



Texas Higher Education
Coordinating Board

Formula Funding Recommendations for the 2010-2011 Biennium

April 2008

Planning and Accountability Division



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.

Table of Contents

	<u>Page</u>
Summary of Financial Implications Regarding Formula Funding Recommendations for the 2010-11 Biennium	1
Executive Summary	3
Coordinating Board's Formula Funding Recommendations, Compared to 2008-09 Appropriations, April 2008, Summary of Financial Implications	6
Authority for Funding Formula Development.....	7
 Texas Public Community and Technical Colleges Funding Formulas	 9
Texas Public General Academic Institutions Funding Formulas	27
Texas Public Health-Related Institutions Funding Formulas.....	53

**Summary of Financial Implications
Regarding
Formula Funding Recommendations
for the
2010-11 Biennium**

April 2008

**Texas Higher Education Coordinating Board
P. O. Box 12788
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Executive Summary

The Coordinating Board's formula funding recommendations for the 2010-2011 biennium recognize the need to shift from a focus on meeting the student participation goals of the state's higher education plan, *Closing the Gaps by 2015*, to more effectively meeting 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 eight years since *Closing the Gaps* was first adopted – and those gains must continue. However, if the goals of *Closing the Gaps* are to be fully realized, much more emphasis must be placed on the success of those students and the effective use of state, institutional, and student resources in retaining and graduating students.

To this end, three critical changes in formula funding are recommended:

- Base funding on outcomes rather than on inputs. Currently, funding is based on attempted semester credit hours or contact hours (inputs). This recommendation bases funding on completed semester credit hours or contact hours (outcomes).
- Provide funding at levels that not only allow institutions to continue meeting participation goals, but enable them to put the infrastructure, policies, and programs in place necessary to retain students more effectively and improve student performance.
- Provide institutional performance funding to recognize achievement in meeting student success goals, such as increasing the number of degrees and certificates awarded as well as increasing the number of transfers from two-year institutions to universities.

The following report contains the formula recommendations of the Coordinating Board. These recommendations were presented at the Board's April 2008 meeting and forwarded to the following parties in June 2008: Governor, the Legislature, and the Legislative Budget Board.

Community and Technical Colleges

The Coordinating Board recommends funding 100 percent of the rates derived from the *FY2007 Report of Fundable Operating Expenses*, less estimated amounts collected for tuition over the biennium, using a phase-in approach over four years from attempted to completed contact hours at the rate of 25 percent – 50 percent – 75 percent – 100 percent. This recommendation would require an increase in general revenue appropriations of approximately \$668 million (37 percent). The details of the recommendation begin on page 15.

In the past 10 years there has been a 30 percent increase in contact hours and a 27.7 percent increase in state appropriations for instruction and operations. In constant dollars the past 10 years has produced a decline of 23 percent in the formula funding for instruction and operations per contact hour.

This recommendation would be conditional based on available funding. If the Legislature does not increase the amount of formula funding by at least \$400 million (22 percent), the Coordinating Board would then recommend the community colleges continue to receive their funding allocation based on attempted contact hours.

Additionally, the Board is recommending new funding of \$4.5 million for Alternative Teaching Certificates and increasing the funding supplement for small institutions to \$6.0 million from the current level of \$1.2 million.

General Academic Institutions

The Coordinating Board recommends a total All Funds appropriation of \$4.78 billion for the 2010-11 biennium, an increase of \$687.7 million, or 16.8 percent. In addition, the Coordinating Board recommends that \$3.5 million be trustee to the Coordinating Board for distribution to accommodate dramatic growth.

The Board is recommending major changes in the structure of the instruction and operations formulas for the 2010-11 biennium. The recommended changes would transition the funding to outcome measures. The details of the recommendation begin on page 33.

There are three major components to the recommended instruction and operations formula.

The three components total \$3,809.3 million, an increase of \$445 million, which includes \$33.2 million in formula hold harmless for the 2008-09 biennium. The recommended formula amount was determined by increasing total current biennium appropriations to adjust for estimated enrollment growth of 6.79 percent and cost increases of 7.08 percent. In the past 10 years there has been a 22 percent increase in semester credit hours and a 4.5 percent in state appropriations for instruction and operations. In constant dollars, the past 10 years has produced a decline of 14 percent in the formula funding for instruction and operations per semester credit hour.

The first component is the newly established performance segment of \$178 million. The performance funding is calculated based on the average of all degrees awarded in the previous three years.

The remaining \$3,631.3 million is allocated by combining the results of two funding methodologies (components) using a phase-in approach over four years from attempted to completed weighted semester credit hours at the rate of 25 percent – 50 percent – 75 percent – 100 percent.

The first methodology will use 100 percent of the matrix weights established by the three-year average produced by the cost study. The historical measure of attempted semester credit hours (registered as of official class date) is used both in the appropriation calculations and in establishing the relative funding weight matrix in the cost study. An additional teaching supplement premium of 10 percent is awarded for semester credit hours in undergraduate courses which are taught by tenure/tenure-track faculty.

The second methodology uses completed semester credit hours (SCH) both in the appropriation calculations and in establishing the weighting matrix for funding categories (i.e. Science, etc.). In essence, values for completed SCH are substituted for the attempted SCH used in methodology one. The teaching supplement premium is eliminated.

The structure of the infrastructure formula remains unchanged, except that formulas have been expanded to cover expenses from designated funds as well as general funds. The total formula recommended by the Board for infrastructure is \$968.5 million.

Recognizing that a less than complete implementation of these recommendations could possibly cause unintended harm to some institutions by reducing appropriations from the current biennium level, the Board has included a provision with the above recommendation. If the Legislature decides to increase funding by less than \$200 million over the current biennium, methodology one (the attempted semester credit hour method) should be used to allocate the entire amount appropriated.

The Board is recommending that the enrollment driven formulas for Community and Technical Colleges and General Academic Institutions be changed from a census taken on the twelfth class day to the last class day of the semester. This will require a change in the base period from Summer, Fall 2008, and Spring 2009 to Spring, Summer, and Fall 2008. Since this will put the base period farther away from the period actually being funded and could be a hardship for growing institutions, this recommendation also includes a growth fund of \$3.5 million for the Community and Technical Colleges and \$3.5 million for the General Academics for annual growth that exceeds three percent.

Health-Related Institutions

The 2008-09 biennium All Funds appropriation for health-related institutions is \$1.511 billion. The Board recommends a total All Funds appropriation of \$1.624 billion for the 2010-11 biennium, an increase of \$112 million, or 7.4 percent.

The Health-Related Institution Formula Advisory Committee (HRIFAC) recommended calculation of formula values that would have the effect of restoring the formula values that existed in the 2000-01 biennium by the end of the 2012-13 biennium. The Board supports this two-step process. The details of the recommendation are located on page 58.

The HRIFAC also recommended that the base amounts not be adjusted to reflect the available appropriations which have been the practice in the past. If the full base amount is not funded at 100 percent, the percent funded should be reflected in the presentation of the appropriation bill.

Coordinating Board Trusteed Funds

For the Nursing Shortage Reduction Program, which provides funds for all sectors, including private institutions, the Board is recommending an increase of \$10.3 million for the biennium.

The Coordinating Board recommends a trusteed fund to provide funds for implementation of developmental education programs that are proven to be successful in preparing students for college level course work. \$20 million will be distributed to institutions to fund non-course based developmental education activities contingent on an approved plan which includes an assessment component and a commitment that developmental education will be a campus-wide priority. \$10 million will be distributed through a Request for Proposal process for 1) pilot programs designed to be scalable for widespread implementation in the 2012-13 biennium; or 2) larger grants to develop comprehensive campus-wide developmental education programs. The total recommendation cost is \$30 million.

**Coordinating Board's Formula Funding Recommendations
Compared to 2008-09 Biennium All Funds Appropriations**

April 2008

Summary of Financial Implications

Sector	2008-09 Biennium Appropriations (millions)	Recommended 2010-11 Biennium Appropriations (millions)	Percentage Increase
Community and Technical Colleges – Base Values – Instruction & Operation (GR only)	\$ 1,805.3	\$ 2,472.9	37.0%
Performance Funding (GR only)		100.0	100.0%
Small Institution Supplement (GR only)	1.2	6.0	400.0%
Total Community and Technical	\$ 1,806.5	\$ 2,578.9	42.8%
General Academic Institutions – Base Values – Instruction & Operation	\$ 3,364.5	\$ 3,631.3	7.9%
Performance Funding		178.0	100.0%
Infrastructure**	708.4	953.0	34.5%
Small Institution Supplement	17.2	15.5	-9.8%
Total General Academic Institutions	\$ 4,090.1	\$ 4,777.8	16.8%
Health-Related Institutions – Base Values – Instruction & Operation	\$ 928.9	\$ 951.3	2.4%
Infrastructure	243.2	293.4	20.6%
Research Enhancement	66.6	84.3	26.6%
Mission Specific	223.0	228.6	2.5%
Graduate Medical Education	50.0	66.5	33.0%
Total Health-Related Institutions	\$ 1,511.7	\$ 1,624.1	7.4%
Coordinating Board Trusteed Funds (All Sectors)			
Dramatic Growth General Academic		\$ 3.5	100.0%
Dramatic Growth Community and Technical Colleges	\$ 3.52	3.5	-0.5%
Developmental Education		30.0	100.0%
Fund Alternative Teaching Certificates		4.5	100.0%
Nursing Shortage Reduction Program	14.7	25.0	70.0%
Total CB Trusteed Funds (All Sectors)	\$ 18.22	\$ 66.5	265.0%
Total All Sectors	\$ 7,426.52	\$ 9,047.3	21.8%

**Infrastructure formula includes general academic institutions, Texas State Technical Colleges, and Lamar State Colleges.

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.

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**Texas Higher Education Coordinating Board
Funding Formula Recommendations
for
Texas Public Community and Technical Colleges
2010-11 Biennium**

April 2008

**Texas Higher Education Coordinating Board
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Table of Contents

Texas Public Community and Technical Colleges

	<u>Page</u>
Executive Summary, Public Community and Technical Colleges.....	12
Background	14
Formula Funding, Administrative and Instructional Rates	15
Other Formula-Related Recommendations	16
Recommendations, Texas Public Community and Technical Colleges.....	18
 Appendices	
A Commissioner’s Charge to the Texas Public Community and Technical Colleges Formula Advisory Committee (CTCFAC) for the 2010-11 Biennial Appropriations	19
B Texas Public Community and Technical Colleges Formula Advisory Committee Recommendations for the 2010-11 Biennial Appropriations	21
C Texas Public Community and Technical Colleges Formula Advisory Committee 2010-11 Biennium	23
D Texas Public Community and Technical Colleges Administrative and Instructional Rates for the 2008-09 and 2010-11 Biennia, Formula Advisory Committee Proposal Formula rates based on ATTEMPTED hours in the FY 2007 Report of Fundable Operating Expenses.....	25
E Texas Public Community and Technical Colleges Administrative and Instructional Rates for the 2008-09 and 2010-11 Biennia, Coordinating Board Proposal Formula rates based on COMPLETED hours in the FY 2007 Report of Fundable Operating Expenses.....	26

Executive Summary

Texas Public Community and Technical Colleges

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

The Commissioner of Higher Education appointed a Community and Technical College Formula Advisory Committee (CTCFAC) to assist in this process. Dr. Greg Williams, President of Odessa College, chaired the CTCFAC, which acted as a committee of the whole. Dr. Pamela Anglin, President of Paris Junior College, acted as vice chair. The charge to the Committee is included in Appendix A. Members of the CTCFAC are listed in Appendix C. The meetings occurred in September 2007 through April 2008.

