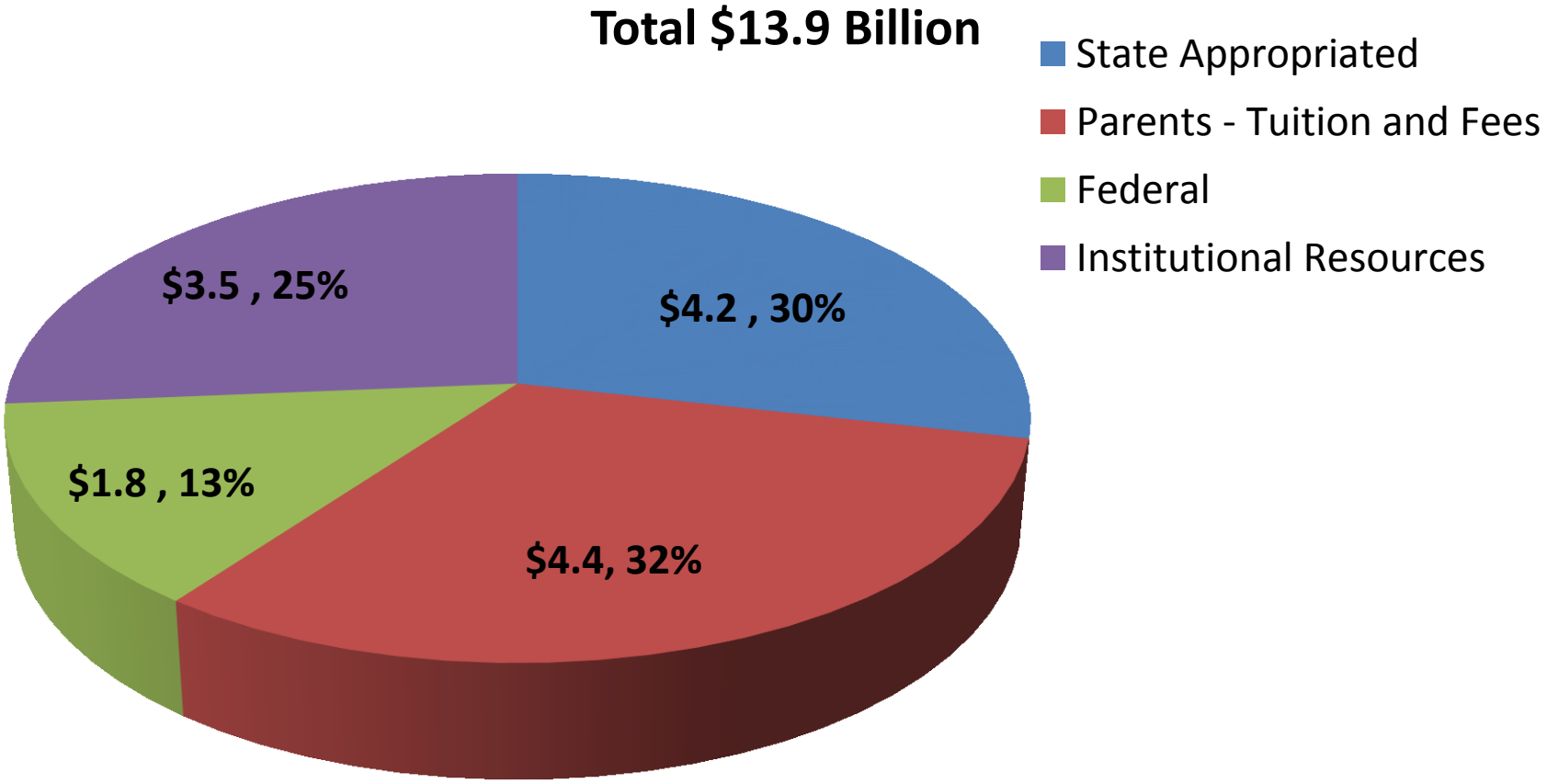
- Designated Tuition (Set by the Board of Regents)
- Incidental Fees
- Indirect Cost Recovery Income (Overhead paid by research grants)

Auxiliary Enterprises (Self-supporting activities such as housing and food services, student unions, recreational sports, and athletics.)

Restricted Funds (These funds have restrictions on their use. For example, research grants specify how grant funds may be spent)

- Federal/State/Local Grants and Contracts
- Gifts
- Earnings from Endowments

Sources and Uses – General Academic Institutions (GAI) FYE 2016



Typical Budget Development Calendar
Legislative Year

March – University Develops Initial Budget Policies

April – May - Colleges/Schools Prepare Budgets

End of May – Legislative Session Ends

June – Colleges/Schools Make Adjustments Based on Legislative Funding and University Budget Policy Changes

July - Central Budget Office Reviews and Consolidates University Budget

August – System and Board Reviews and Approves

September 1st – Operating Budget Effective Date

Legislative Appropriations Request (LAR)

- Prepared in the summer prior to each legislative session
- Includes STATE funding only
- Includes financial details on prior years
- Includes NEW requests for funding – Exceptional Items (Special Items)

Fiscal Notes and Analysis of Bills

- Analyze the financial impact of a specific bill
- How much will it cost university if the bill passes?
- Will it require additional staff or other resources to implement?
- Will it increase revenue?
- Are there impacts besides financial impacts?

Analysis of Appropriations/Funding

•Analyze the financial impact of the Appropriations bills as they are introduced

•Adjust forecasts and budget summaries, as needed

Typical Budget Development Calendar
Non-Legislative Year

February – University Develops Budget Policies

March – April – Colleges/Schools Prepare Budgets

May - Central Budget Office Reviews and Consolidates University Budget

June – July – Central Budget Office Prepares Legislative Appropriation Request

July – August – System and Board Reviews and Approves

September 1st – Operating Budget Effective Date

External Influences for Budget Policies and Priorities

- Board of Regents
- Donors and Alumni
- Legislature
- Parents
- General Public
- Media

Budget Considerations

Consider all Potential Funding Sources, Including State Appropriations

Examine and Prioritize Incremental Expenditures for Initiatives and Priorities to Achieve the University's and State's Goals and Objectives

Scrutinize Existing Budget for Cost Reduction Opportunities and Efficiencies

Determine Solution for Any Shortfall – Consider Designated Tuition Increases

Questions