This report presents the recommendations of the Coordinating Board. These recommendations were approved by the Coordinating Board at its April 2008 meeting and were forwarded to the following parties in June 2008: Governor, the Legislature, and the Legislative Budget Board. For comparison purposes, the CTCFAC recommendations are also included.

The Coordinating Board recommends funding 100 percent of the rates derived from the *FY2007 Report of Fundable Operating Expenses*, less estimated amounts collected for tuition over the biennium. The rates would use a phase-in approach over four years from attempted to completed contact hours at the rate of 25 percent – 50 percent – 75 percent – 100 percent. This recommendation would require an increase in general revenue appropriations of approximately \$668M (37 percent).

This recommendation is conditional based on funding. If the Legislature does not increase the amount of formula funding by at least \$400M (22 percent), the Coordinating Board recommends the community colleges continue to receive their funding allocation based on attempted contact hours.

The CTCFAC recommended the funding formula for the community and technical colleges be fully funded based on the number of attempted contact hours as has been done in the past. The Committee additionally recommended the continuation of the 10 percent bonus for critical fields.

The funding formulas used for community colleges are also used to support the instructional and administrative costs of the Texas State Technical College System and the Lamar State Colleges. The infrastructure costs for these institutions have been supported using the infrastructure formulas used by general academic institutions. A continuation of that policy is recommended.

The instruction and operations formula for the community and technical colleges differs from those used for the general academic and the health-related institutions in that they are composed entirely of general revenue. This is because tuition and fee revenue is not appropriated to the community colleges like it is for the other institutions.

All of the recommendations for both the Committee and the Coordinating Board are summarized below.

Committee Recommendations:

- Provide a base increase of \$880.3 million.
- Provide a 10 percent premium for courses in fields that are critical needs for the state. Estimated biennial cost is \$155.8 million.
- Provide a 10 percent premium for developmental education courses. Estimated biennial cost is \$30.1 million.
- Nursing growth should be funded through the formula. Estimated biennial cost is included in the formula appropriation.
- Provide trustee funds to the Coordinating Board for Alternative Teacher Certification funding based on the number of certifications. Estimated biennial cost is \$4.5 million.
- Provide trustee funds to the Coordinating Board with the purpose of providing a supplement to small schools. Estimated biennial cost is \$14.1 million.

The funding formulas allocated \$1,810 million in general revenue to community and technical colleges for the 2008-2009 biennium. If the CTCFAC recommendations are adopted and fully funded by the Legislature for the 2010-11 biennium, the estimated formula appropriation would be \$2,685.6 million, an increase of \$880 million (49 percent). Finally, recommended increases in non-formula items add \$48.6 million. The result is a total increase in formula and non-formula items to \$2,734.2 million, which is a 51 percent increase above current base year formula funding.

Coordinating Board's Recommendations:

- Provide \$2,472.9 million formula funding for instruction and operation.
- Provide \$100 million included in formula funds, in new performance funding, to promote student success based on degrees awarded.
- Provide a \$30 million, in new funding, trustee fund for the community and technical colleges to fund student success initiatives related to the delivery of college readiness programs.
- The Board acknowledges the importance of nursing programs and is separately recommending the Nursing Shortage Reduction Program be increased to approximately \$25 million, to provide funding for nursing programs based on the increase in the number of nursing graduates.
- Provide trustee funds to the Coordinating Board for the purpose of providing funding for Alternative Teacher Certification based on the number of certifications. Estimated biennial cost is \$4.5 million.
- Provide trustee funds to the Coordinating Board for the purpose of providing a small institution supplement to very small schools. The Coordinating Board will work with the small institutions to determine quantifiable results that are expected in return for continued funding. Estimated biennial cost is \$6.0 million.
- Continue to provide a trustee fund to the Coordinating Board for the purpose of funding dramatic growth at two-year schools. Estimated biennial cost is \$3.5 million.

If the Board's recommendations are adopted and fully funded by the Legislature for the 2010-11 biennium, the estimated formula appropriation would be \$2,602.9 million, an increase of \$797.6 million (44.1 percent). Finally, recommended increases in non-formula items add \$14 million. The result is a total increase in formula and non-formula items to \$2,616.9 million, which is a 44.6 percent increase above current base year formula funding. If the Legislature does not increase the amount of formula funding by at least \$400 million (22 percent), the Board recommends funding based on attempted contact hours.

Background

Texas has 50 state-supported community college districts, each governed by a locally elected board of trustees with taxing authority. Each district is authorized to offer both academic and technical programs. State law precludes the use of state funds to support the physical plant and certain other expenses at these institutions. The appropriation to community college districts is a General Revenue-only appropriation, not an All Funds appropriation.

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

The Legislature generally uses the same formula for both community and technical colleges in appropriating funds for instructional and administrative expenditures, although in the last biennium, technical colleges were funded at higher levels. The formula consists of rates for 26 program areas. The contact hours generated in each of these programs are multiplied by the corresponding rates, and the sum of these products forms the basis of the appropriation for each institution. In practice, the Legislature has not chosen to fully fund the Coordinating Board's formula recommendation in recent years, so each institution receives a percentage of the recommendation. New rates, based on the *Report of Fundable Operating Expenses*, are determined each biennium. Appendices D and E contain the 26 program area rates for both recommendations.

An advisory committee of community and technical college presidents and faculty was appointed by the Commissioner of Higher Education to provide advice and guidance on a range of formula-related topics. Appendix C contains a roster of CTCFAC members.

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

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

Formula Funding, Administrative and Instructional Rates

Charge 1. Propose a formula with appropriate levels of funding and financial incentives necessary to best achieve the four major goals included in the *Closing the Gaps*.

Committee Recommendation

The CTCFAC recommended the Legislature establish the full funding of the community and technical college formula as a priority. The Committee recommended 100 percent of the formula, less tuition and fees, based on rates established by the *FY2007 Report of Fundable Operating Expenses* (RFOE Cost Study) using attempted contact hours, be funded for FY2010 and FY2011. The rates used in this recommendation are included in Appendix D.

Coordinating Board Recommendation

The Coordinating Board recommends a conditional approach of funding 100 percent of the formula, minus collected tuition, using a phase-in approach over four years, transitioning from attempted to completed contact hours at the rate of 25 percent – 50 percent – 75 percent – 100 percent. The rates for the completed hours, established by the *FY2007 Report of Fundable Operating Expenses*, are included in Appendix E. However, if the Legislature does not increase the amount of formula funding by at least \$400M (22 percent), the Coordinating Board recommends the community colleges receive funding based on attempted contact hours only.

Funding the formula based on completed contact hours as opposed to attempted contact hours fundamentally shifts the focus of the formula and requires an appropriate adjustment period. The phase-in approach provides the institutions with the necessary timeframe and financial support needed in which to positively impact their performance and shift resources toward this new focus.

Additionally, the Coordinating Board recommends an amount of \$100 million in formula funds be set aside to provide performance funding to include success achieved in critical fields. The performance funding would be allocated based on degrees, certificates awarded, and transfers to four-year institutions. The Coordinating Board felt it appropriate to incorporate elements of an incentive funding proposal contained in *The New Community College Compact with Texas*, which was published in November 2006.

Charge 2. Consider whether the state should create new rates for developmental education classes taught in reading, writing, and math to include additional services required for student success while maintaining the integrity of the RFOE cost study.

Committee Recommendation

The CTCFAC recommended the Legislature fund the additional, differential cost for delivering instruction and support services for developmental studies by adding a 10 percent premium over the full formula funding rates for developmental contact hours. Additionally, the CTCFAC recommended the Coordinating Board adjust future cost studies to separately capture the incremental costs associated with developmental education while conducting a review of positive outcomes gained at “Achieving the Dreams” schools in order to determine best practices.

Coordinating Board Recommendation

The Coordinating Board recommends a trusteed fund to provide funds for implementation of developmental education programs that are proven to be successful in preparing students for college level course work. \$20 million will be distributed to institutions to fund non-course based developmental education activities contingent on an approved plan which includes an assessment component and a commitment that developmental education will be a campus-wide priority. \$10 million will be distributed through a Request for Proposal process for 1) pilot programs designed to be scalable for widespread implementation in the 2012-13 biennium; or 2) larger grants to develop comprehensive campus-wide developmental education programs. The total recommendation cost is \$30 million.

Charge 3. Participate in discussion and recommendations related to funding for group benefits by the state.

Committee Recommendation

The CTCFAC recommended the Legislature continue to fund group health benefits in the manner it has historically for two reasons. First, separating community and technical colleges from the other institutions of higher learning has no benefit and might exacerbate a feeling of inequity among different types of institutions. Second, the Committee does not feel it appropriate to consider funding group health benefits through the funding formula, as it might inhibit the provision of service by the Employees Retirement System and lead to reduced funding based on contact hours and not employees covered.

Coordinating Board Recommendation

The Coordinating Board concurs with the Committee's recommendation.

Other Formula-Related Recommendations**A. Critical Fields Funding****Committee Recommendation**

The CTCFAC recommended the state provide a premium of 10 percent over and above the full formula funding rate determined by the *FY2007 Report of Fundable Operating Expenses*. The "critical fields" include computer science, engineering, mathematics and statistics, physical and biological science, nursing, allied health, and life sciences.

Coordinating Board Recommendation

Critical fields should be promoted and an incentive provided for them. The Coordinating Board recommends the incentive be provided via a different funding mechanism than the 10 percent premium and therefore recommends a critical fields component be added to the performance funding concept as described on the previous page.

B. Nursing Growth Funding**Committee Recommendation**

The CTCFAC recommended the state provide funding for nursing growth through the formula, rather than through a supplement.

Coordinating Board Recommendation

The Coordinating Board acknowledges the importance of nursing programs and is separately recommending the Nursing Shortage Reduction Program, at a requested amount of approximately \$25 million, to provide funding for nursing programs based on the increase in the number of nursing graduates.

C. Small Institution Supplement**Committee Recommendation**

The CTCFAC recommended small community colleges receive a Small Institution Supplement based on the number of contact hours generated. Small institutions would be defined as those that generate less than three million contact hours during the base year period. The amount of the supplement received by each school would be a function of the contact hours generated, the total administrative costs, the total administrative funding received, and the difference between the administrative costs and funding. The CTCFAC recommended the total cost of the supplement be limited to \$7 million per year.

Coordinating Board Recommendation

The Coordinating Board recommends a small institution be defined as any community college that generates less than one million contact hours during the base year period. The total amount of funding available would be set at \$3 million per year. The amount each school receives would relate to each institution's contact hours generated relative to the total contact hours generated by all small institutions.

D. Alternative Teacher Certification Supplement**Committee Recommendation**

The CTCFAC recommended the state provide funding for Alternative Teacher Certification (ATC) Programs at community colleges. These programs are fully subscribed, often have waiting lists, are currently self supporting, and have pass rates similar to traditional programs. The estimated biennial cost would be \$4.5 million.

Coordinating Board Recommendation

The Coordinating Board agrees with the Committee's recommendation and further recommends the funds be trustee'd to the Coordinating Board for the purpose of providing funding for ATC Programs based on the number of teaching certificates awarded.

E. Dramatic Growth**Coordinating Board Recommendation**

The Coordinating Board recommends an amount of \$3.5 million be trustee'd to the Coordinating Board for funding growth greater than three percent per year.

Recommendations Texas Public Community and Technical Colleges

The following table compares the amounts associated with both the Committee's and the Board's recommendations. The amount in the change column is the difference between FY2008-09 and the Board's recommendation.

Description	Committee's Recommendation (millions)	FY2008-09 GR Appropriations (millions)	Coordinating Board's Recommendation (millions)	Change Amount (millions)
Estimated formula appropriations *	\$2,685.6	\$1,805.3	\$2,472.9	\$667.6 (37.0%)
Small Institution Supplement	\$14	\$1.2	\$6.0	\$4.8 (400%)
Performance Funding - based on			\$100	\$100 (100%)
Subtotals	\$2,699.6	\$1,806.5	\$2,578.9	\$772.4 (42.7%)
Coordinating Board Trusteed Funding				
Dramatic Growth		\$3.52	\$3.5	(\$0.02) (-0.5%)
Developmental Education Supplement	\$30.1		\$30	\$30 (100%)
Alternative Teacher Certificate Funding	\$4.5		\$4.5	\$4.5 (100%)
Totals	\$2,734.2	\$1,810.0	\$2,616.9	\$806.9 (44.6%)

* Includes critical fields supplement amounts.

Appendix A

Commissioner's Charge to the Texas Public Community and Technical College Formula Advisory Committee (CTCFAC) for the 2010-11 Biennial Appropriations Texas Higher Education Coordinating Board

Background: The CTCFAC has a single formula to address. The Committee reviews an annual cost study for public two-year institutions' academic and technical instruction costs and instructional administrative costs. Instructional costs are aggregated by discipline and divided by certified contact hours associated with each discipline. A prorated amount of the instructional administrative costs is added to each discipline cost per contact hour for a "grand total" discipline-based cost per contact hour. Over the past few years, the cost data collection process has been refined and our confidence has grown in the data.

The main issue discussed by the Committee is what portion of the *Report of Fundable Operating Expenses* (RFOE cost study), formerly the *All Funds Expenditure Report*, to fund, and its recommendation is "always" 100 percent. In the past, the Commissioner and the Coordinating Board have considered the Committee's recommendation, and have offered a percentage that is the same as what was recommended last biennium, and one that raises the percentage a slight amount. The Commissioner and the Coordinating Board recommended 100 percent less estimated tuition.

The Legislature approved the following rates per contact hour for the 2008-2009 biennium. These rates were approximately 75 percent of the rates recommended by the Coordinating Board.

	FY 2008	FY 2009
AGRICULTURE	3.66	3.66
ARCHITECTURE AND PRECISION PRODUCTION TRADES	4.45	4.45
BIOLOGY, PHYSICAL SCIENCES, & SCIENCE TECH	3.12	3.12
BUSINESS MANAGEMENT, MARKETING & ADMIN SERVICES	3.32	3.32
CAREER PILOT	11.83	11.83
COMMUNICATIONS	3.69	3.69
COMPUTER AND INFORMATION SCIENCES	3.82	3.82
CONSTRUCTION TRADES	4.14	4.14
CONSUMER AND HOMEMAKING EDUCATION	3.10	3.10
ENGINEERING	5.20	5.20
ENGINEERING RELATED	3.44	3.44
ENG LANG, LIT, PHILOSOPHY, HUMANITIES, INTERDISCIP	3.27	3.27
FOREIGN LANGUAGES	3.02	3.02
HEALTH OCCUPATIONS-DENTAL ASST, MED LAB, ADN	5.02	5.02
HEALTH OCCUPATIONS-DENTAL HYGIENE	7.51	7.51
HEALTH OCCUPATIONS-OTHER	3.73	3.73
HEALTH OCCUPATIONS-RESPIRATORY THERAPY	4.67	4.67
HEALTH OCCUPATIONS-VOCATIONAL NURSING	3.47	3.47

	FY 2008	FY 2009
MATHEMATICS	3.08	3.08
MECHANICS AND REPAIRERS-AUTOMOTIVE	3.84	3.84
MECHANICS & REPAIRERS-DIESEL, AVIATION, TRANS WRKR	4.70	4.70
MECHANICS AND REPAIRERS-ELECTRONICS	4.30	4.30
PHYSICAL EDUCATION AND FITNESS	3.75	3.75
PROTECTIVE SERVICES AND PUBLIC ADMINISTRATION	3.44	3.44
PSYCHOLOGY, SOCIAL SERVICES, AND HISTORY	2.84	2.84
VISUAL AND PERFORMING ARTS	3.81	3.81

Commissioner Charges

The charges specific to the CTCFAC include:

- 1) The CTCFAC is asked to conduct an open, public process, providing opportunities for all interested persons, institutions, or organizations that desire to provide input to do so. Specifically, the CTCFAC is asked to propose a formula with appropriate levels of funding and financial incentives necessary to best achieve the four major goals included in the *Closing the Gaps*, and to provide the Commissioner with a preliminary written report of the Committee's activities and recommendations by December 15, 2007 and a final written report February 1, 2008.
- 2) Consider whether the state should create new rates for developmental education classes taught in reading, writing, and math to include additional services required for student success while maintaining the integrity of the RFOE cost study.
- 3) Participate in discussion and recommendations related to funding for group benefits by the state.

Appendix B

Texas Public Community and Technical College Formula Advisory Committee Recommendations for the 2010–11 Biennial Appropriations

Recommendation 1: Formula Funding

The Texas Legislature should establish the full funding of the community and technical college formula as a priority. The Legislature should fund the total costs of instruction in the community and technical colleges in partnership with local funding efforts to support institutional infrastructure. The Committee recommends that 100 percent of the formula, less tuition, be funded for FY2010 and FY2011.

Recommendation 2: Critical Fields

The Legislature should fund identified “critical fields” contact hours with a premium of 10 percent over and above the full formula funding rate determined by the RFOE cost study. The “critical fields” shall include computer science, engineering, mathematics, physical science, nursing, allied health, life sciences, and teacher education and certification.

The CIP codes¹ for these critical fields are:

Computer Science	11
Teacher Education	13
Engineering	14 & 15
Life Sciences	26 & 30.01
Mathematics	27 & 32.0104
Physical Science	40
Nursing	51.16
Allied Health	51.00, 51.02, 51.06, 51.07, 51.08, 51.09, 51.10, 51.1501, 51.1502, 51.18, 15.23, 51.26, 51.2703, 51.3101, 51.99

Recommendation 3: Developmental Education

The Legislature should fund the additional, differential cost for delivering instruction and support services to accelerate and improve completion of developmental studies for students who have not achieved college readiness. The Legislature should fund developmental course contact hours with a premium of 10 percent over and above the full formula funding rate. The Texas Higher Education Coordinating Board should then modify its cost study in order to specifically identify the differential cost of delivering developmental coursework.

Additionally, a review should be conducted of outcomes from “Achieving the Dreams” schools in order to develop a methodology to attach incentive based funding for non-course based interventions in math, reading, and writing.

Recommendation 4: Group Health Benefits

The Legislature should continue to fund group health benefits in the manner it has historically

¹ These CIP Codes, although provided by the Coordinating Board, are outdated.

for two reasons. First, separating community and technical colleges from the other institutions of higher learning has no benefit and might exacerbate a feeling of inequity among different types of institutions. Second, the Committee does not feel it appropriate to consider funding group health benefits through the funding formula as it might inhibit the provision of service by the Employees Retirement System and lead to reduced funding based on contact hours and not employees covered.

Recommendation 5: Nursing Growth Supplement

The Committee applauds the current process for addressing funding challenges for nursing programs at community colleges in Texas. The Nursing Shortage Reduction Program does address a need with respect to staffing. With it based on outcomes (increases in graduates), this is a metric that has support from the colleges with nursing programs.

However, there are 34 nursing programs at community colleges in Texas, 16 of which did not receive funding in recognition of program outcomes. Yet, all of the colleges are impacted by a very high cost program.

While support for staffing is laudable, and much needed, there are other funding needs not addressed by the current Nursing Shortage Reduction Program. The previous formula advisory committee recommended funding for nursing growth be addressed through the formula. The Coordinating Board concurred with the previous recommendation, and this Committee makes the same recommendation for the 2010-2011 Legislative Session. Funding for nursing growth should be addressed through the funding formula funding rather than via a supplement.

Recommendation 6: Small School Supplement

In an effort to assist smaller communities and their institutions of higher learning overcome a lack of scale and the related economic benefits associated with a large populace, the Committee recommends the Legislature adopt a sliding scale supplement for schools who generate less than three million contact hours in a base year period.

The supplement would focus on administrative costs and would pay schools an amount equal to the difference between the sum of two million dollars plus approximately \$2.60 per contact hour and a standard administrative funding rate of approximately \$3.26 per contact hour. These rates are based on FY2005 cost study information and would be updated with FY2007 cost study data.

Further, the Committee recommends limiting the total amount available for the supplement to \$7 million per year or \$14 million for the biennium. This figure represents 25 percent of the total amount calculated using the FY2005 cost study rates as mentioned above.

A sliding scale supplement would provide smaller schools with an opportunity to receive funding to overcome their lack of size while reducing the level of assistance as they grow.

Recommendation 7: Alternate Teacher Certification

This Committee recommends the state provide funding for Alternative Teacher Certification (ATC) programs at community colleges. Further, the Committee recommends the funds be trusted to the Coordinating Board and distributed to the schools based on the number of teaching certificates awarded.

Appendix C

TEXAS PUBLIC COMMUNITY AND TECHNICAL COLLEGES FORMULA ADVISORY COMMITTEE FOR 2010-11 BIENNIUM

Name/Title		Institution/Address	Email/Phone/Fax
Dr. Gregory Williams, Chair President	(08)	Odessa College 201 West University Odessa, TX 79764	gwilliams@odessa.edu (432) 335-6410 FAX (432) 335-6860
Dr. Pamela Anglin, Vice Chair President	(12)	Paris Junior College 2400 Clarksville Street Paris, TX 75460-6298	panglin@parisjc.edu (903) 782-0330 FAX (903) 782-0370
Dr. Wright L. Lassiter, Jr. Chancellor	(10)	Dallas County Community College District 701 Elm St., Suite 400 Dallas, TX 75202-3299	wlassiter@dcccd.edu (214) 860-2125 FAX (214) 860-2009
Dr. Johnette McKown Executive Vice President	(12)	McLennan Community College 1400 College Dr. Waco, TX 76708	jmckown@mclennan.edu (254) 299-8649 FAX (254) 299-8654
Dr. Shirley A. Reed President	(10)	South Texas College PO Box 9701 McAllen, TX 78502-9701	yolando@southtexascollege.edu (956) 618-8366 FAX (956) 618-8321
Dr. Richard Rhodes President	(08)	El Paso Community College PO Box 20500 El Paso, TX 79998	richardr@epcc.edu (915) 831-6511 FAX (915) 831-6507
Mr. Tony Riley Vice President for Finance	(08)	South Plains College 1401 College Ave. Levelland, TX 79336	triley@southplainscollege.edu (806) 894-9611 FAX (806) 894-1549
Dr. William Segura Chancellor	(08)	Texas State Technical College System 3801 Campus Drive Waco, TX 76705	bsegura@tstc.edu (254) 867-4891 FAX (254) 837-3960
Dr. Michael Shahan President	(10)	Lamar State College-Orange 410 Front St. Orange, TX 77630	mike.shahan@lsco.edu (409) 883-7750 FAX (409) 882-3098
Dr. Cheryl Sparks President	(12)	Howard College 1001 Birdwell Lane Big Spring, TX 79720	csparks@howardcollege.edu (432) 264-5030 FAX (432) 264-5082
Ms. Terry Stewart Mouchayleh Director of Professional Development and Evaluation Programs	(08)	Austin Community College 5930 Middle Fiskville Road Austin, TX 78752	tstewart@austincc.edu (512) 223-7748 FAX (512) 223-7995

Name/Title	Institution/Address	Email/Phone/Fax
Dr. Steve Thomas President	(12) Vernon College 4400 College Drive Vernon, TX 76384-4092	steve@vernoncollege.edu (940) 552-6291 FAX (940) 553-3902
Dr. Millicent Valek President	(11) Brazosport College 500 College Drive Lake Jackson, TX 77566	millicent.valek@brazosport.edu (979) 230-3200 FAX (979) 230-3443

Note: *Committee members' terms end August 31 in the year indicated in parenthesis*

Appendix D

Texas Public Community and Technical Colleges Administrative and Instructional Rates for the 2008-09 and 2010-11 Biennia

All Funds Rates

Formula Advisory Committee Proposal – Formula rates based on ATTEMPTED hours in the *FY 2007 Report of Fundable Operating Expenses*

Funding = Base Period Contact Hours x Rates

		<u>Rates per Base Period</u>	
		<u>Contact Hour</u>	
<u>Funding Code</u>	<u>Funding Discipline</u>	<u>2008-09 Biennium</u>	<u>2010-11 Biennium</u>
1	Agriculture	\$ 4.86	5.17
2	Architecture and Precision Production Trades	5.92	7.22
3	Biology, Physical Sciences, and Science Technology	4.15	4.67
4	Business Management, Marketing, and Administrative Services	4.41	4.89
5	Career Pilot	15.73	21.58
6	Communications	4.90	5.12
7	Computer and Information Sciences	5.08	5.92
8	Construction Trades	5.50	5.45
9	Consumer and Homemaking Education	4.12	4.55
10	Engineering	6.91	5.28
11	Engineering Related	4.58	4.97
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	4.35	4.97
13	Foreign Languages	4.01	4.69
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.68	7.54
15	Health Occupations - Dental Hygiene	9.98	11.26
16	Health Occupations – Other	4.96	5.68
17	Health Occupations - Respiratory Therapy	6.21	8.11
18	Health Occupations - Vocational Nursing	4.62	5.78
19	Mathematics	4.10	4.80
20	Mechanics and Repairers - Automotive	5.10	5.98
21	Mechanics and Repairers - Diesel, Aviation Mech., and Transport. Workers	6.25	6.23
22	Mechanics and Repairers - Electronics	5.72	5.28
23	Physical Education and Fitness	4.98	5.63
24	Protective Services and Public Administration	4.57	5.22
25	Psychology, Social Sciences, and History	3.78	4.35
26	Visual and Performing Arts	5.06	5.92

Notes:

The rates are calculated using the following base period contact hours for semester length courses: Fall 2006, Spring 2007, and Summer 2007; and for non-semester length courses, the following quarterly periods were used: September – November 2006, December 2006 – February 2007, March – May 2007, and June – August 2007.

The formula rates include the direct cost of each program for faculty salaries and departmental operating expenses. Administrative cost includes instructional administration, organized activities, institutional support, student services, library, and staff benefits paid from local funds.

The formula rates are adjusted to reflect that tuition was removed. Tuition represents 29.8 percent of all funds.

Appendix E

Texas Public Community and Technical Colleges Administrative and Instructional Rates for the 2008-09 and 2010-11 Biennia

All Funds Rates

Coordinating Board Proposal – Formula rates based on COMPLETED hours in the FY 2007 Report of Fundable Operating Expenses

Funding = Base Period Contact Hours x Rates

		<u>Rates per Base Period</u>	
		<u>Contact Hour</u>	
<u>Funding Code</u>	<u>Funding Discipline</u>	<u>2008-09 Biennium</u>	<u>2010-11 Biennium</u>
1	Agriculture	\$ 4.86	5.94
2	Architecture and Precision Production Trades	5.92	7.88
3	Biology, Physical Sciences, and Science Technology	4.15	5.50
4	Business Management, Marketing, and Administrative Services	4.41	5.59
5	Career Pilot	15.73	23.78
6	Communications	4.90	5.97
7	Computer and Information Sciences	5.08	6.74
8	Construction Trades	5.50	6.42
9	Consumer and Homemaking Education	4.12	5.24
10	Engineering	6.91	6.29
11	Engineering Related	4.58	5.52
12	English Language, Literature, Philosophy, Humanities, and Interdisciplinary	4.35	5.77
13	Foreign Languages	4.01	5.50
14	Health Occupations - Dental Asst., Medical Lab, and Assoc. Degree Nursing	6.68	8.06
15	Health Occupations - Dental Hygiene	9.98	11.50
16	Health Occupations – Other	4.96	6.25
17	Health Occupations - Respiratory Therapy	6.21	8.66
18	Health Occupations - Vocational Nursing	4.62	6.22
19	Mathematics	4.10	5.76
20	Mechanics and Repairers - Automotive	5.10	6.55
21	Mechanics and Repairers - Diesel, Aviation Mech., and Transport. Workers	6.25	6.61
22	Mechanics and Repairers - Electronics	5.72	6.10
23	Physical Education and Fitness	4.98	6.38
24	Protective Services and Public Administration	4.57	5.83
25	Psychology, Social Sciences, and History	3.78	5.01
26	Visual and Performing Arts	5.06	6.67

Notes:

The rates are calculated using the following base period contact hours for semester length courses: Fall 2006, Spring 2007, and Summer 2007; and for non-semester length courses, the following quarterly periods were used: September – November 2006, December 2006 – February 2007, March – May 2007, and June – August 2007.

The formula rates include the direct cost of each program for faculty salaries and departmental operating expenses. Administrative cost includes instructional administration, organized activities, institutional support, student services, library, and staff benefits paid from local funds.

The formula rates are adjusted to reflect that tuition was removed. Tuition represents 31 percent of all funds.

**Texas Higher Education Coordinating Board
Funding Formula Recommendations
for
Texas Public General Academic Institutions
2010-11 Biennium**

April 2008

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

Table of Contents

Texas Public General Academic Institutions

	<u>Page</u>
Executive Summary, Texas Public General Academic Institutions	30
Background	32
Formula Committee and Coordinating Board Recommendations	33
Texas Public General Academic Institutions Summary Comparison of Committee and Coordinating Board Recommendations	38
 Appendices	
A Commissioner's Charge to the Texas Public General Academic Formula Advisory Committee (GAFAC) for the 2010-11 Biennial Appropriations	39
B Texas Public General Academic Formula Advisory Committee Recommendations for the 2010-11 Biennial Appropriations	42
C-1 Texas Public General Academic Formula Advisory Committee 2010-11 Biennium	47
C-2 Instruction & Operation Formula Study Committee 2010-11 Biennium	49
C-3 Infrastructure Formula Study Committee 2010-11 Biennium	51

Executive Summary

Texas Public General Academic Institutions

Most of the All-Funds appropriations for general academic institutions in the 2008-09 biennium are distributed through funding formulas designed to allocate funds equitably. The Texas Education Code and the General Appropriations Act give the Texas Higher Education Coordinating Board authority to review and recommend changes to these formulas. This document contains the results of that review.

The Commissioner of Higher Education appointed a General Academic Formula Advisory Committee (GAFAC) and two associated study committees to assist in this process. Dr. Jesse Rogers, President of Midwestern University, chaired the GAFAC; Ms. Rosemary Martinez, Vice President for Business Administration at The University of Texas at Brownsville, chaired the Instruction and Operations Study Committee; and Mr. Jim Brunjes, Senior Vice Chancellor of the Texas Tech University System, chaired the Infrastructure Study Committee. Members of the GAFAC and two study committees are shown in Appendix C. They met between August 2007 and April 2008.

This report presents the recommendations of the Coordinating Board. These recommendations were approved by the Coordinating Board at its April 2008 meeting and were forwarded to the following parties in June 2008: Governor, the Legislature, and the Legislative Budget Board.

The Board is recommending major changes in the structure of the instruction and operations formulas for the 2010-11 biennium. Those changes focus on outcomes instead of inputs.

The structure of the infrastructure formula remains unchanged, except that formulas have been expanded to cover expenses from designated funds as well as general funds.

There are three major components to the recommended instruction and operations formula.

The three components combined total \$3,809.3 million, an increase of \$445 million, which includes \$33.2 million in formula hold harmless for the 2008-09 biennium. This figure was determined by increasing total current biennium appropriations to adjust for estimated enrollment growth of 6.79 percent and cost increases of 7.08 percent.

The first component is the newly established performance segment of \$178 million. Three-year averages of all degrees awarded, by institution, are calculated. Those averages are summed, and the overall total is divided into the \$178 million total to determine the funding rate per degree. This rate is multiplied by the three-year average number of degrees for each institution to determine the institution's appropriation from the total performance appropriation.

The remaining \$3,631.3 million is allocated by combining the results of two funding methodologies (components) using a phase-in approach over four years from attempted to completed weighted semester credit hours at the rate of 25 percent – 50 percent – 75 percent – 100 percent.

The first methodology is the completion of the phase-in of the cost-based methodology first used in FY2006-07. This methodology will use 100 percent of the matrix weights established by the three-year average produced by the cost study. During the current biennium (FY2008-09) the matrix weights used are 75 percent of the difference between the weights output from the cost study and the original weights in effect for the 2004-05 biennium. The historical standard of

attempted semester credit hours (registered as of official class date) is used both in the appropriation calculations and in establishing the relative funding weight matrix in the cost study. An additional teaching supplement premium of 10 percent is awarded for semester credit hours (SCH) in undergraduate courses which are taught by tenured/tenure-track faculty.

The second methodology uses completed SCH, both in the appropriation calculations and in establishing the weighting matrix for funding categories (i.e. Science, etc.). In essence, values for completed SCH are substituted for the attempted SCH used in methodology one. The teaching supplement premium is eliminated.

Because a full change to completed SCH would result in a very substantial redistribution of formula appropriations, a phase-in of the change to completed SCH over four years (two biennia) was adopted.

Formula appropriations are first calculated under each methodology. A percentage of the resulting appropriation (by institution) is then taken from each of the two methods and combined to produce the formula appropriation for each institution. The total of these appropriations is calculated to be the total of the non-performance segment of the instruction and operations appropriation, or \$3.63 billion for the biennium.

The percentage used from methodology two, or completed SCH method, is as follows:

FY2010 - 25%
FY2011 - 50%
FY2012 - 75%
FY2013 -100%

The infrastructure amounts have been adjusted upward for inflation based on actual FY2007 expenses reported on a survey of general academic institutions. Total formula recommended by the Board for infrastructure is \$968.5 million. The overall total recommended formula items is \$4,777.8 million, an increase of \$687.6 million, or 16.8 percent. This is exclusive of a request for dramatic growth for \$3.5 million.

Recognizing that a less than complete implementation of these recommendations could cause unintended harm to some institutions by reducing appropriations from the current biennium level, the Board recommends that if the Legislature decides to increase formula funding by less than \$200 million over the current biennium, the formula should use the attempted SCH method to allocate the entire amount appropriated.

Coordinating Board Trusteed Funds

The Board also recommends that \$3.5 million be trusteed to the Board for the FY2010-11 biennium to be distributed to institutions to ameliorate the effects of growth not covered by the instruction and operations formula.

The funding formulas allocated \$4,090,127,827 of the appropriation for general academic institutions for the 2008-09 biennium. If the formula recommendations contained in this report are adopted and fully funded by the Legislature for the 2010-11 biennium, the estimated formula appropriation would be \$4,477,760,181, an increase of \$687,632,354, or 16.8 percent.

In addition, \$3.5 million is sought as funds trusteed to the Coordinating Board, to be distributed to the institutions to accommodate dramatic growth.

Background

Over 62 percent of the funds appropriated directly to Texas public universities each biennium is allocated by means of funding formulas. These formulas are intended to provide for an equitable allocation of funds among institutions and to establish the level of funding required to adequately support higher education.

The funding formulas are included in the “Special Provisions Related to Institutions of Higher Education” section of the General Appropriations Act. Another provision of the Act directs the Coordinating Board to review the funding formulas, using an advisory committee constituted for that purpose, and to make recommendations to the 81st Texas Legislature.

In response to that mandate, the Commissioner of Higher Education appointed an advisory committee and two study committees to assist in conducting this review. The General Academic Formula Advisory Committee (GAFAC) is made up of university administrators and faculty members. Reporting to GAFAC are two study committees, each assigned to a major portion of the formula. Rosters for the three committees are provided in Appendix C.

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

Formula Committee and Coordinating Board Recommendations

Charge 1. Make recommendations on the appropriate amounts for formula funding.

Committee Recommendation

The GAFAC recommends completion of the phase-in of the cost-based matrix methodology adopted initially for the 2006-07 biennium, moving to 100 percent of the cost-based matrix based on attempted semester credit hours (SCH), with a total funding increase of \$478 million, or 14.4 percent. It recommends there be no changes in the adopted methodology.

Subsequent to the completion of the GAFAC's work, the Commissioner re-convened the GAFAC to ask it to address newly available information. As a result, the GAFAC revised its recommendation regarding the instruction and operations formula structure and appropriate amount. There were two major changes.

1. The GAFAC recommended that the base funding amount, an increase of \$478 million, be calculated using a mix of 95 percent based on attempted SCH and 5 percent based on completed SCH.
2. The GAFAC recommended that an additional \$100 million be requested to be distributed based on success measures. It would be calculated based on the number of degrees, both undergraduate and graduate, weighted for at-risk and critical fields.

The GAFAC believes that the appropriate amount of formula funding to be \$4,880.3 million. This is composed of \$3,809.3 million instruction and operation, \$100 million performance funding, and \$971 million infrastructure funding.

Coordinating Board Recommendation

There are three major components to the recommended instruction and operations formula.

The three components combined total \$3,809.3 million, an increase of \$445 million, which includes \$33.2 million in formula hold harmless for the 2008-09 biennium. This figure was determined by increasing total current biennium appropriations to adjust for estimated enrollment growth of 6.79 percent and cost increases of 7.08 percent.

The first component is the newly established performance segment of \$178 million. Three-year averages of all degrees awarded, by institution, are calculated. Those averages are summed, and the overall total is divided into the \$178 million total to determine the funding rate per degree. This rate is multiplied by the three-year average number of degrees for each institution to determine the institution's appropriation from the total performance appropriation.

The remaining \$3,631.3 million is allocated by combining the results of two funding methodologies (components) using a phase-in approach over four years from attempted to completed weighted semester credit hours at the rate of 25 percent – 50 percent – 75 percent – 100 percent.

The first methodology is the completion of the phase-in of the cost-based methodology first used in FY2006-07. This methodology will use 100 percent of the matrix weights established by the three-year average produced by the cost study. During the current biennium (FY2008-09),

the matrix weights used are 75 percent of the difference between the weights output from the cost study and the original weights in effect for 2004-05 biennium. The historical standard of attempted semester credit hours (registered as of official class date) is used both in the appropriation calculations and in establishing the relative funding weight matrix in the cost study. An additional teaching supplement premium of 10 percent is awarded for semester credit hours (SCH) in undergraduate courses which are taught by tenured/tenure-track faculty.

The second methodology uses completed SCH, both in the appropriation calculations and in establishing the weighting matrix for funding categories (i.e. Science, etc.). In essence, values for completed SCH are substituted for the attempted SCH used in methodology one. The teaching supplement premium is eliminated.

Because a full change to completed SCH would result in a very substantial redistribution of formula appropriations, a phase-in of the change to completed SCH over four years (two biennia) was adopted.

Formula appropriations are first calculated under each methodology. A percentage of the resulting appropriation (by institution) is then taken from each of the two methods and combined to produce the formula appropriation for each institution. The total of these appropriations is calculated to be the total of the non-performance segment of the instruction and operations appropriation, or \$3.63 billion for the biennium.

The percentage used from methodology two, or completed SCH method, is as follows:

FY2010 - 25%
FY2011 - 50%
FY2012 - 75%
FY2013 -100%

Recognizing that a less than complete implementation of these recommendations could cause unintended harm to some institutions by reducing appropriations from the current biennium level, the Board recommends that if the Legislature decides to increase formula funding by less than \$200 million over the current biennium, the formula should use the attempted SCH method to allocate the entire amount appropriated.

Charge 2. Explore the advantages and disadvantages of establishing a mission-specific differential for distributing formula funds to universities. Explore options for funding mechanisms to distribute formula funds that would implement these two types of differentials. Make recommendations as appropriate. (*University Formula Advisory Committee*)

Committee Recommendation

The GAFAC believes that no changes in the cost-based methodology first adopted in 2006-07 are necessary or desired. The GAFAC determined that the differential weights for programs and levels account for different missions.

Coordinating Board Recommendation

The Board concurs.

Charge 3. Continue to refine the cost-based matrix for the Instruction and Operations Formula (I&O), with special emphasis on the following:

- c. Evaluate nationally available data and make recommendations for the appropriate methodology on which to base adjustments to the matrix values for programs delivered at fewer than three institutions in the state. (*Instruction and Operations Study Committee*)

Committee Recommendation

The GAFAC recommends that the Coordinating Board conduct a cost study of the direct expenses of Pharmacy programs at general academic and health science centers and, if consistent with the results of the above study, the GAFAC recommends that the Coordinating Board request a pool of funding "over and above formula appropriated funds" from the Legislature to be used to increase support for Pharmacy programs at general academic institutions to equal that at health science centers. However, pending completion of such a cost study, the GAFAC can come to no conclusion at this time.

Coordinating Board Recommendation

The Board notes that the issue is being looked at by the Legislative Budget Board conducting such a cost study, as yet incomplete, and will consider the results of that study carefully before making a decision on whether to seek an additional pool of funds.

Charge 4. Continue to refine the balance of the utilities and the maintenance and operations (M&O) components of the Infrastructure Formula. The portion of the rate attributed to utilities was set at 55.26 percent of the total rate by the last formula committee. Make recommendations as appropriate. (*Infrastructure Study Committee*)

Committee Recommendation

The GAFAC recommends that the portion of the infrastructure rate attributable to utilities should reflect expenses reported for FY2007 on the committee survey, at 57.4 percent. The weighting mechanism for utility rates should be retained.

Coordinating Board Recommendation

The Board concurs.

Charge 5. Continue to refine the expenses that are appropriately addressed by the Infrastructure Formula. In its data collection vehicle on utility costs (LAR Schedule 9), the LBB instructions limit addressable utility expenses to those expended from the General Funds group (which the LBB defines as "E&G" funds), of which the majority are state appropriations. To recognize that state appropriations have not been sufficient for some time to fund rapidly rising energy costs (and must be supplemented from other funds), the last formula committee defined the expenses to be covered by the formula as those reported in internal annual financial reports as "E&G" funds. This is a modified NACUBO definition that includes expenses from Designated and Restricted Funds (although not Auxiliary Funds) in addition to those reported from the General Funds group. Make recommendations as appropriate.

Committee Recommendation

The GAFAC recommends that expenses to be addressed by the Infrastructure Formula should be those recorded in Educational & General, and Designated Funds.

Coordinating Board Recommendation

The Board concurs and would request that the Legislative Budget Board incorporate clear and specific language to this effect in its data collection mechanism in the Legislative Appropriations Request for Higher Education, Schedule 9. The Coordinating Board staff will provide the formula information to the Legislative Budget Board displayed in the National Association of College and University Business Officers (NACUBO) format.

Charge 6. Consider whether funding for the current Teaching Supplement might be more effectively employed by removing it from the Instruction and Operations Formula and adding it to the existing amount dedicated to incentive funding. Make recommendations as appropriate.

Committee Recommendation

The GAFAC Committee recommends that the Teaching Supplement be retained as a part of the Instruction and Operations Formula.

Coordinating Board Recommendation

The Board recommends that funding for the current Teaching Supplement portion of the Instruction and Operations Formula be discontinued.

Charge 7. Recommend a new graduated award methodology for the current Small Institution Supplement based on a combination of fixed and variable costs that is adequate to support the minimum practical instruction and physical plant operations of general academic teaching institutions (as a whole) with small enrollments.....the minimum it takes to "open the doors". The proposed methodology should be based on the most recent available costs as opposed to applying inflation factors to older historical values. Make recommendations as appropriate.

Committee Recommendation

The GAFAC recommends adoption of a graduated methodology to provide a "soft landing" for institutions who currently or previously qualified for the Small Institution Supplement through enrollment of less than 5,000 Fall headcount. A graduated amount, starting at \$750,000 annually for institutions with a three-year average of less than 5,000 Fall headcount, would decrease by 20 percent with each increase of more than 500 in the headcount until the amount reached zero at a headcount of 7,500. Under this methodology, 13 institutions would qualify at a total annual amount of \$7,950,000, or \$15,900,000 for the biennium.

Coordinating Board Recommendation

The Board recommends the University Small Institution Supplement payment change from the current rate of \$750,000 annually (until an institution reaches a Fall headcount of 5,000) to one in which the \$750,000 annual amount is reduced and phased out gradually, starting at a fall headcount of 4,000 until it is completely eliminated once a headcount of 6,000 is reached.

Charge 8. Existing formulas normally addressed by this committee are designed exclusively to reimburse expended costs. New funds appropriated for FY2009 outside the pre-existing formulas are intended to provide additional incentive funding for selected variables. Consider the optimal relationship between the two "pots" of funding.

Committee Recommendation

The GAFAC believes that the two methods of funding are separate and distinct, with no relationship between the two.

Coordinating Board Recommendation

The Board concurs that incentive funding should be separate and above the base level of funding. The Board's recommendation for formula funding includes new base level formulas that are calculated on total outcomes of performance, while incentives are more targeted.

Charge 9. Consider the desirability of establishing some minimum level of funding, such as a continuity base that could equalize the effect of funding changes among the universities.

Committee Recommendation

The GAFAC recommends that the Coordinating Board, upon publication of the "base bill" at the beginning of each Legislative Session, furnish to the Legislature through the Legislative Budget Board a list of institutions that, at that point in time in the process, have received less formula funding than appropriated in the previous biennium.

Coordinating Board Recommendation

The Board concurs.

**Texas Public General Academic Institutions
Summary Comparison of Committee and Coordinating Board Recommendations**

Summary by Formula	GA Formula Advisory Committee Recommendation (millions)	2008-09 Biennium Appropriation (millions)	2010-11 Biennium Coordinating Board Recommendation (millions)	Change Amount (Percent)
Instruction & Operations	\$ 3,809.3	\$ 3,364.5	\$ 3,631.3	\$ 266.8 (7.9%)
Performance Funding	100.0		178.0	178.0 (100%)
Infrastructure*	953.1	708.4	953.0	244.6 (34.5%)
Small Institution Supplement	21.1	17.2	15.5	-1.7 (-9.8%)
TOTALS	\$ 4,883.5	\$ 4,090.1	\$ 4,777.8	\$ 687.7 (16.8%)
CB Trusteed Funding Dramatic Growth**			\$ 3.5	\$ 3.5 (100%)

*Infrastructure formula includes general academic institutions, Texas State Technical Colleges, and Lamar State Colleges

**The funds for dramatic growth would be trusteed to the Texas Higher Education Coordinating Board and allocated based on approved criteria.

Appendix A

Commissioner's Charge to the Texas Public General Academic Formula Advisory Committee (GAFAC) for the 2010-11 Biennial Appropriations Texas Higher Education Coordinating Board

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

While formulas for the universities have been in place since the mid-1960s, the current formulas have only been in place since the 1998-1999 biennium. Beginning with the 2006-2007 biennium, the I&O Formula matrix of relative weights is calculated from a university cost-study covering three years of cost data. The formula is based on semester credit hours earned applied to a cost matrix of discipline area and level of instruction. The Legislature approved a rate per weighted semester credit hour of \$59.02 for the 2008-2009 Biennium. Weighting is determined by the following matrix:

	Lower Division	Upper Division	Masters	Doctoral	Professional
Liberal Arts	1.00	1.77	4.01	9.94	
Developmental Ed	1.00				
Science	1.67	2.93	7.29	20.05	
Fine Arts	1.50	2.51	5.65	9.78	
Teacher Ed	1.33	1.79	2.68	7.70	
Agriculture	2.02	2.66	7.13	11.97	
Engineering	2.46	3.51	7.39	17.05	
Home Economics	1.17	1.83	3.21	7.10	
Law					3.55
Social Services	1.89	2.09	3.76	12.21	
Library Science	1.14	1.21	3.03	7.68	
Vocational Training	1.90	2.37			
Physical Training	1.29	1.49			
Health Services	1.70	2.44	4.15	9.92	
Pharmacy	1.76	3.85	14.90	25.27	5.13
Business Admin	1.18	1.68	3.70	19.08	
Optometry			5.46	19.12	7.00
Teacher Ed Practice	1.31	1.99			
Technology	1.85	2.42	5.08		
Nursing	2.73	3.24	5.36	11.79	
Veterinary Medicine					14.24

The cost data that are used as the basis for the weights will be updated in November 2008 and March 2009 for transmittal to the Legislature, pending the Coordinating Board's formula recommendations in April 2008. The I&O Formula, including the Teaching Experience Supplement described below, represents about 84 percent of formula funds to the universities (and the College of Veterinary Medicine and Biomedical Sciences at Texas A&M University).

The Infrastructure Formula provides physical plant and utilities support and is based on both the Coordinating Board's Space Projection Model for each institution and its cost of utilities, adjusted for differences in unit costs for purchased utilities, natural gas, water and wastewater, and thermal energy. The average rate per square foot is \$6.19. The Infrastructure Formula, including the Small Institution Supplement described below, represents about 16 percent of the formula funds to the universities (and the College of Veterinary Medicine and Biomedical Sciences at Texas A&M University).

The Teaching Experience Supplement is intended to provide an incentive to encourage more tenured and tenure-track faculty to teach undergraduates. Although the rider's stated intent anticipates an increase in the weight of 10 percent for each following biennium, up to a maximum of 50 percent of matrix weights, the Supplement is currently calculated at 10 percent of the discipline area weight multiplied by the number of undergraduate semester credit hours taught by tenured and tenure-track faculty. Originally established at 5 percent for FY1998, the Supplement was increased to its current level of 10 percent beginning in FY2002.

The Small Institution Supplement (SIS) recognizes the fixed infrastructure costs of institutions with smaller student bodies and provides additional resources to address physical plant requirements for all the institutions, as well as minimum instruction and operation needs for universities. Eight of 35 universities currently receive an additional \$750,000 per year, and all seven technical and state colleges will receive an additional \$375,000 per year. The SIS for the technical and state colleges was increased from 10 percent to 50 percent of the university amount beginning in FY2006.

Commissioner's Charges

Similar to the other formula advisory committees, the GAFAC is asked to conduct an open, public process, providing opportunities for all interested persons, institutions, or organizations that desire to provide input to do so. Specifically, the GAFAC is asked to 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*, and to provide the Commissioner with a preliminary written report of the Committee's activities and recommendations by December 15, 2007, and a final written report February 1, 2008. The GAFAC is also specifically charged to:

1. Make recommendations on the appropriate amounts for formula funding.
2. Explore the advantages and disadvantages of establishing a mission-specific differential for distributing formula funds to universities. Explore options for funding mechanisms to distribute formula funds that would implement these two types of differentials. Make recommendations as appropriate. (*General Academic Formula Advisory Committee*)
3. Continue to refine the cost-based matrix for the Instruction and Operations Formula (I&O), with special emphasis on the following:
 - a. Examine available information to determine the cause and recommend a solution for variances that have been reported by some institutions between the actual

- Departmental Operating Expense amounts recorded in the Annual Financial Report and the amount calculated by the current Cost Study methodology.
- b. Develop a recommendation to provide more detailed guidance on items to be excluded from the Student Services costs.
 - c. Evaluate nationally available data and make recommendations for the appropriate methodology on which to base adjustments to the matrix values for programs delivered at fewer than three institutions in the state. (*Instruction and Operations Study Committee*)
 - d. Evaluate and make recommendations on program and degree level designations in the matrix based on the latest developments in the state and nation.
4. Continue to refine the balance of the utilities and the maintenance and operations (M&O) components of the Infrastructure Formula. The portion of the rate attributed to utilities was set at 55.26 percent of the total rate by the last formula committee. Make recommendations as appropriate. (*Infrastructure Study Committee*)
 5. Continue to refine the expenses that are appropriately addressed by the Infrastructure Formula. In its data collection vehicle on utility costs (LAR Schedule 9), the LBB instructions limit addressable utility expenses to those expended from the General Funds group (which the LBB defines as "E&G" funds), of which the majority are state appropriations. To recognize that state appropriations have not been sufficient for some time to fund rapidly rising energy costs (and must be supplemented from other funds), the last formula committee defined the expenses to be covered by the formula as those reported in internal annual financial reports as "E&G" funds. This is a modified NACUBO definition that includes expenses from Designated and Restricted Funds (although not Auxiliary Funds) in addition to those reported from the General Funds group. Make recommendations as appropriate. (*Infrastructure Study Committee*)
 6. Consider whether funding for the current Teaching Supplement might be more effectively employed by removing it from the Instruction and Operations Formula and adding it to the existing amount dedicated to incentive funding. Make recommendations as appropriate. (*Instruction and Operations Study Committee*)
 7. Recommend a new graduated award methodology for the current Small Institution Supplement based on a combination of fixed and variable costs that is adequate to support the minimum practical instruction and physical plant operations of general academic teaching institutions (as a whole) with small enrollments.....the minimum it takes to "open the doors". The proposed methodology should be based on the most recent available costs as opposed to applying inflation factors to older historical values. Make recommendations as appropriate. (*General Academic Formula Advisory Committee*)
 8. Existing formulas normally addressed by this committee are designed exclusively to reimburse expended costs. New funds appropriated for FY2009 outside the pre-existing formulas are intended to provide additional incentive funding for selected variables. Consider the optimal relationship between the two "pots" of funding.
 9. Consider the desirability of establishing some minimum level of funding, such as a continuity base, that could equalize the effect of funding among the universities.

Appendix B

Texas Public General Academic Formula Advisory Committee Recommendations For the 2010-2011 Biennial Appropriations

1. Make recommendations on the appropriate amounts for formula funding.
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In regard to the appropriate amount of formula funding for the 2010-11 biennium, the Committee voted to recommend that **Instruction and Operations Formula Funding,** as a minimum base level of funding, be increased for the next biennium to account for cost increases from inflation and expected enrollment increases. Preliminary numbers available indicated an increase to \$3,809 million for the 2010-11 biennium, an increase of \$478 million (14.4 percent) in All Funds appropriations from the current level of \$3,331 million for the 2008-09 biennium. (The Committee calculation does not reflect the inclusion of \$33.2 million formula hold harmless in the FY2008-09 amount.) This is based on a projected enrollment increase for the biennium of 6.56 percent and a 7.08 percent cost of operations increase.

Subsequent to the completion of the GAFAC's work, the Commissioner re-convened the GAFAC to ask it to address newly available information. As a result, the GAFAC revised its recommendation regarding the Instruction and Operations Formula structure and appropriate amount. There were two major changes.

1. The GAFAC recommended that the base funding amount, an increase of \$478 million, be calculated using a mix of 95 percent based on attempted SCH and 5 percent based on completed SCH.
2. The GAFAC recommended that an additional \$100 million be requested to be distributed based on success measures. It would be calculated based on the number of degrees, both undergraduate and graduate, weighted for at-risk and critical fields.

Several supporting calculations illustrating the decline in state appropriations are also noted by the Committee. The first is an illustration of the biennial percentage growth in Instruction and Operations (I&O) appropriations over the last 12 years, which shows an average annual increase of 3.5 percent. During the 10-year period between FY1998 and FY2007, the State General Revenue (GR) portion of total universities' revenue declined from 47.1 percent to 36.6 percent. The second shows the decline in real dollars of GR appropriations per Full Time Student Equivalent (FTSE) over the same period from \$3,514 per FTSE to \$2,892 per FTSE, a decline of \$662 per FTSE, or 17.7 percent.

The Committee recommends the \$3,809 level of appropriations as the minimum recommended level of I&O funding for the 2010-11 biennium. The Committee recommends that no dollars be allocated to incentive or success funding until the above minimum level of base funding has been provided.

Infrastructure Formula The statewide average rate for utilities for FY2010 should be \$8.36 per predicted square foot, with the portion representing utilities to be increased by 5 percent for the second year of the biennium for a total of \$8.60 per predicted square foot. **Based on the latest**

Fall 2006 space model, the total recommended appropriation for infrastructure for the 2010-11 biennium is \$858 million plus \$15.9 million for the modified Small Institution Supplement. Also included is \$97.1 million for Texas A&M University (TAMU) Service Agencies, College of Veterinary Medicine and Biomedical Sciences, Lamar State Colleges, and Texas State Technical Colleges (TSTC) institutions. Total infrastructure recommendation is \$971.0 million, an increase \$248.5 million, or 34.4 percent.

Total Recommended Formula Appropriations for the 2010-2011 Biennium equals \$4,880.3 million, an increase of \$823.4 million, or 20.3 percent.

The Committee wishes to acknowledge the generally recognized point that significant tuition rate increases as a source of formula funding increases are not a viable source for the immediate future because the associated decrease in access for students is not acceptable.

2. Explore the advantages and disadvantages of establishing a mission-specific differential for distributing formula funds to universities. Explore options for funding mechanisms to distribute formula funds that would implement these two types of differentials. Make recommendations as appropriate. (*University Formula Advisory Committee*)

Regarding the advantages and disadvantages of establishing a mission-specific differential for distributing formula funds to universities, the Committee recommends that the cost-based matrix methodology be retained in its current form, with no changes. The Committee believes that this methodology does already reasonably identify and account for the missions of the individual universities. Despite extensive exploration of ways to incorporate a differential, the Committee was unable to identify a viable methodology.

3. Continue to refine the cost-based matrix for the Instruction and Operations Formula (I&O), with special emphasis on the following:

a. Examine available information to determine the cause and recommend a solution for variances have been reported by some institutions between the actual Departmental Operating Expense amounts recorded in the Annual Financial Report and the amount calculated by the current Cost Study methodology.

b. Develop a recommendation to provide more detailed guidance on items to be excluded from the Student Services costs.

c. Evaluate nationally available data and make recommendations for the appropriate methodology on which to base adjustments to the matrix values for programs delivered at fewer than three institutions in the state. (*Instruction and Operations Study Committee*)

d. Evaluate and make recommendations on program and degree level designations in the matrix based on the latest developments in the state and nation.

A subcommittee appointed by the I&O subcommittee reviewed items a, b, and d, and believes

the current methodology to be sound. The Formula Advisory Committee agrees and recommends no change.

Regarding item 3c, data are still being gathered on this issue and the Committee can come to no conclusions at this time. The Committee recommends that Coordinating Board staff continue to address this issue and present results to the Commissioner for his consideration.

4. Continue to refine the balance of the utilities and the maintenance and operations (M&O) components of the Infrastructure Formula. The portion of the rate attributed to utilities was set at 55.26 percent of the total rate by the last formula committee. Make recommendations as appropriate. (Infrastructure Study Committee)

The Committee recommends that portion of the rate attributed to utilities should reflect reported expenses for FY2007, at 57.4 percent. The weighting mechanism for reported utility rates should be retained.

5. Continue to refine the expenses that are appropriately addressed by the Infrastructure Formula. In its data collection vehicle on utility costs (LAR Schedule 9), the LBB instructions limit addressable utility expenses to those expended from the General Funds group (which the LBB defines as "E&G" funds), of which the majority are state appropriations. To recognize that state appropriations have not been sufficient for some time to fund rapidly rising energy costs (and must be supplemented from other funds), the last formula committee defined the expenses to be covered by the formula as those reported in internal annual financial reports as "E&G" funds. This is a modified NACUBO definition that includes expenses from Designated and Restricted Funds (although not Auxiliary Funds) in addition to those reported from the General Funds group. Make recommendations as appropriate.

The Committee recommended that expenses to be addressed should be those recorded in Educational & General, and Designated Funds.

6. Consider whether funding for the current Teaching Supplement might be more effectively employed by removing it from the Instruction and Operations formula and adding it to the existing amount dedicated to incentive funding. Make recommendations as appropriate.

The Instruction and Operations subcommittee identified three possible recommendations:

- 1) Keep the Teaching Supplement as is;
- 2) Move the Teaching Supplement money to Incentive Funding or Success Funding; and
- 3) Roll the Teaching Supplement money into the main I&O Formula.

After much discussion, the subcommittee recommended that the Teaching Supplement remain unchanged.

After discussion by the Formula Advisory Committee, the members voted to recommend that the Teaching Supplement remain unchanged.

7. Recommend a new graduated award methodology for the current Small Institution Supplement based on a combination of fixed and variable costs that is adequate to support the minimum practical instruction and physical plant operations of general academic teaching institutions (as a whole) with small enrollments.....the minimum it takes to "open the doors". The proposed methodology should be based on the most recent available costs as opposed to applying inflation factors to older historical values. Make recommendations as appropriate.

The Committee recommended a graduated methodology to provide a "soft landing" for institutions that currently or previously qualified for the small institution supplement through enrollment of less than 5,000 Fall headcount. A graduated amount, starting at \$750,000 annually for institutions with a three-year average of less than 5,000 Fall headcount, would decrease by 20 percent with each increase of more than 500 in the headcount until the amount reached zero at a headcount of 7,500. Under this methodology, 13 institutions would qualify at a total annual amount of \$7,950,000, or \$15,900,000 for the biennium.

The Committee recommends that funds be appropriated for incentive or success funding only after the minimum base funding identified in Charge #1 has been appropriated.

8. Existing formulas normally addressed by this Committee are designed exclusively to reimburse expended costs. New funds appropriated for FY2009 outside the pre-existing formulas are intended to provide additional incentive funding for selected variables. Consider the optimal relationship between the two "pots" of funding.

The Committee believes that the two "pots" of funding are separate and distinct, with no relationship between the two.

9. Consider the desirability of establishing some minimum level of funding, such as a continuity base, that could equalize the effect of funding changes among the universities.

The Committee recommends that the Coordinating Board, upon publication of the "base bill" at the beginning of each Legislative Session, furnish to the Legislature through the Legislative Budget Board a list of institutions that, at that point in time in the process, have received less formula funding than appropriated in the previous biennium.

Additionally, the Committee recommends that the Coordinating Board conduct a cost study of the direct expenses for Pharmacy programs at general academic and health science centers that excludes amounts attributable solely as a result of current funding formula methodology.

If consistent with the results of the above cost study, the Committee further recommends that the Coordinating Board request from the Legislature a pool of funds such that the support for Pharmacy programs within universities can be brought to the same funding level per student as Pharmacy programs whose administrative homes are in health science centers. Such funds are requested over and above the Legislatively appropriated funds in support of the recommended formula stated in the body of this request.

Also, during its deliberations, it came to the Committee's attention that a change in the instruction formula funding basis from attempted semester credit hours (SCH) to completed SCH may be under consideration. The Committee has noted that preliminary study shows a radical redistribution of formula funding would result. The Committee would like to note for the Commissioner's consideration that such a change:

- (1) should be based on a considerable body of study through the Committee process, including an analysis of the effect on "at risk" students;
- (2) introduces instability into formula funding which acts counter to the Committee's efforts to increase stability and predictability; and
- (3) mitigates against the access goals of the state and all of the Committee's recommendations.

During the Committee's discussion, a number of points not directly related to the charges were raised for inclusion in the record.

The coming need to address the inevitable dilution of formula funding for universities with enrollment caps, such as The University of Texas at Austin and Texas A&M University, most probably as a separate issue, was noted.

The need for re-establishment of a trustee fund for universities with rapid and dramatic growth not addressed by current methodology was recognized.

Appendix C-1

TEXAS PUBLIC GENERAL ACADEMIC FORMULA ADVISORY COMMITTEE FOR 2010-11 BIENNIUM

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Note: *Committee members' terms end August 31 in the year indicated in parenthesis*

Appendix C-2

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Note: *Committee members' terms end August 31 in the year indicated in parenthesis*

Appendix C-3

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Note: *Committee members' terms end August 31 in the year indicated in parenthesis*

**Texas Higher Education Coordinating Board
Funding Formula Recommendations
for
Texas Public Health-Related Institutions
2010-11 Biennium**

April 2008

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

Table of Contents

	<u>Page</u>
Executive Summary, Texas Public Health-Related Institutions	56
Formula Advisory Committee Background Information	57
Formula Committee and Coordinating Board Recommendations	58
Coordinating Board's Additional Points	61
Other Coordinating Board's Recommendation, CB Trusteed Funding – All Institutional Sectors	62
Coordinating Board's Formula Dollar Recommendations, Health-Related Institutions & Nursing Shortage Reduction Program, 2010-11 Biennium.....	62
 Appendices	
A Texas Higher Education Coordinating Board Commissioner's Charge to the Texas Public Health-Related Institutions Formula Advisory Committee for the 2010-2011 Biennium.....	63
B Texas Public Health-Related Institutions Formula Advisory Committee Recommendations for 2010-11	67
C Health-Related Institutions Formula Funding, General Appropriations Act, 80th Legislature, Page III-224, 2008-09 Biennium	70
D Texas Public Health-Related Institutions Formula Advisory Committee for the 2010-11 Biennium	73

Executive Summary

Texas Public Health-Related Institutions

Health-Related Institutions received twenty percent of their appropriations through funding formulas in the 2008-09 biennium. The Texas Education Code and the General Appropriations Act give the Texas Higher Education Coordinating Board authority to review and recommend changes to these formulas. This document contains the Coordinating Board's recommendations based on the results of that review.

For reference purposes, Article III, Section 29 of the 2008-09 Appropriations Act that covers "Special Provisions Relating Only to State Agencies of Higher Education" has been provided in Appendix C. Section 29 provides formula funding rates and other funding requirements for Health-Related Institutions (HRI).

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

HRI Formula Funding

After a careful analysis, evaluation, and consideration of the Texas Public Health-Related Formula Advisory Committee's recommendations, the Coordinating Board recommends the following:

- Return formula funding rates to the level of 2000-01 in two biennia, with further increases in future biennia to restore purchasing power lost to inflation. The recommended rates for 2010-11 are as follows:
 - o Instruction & Operations Funding Rate - \$11,112
 - o Infrastructure Funding Rates:
 - The University of Texas M. D. Anderson Cancer Center- \$8.94
 - The University of Texas Health Center at Tyler - \$8.94
 - All Other HRIs - \$9.58
 - o Research Enhancement Rate – 2.19%
 - o Mission Specific – 2.5% Increase over 2008-09
- Return the administration of the Health-Related formulas from the current use as an allocation mechanism to its originally intended purpose, namely to drive the determination of formula funding for institutions. The Coordinating Board also recommends that if sufficient funding is not available to fund the requested rates, funding be stated as a percentage of the requested rate, in lieu of just adjusting the rate to match funding.
- Graduate Medical Education – Increase funding per resident per year to \$7,500 for 2010-11.

Nursing Shortage Reduction Program (Coordinating Board Trusteed Funding)

- The Coordinating Board recommends an increase in funding for the program from the \$14.7 million dollars in 2008-09 to \$25 million for 2010-11.

Formula Advisory Committee Background Information

Until the 2000-01 biennium, Health-Related Institutions had been funded through a continuation and special item process. However, the 76th Legislature adopted a new set of funding formulas to determine funding for Instruction and Operations, Infrastructure, Research, and Mission Specific Support. These formulas are intended to provide for an equitable determination of funds among institutions and to establish the level of funding required to support higher education adequately. The General Appropriations Act directs the Coordinating Board to review the formulas and to make recommendations to the Legislature in June of even-numbered years.

The Commissioner of Higher Education appointed a Health-Related Institution Formula Advisory Committee (HRIFAC) to assist in this review. Mr. Leon Leach, Chair, Executive Vice President, The University of Texas M.D. Anderson Cancer Center, chaired the HRIFAC, and Mr. Kevin Dillon, Executive Vice President, Chief Operating and Financial Officer, The University of Texas Health Science Center at Houston, served as the co-chair. All nine of the health-related institutions were represented on the Committee, as indicated in the list of members in Appendix D. The meetings occurred in September through December 2007. Minutes of these committee meetings are available on the Board website.

The Committee feels strongly that the current operating environment of Health-Related Institutions needs to be considered in order to evaluate the recommendations provided by the Committee. In order to meet the educational needs of a growingly diverse population that is continually increasing in Texas and to meet the demands for healthcare, it is urgently important that Health-Related Institutions be funded at a level that addresses the requirements of *Closing the Gaps*.

Had the Legislature merely retained the original 2000-01 formula rates for the 2008-09 biennium, Health-Related Institutions would have generated an additional \$180 million above the current formula funding amount. In terms of constant dollars according to the Consumer Price Index, formula funding for Health-Related Institutions is down approximately 65 percent or \$727.6 million, in comparison to 2000-01. Health-Related Institutions have operated in this environment, while at the same time they have had a 31.3 percent increase in Full Time Student Equivalents (FTSE) for the current biennium of 2008-09, as compared to 2000-01. Health-Related Institutions have answered this shortfall by: using funds from other sources, including institutional reserves; deferring new programs; limiting access to other programs; and delaying investments in technology and facilities infrastructure renewal. At the current rate of funding, achieving the goals of *Closing the Gaps* is not readily attainable.

Formula Committee and Coordinating Board Recommendations

Charge 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*. Formula rates, weights, and categories, as appropriate, should be recommended for each of the following formulas:

- a. Instruction & Operations
- b. Infrastructure
- c. Research Enhancement
- d. Mission Specific
- e. Graduate Medical Education

Committee Recommendation

Return Funding Rates to 2000-01 Levels – The HRI FAC has formulated a plan of *Closing the Formula Funding Gap* in order to assist the Coordinating Board, the Legislative Budget Board, and the Legislature, and enable the Health-Related Institutions to receive sufficient resources to meet established goals of *Closing the Gaps* educationally.

In order to highlight the need to close the formula funding gap, the Health-Related Institutions have not requested any structural changes to the formulas for the 2010-11 biennium. The Health-Related Institutions are proposing a plan of *Closing the Formula Funding Gap*. The plan consists of restoring 2000-01 funding rates (without an inflation adjustment to the rates) for formulas over the next two biennia. The following table provides the requested rates for 2010-11:

Funding Rate	2000-01	2008-09	2010-11	2012-13
Instruction & Operations (I&O)	\$ 11,383	\$ 10,840	\$ 11,112	\$ 11,383
Infrastructure				
UTMDACC & UTHCT	10.68	7.20	8.94	10.68
All Other HRIs	11.18	7.98	9.58	11.18
Research Enhancement	2.85%	1.5%	2.19%	2.85%

According to the statutory provision relating to Mission Specific Funding, Section 29, Special Provisions, page 225 of the 2008-09 Appropriation Act, funding may not exceed the average growth in funding for Health-Related Institutions in the Instruction and Operations formula for the current biennium. In light of this requirement, the 2.5 percent increase recommended is based on the percentage increase in the proposed I&O Funding Rate of \$11,112.

Mission Specific Funding	FY 2008-09	-	FY 2010-11	2.5% Increase
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Change in Formula Administration – The Committee has noted in its report that the original intent and administration of the formulas was to have changes in FTSE, predicted space, and research expenditures drive the appropriations level for Health-Related Institutions. This process worked well through the 2002-03 biennium. However, in the most recent biennia, the formulas have been relegated to being a method of allocation with rates being the output of the formulas, as opposed to being used to maintain the relative level of funding per student, predicted space, and research expenditures.

The result has been a significant decrease in the amount of formula funding per student/predicted square foot/research expenditures as the growth in formula drivers has far exceeded the increase (in some instances the decrease) in General Revenue appropriated through the formulas. As a result, institutions have had to educate and care for more Texans while receiving less state support for each.

The Committee recommends that if sufficient funding is not available to fund the requested rates, a conscious decision is made to fund a certain stated percentage of that rate, and not just determine an available rate of funding. In this manner, adequate rates to fund the Health-Related Institutions are not lost.

Increase Graduate Medical Education (GME) Funding – The Committee noted in its report that the current level of funding for the GME formula of \$5,634 per year per resident only covers 38 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 Health-Related Institutions to maintain and increase the number of accredited residency positions in Texas. Given the importance of having sufficient residency positions to keep graduating Texas medical school students from leaving the state, the Committee recommends that the GME formula funding rate be increased for the 2010-11 biennium, but this increase must not be at the expense of other existing formula funding.

Funding for the GME formula for faculty costs is critical, since there are no other sources of funding provided for these particular costs of GME. However, the Committee noted that there are other substantial costs of GME that are traditionally incurred by hospitals, such as the \$50,000 to \$60,000 per-resident stipend. One important source of funding for these other hospital costs had been state Medicaid GME funding, which was eliminated in 2004-05. Although this funding is outside the scope of GME formula funding to Health-Related Institutions, the Committee notes that this lack of Medicaid GME funding to hospitals also puts at risk the ability to maintain or increase GME programs in Texas.

Coordinating Board Recommendation

Return Funding Rates to 2000-01 Levels – The Coordinating Board concurs and recommends the Committee's plan to return formula funding rates to the level of 2000-01 in two biennia, with further increases in future biennia to restore purchasing power lost to inflation.

Change in Formula Administration – The Coordinating Board concurs with the Committee's recommendation to return the administration of the formula funding to its originally intended purpose, namely to drive the determination of formula funding for institutions. It also concurs with the Committee's recommendations that if sufficient funding is not available to fund the requested rates, funding be stated as a percentage of the requested rate.

Increase Graduate Medical Education Funding – The Coordinating Board concurs with the Committee's request for additional GME formula funding. The Coordinating Board requests that GME be funded at \$7,500 per resident per year for 2010-11, a 33 percent increase from \$5,634 per resident per year for 2008-09.

In 2004, the Coordinating Board estimated that based on existing assumptions of mix of residencies, the average instructional cost was \$15,000 per year. While the costs of instruction for individual residency specialties are very different, there is a 300 – 400 percent spread in the costs of training in certain specialties. While the current recommendation of \$7,500 does not fully cover GME, it continues the trend of increased funding started in 2008-09 in order to support more residency positions in Texas.

Charge 2: Review the current I&O Formula weights and determine if new weights should be requested.

Committee Recommendation

The Committee reviewed the current I&O Formula weights to determine if new weights should be requested for FY2010-11. In light of the inadequacy of the current funding level of the I & O Formula, the Committee's position is that any requests for changes in formula weights at this time would only distract from the primary overall issue of inadequate funding. Accordingly, the Committee is not proposing any changes in I&O Formula weights for 2010-11, although it recognizes that changes should be considered in the future. Since the emphasis of this report is on the needed rate, the Committee chose not to dilute the value of that emphasis and to focus on rate restoration.

Coordinating Board Recommendation

The Coordinating Board concurs.

Charge 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.

Committee Recommendation

The Committee reviewed the current specialty categories funded through the I&O Formula. Similar to Charge 2, the Committee's position is that any requests for changes to the specialty categories at this time would only distract from the primary overall issue of inadequate funding. Accordingly, the Committee is not proposing any change in specialties for the 2010-11 biennium.

Coordinating Board Recommendation

The Coordinating Board concurs.

Charge 4: For the past two biennia, qualified Graduate Medical Education residents have been funded regardless of the number of years of residency that had been completed. Review the residency programs and their related number of years of residency required to determine an appropriate limit for the numbers of years of residency that should be funded through the Graduate Medical Education formula. Consideration should be given to the needs of medical facilities and critical specialties in Texas in order to effectively utilize Graduate Medical Education funding.

Committee Recommendation

The Committee reviewed the distribution of GME resident counts from June 2006 that were used as the basis for funding GME for the current biennium of 2008-09. The review showed that out of 5,572 residents, only 17 residents were in their eighth year of residency or greater. Based upon these data, the Committee recommends that the GME Formula funding be limited to a maximum of seven years in total length for any resident funded. This limit is also congruent with the longest period of training required for any accredited specialty if completed without interruption.

Coordinating Board Recommendation

The Coordinating Board concurs.

Charge 5: Examine the various methods currently employed by the Health-Related Institutions to submit the required 2 percent of medical student tuition to support the Physician Education Loan Repayment Program (PELRP) and proposed options to streamline the process and ensure accuracy in the collection of funds.

Committee Recommendation

In consideration of this charge, the Committee appointed a sub-committee of three members to review the methods and process that Health-Related Institutions are using in administering the PELRP.

Based upon the work of the sub-committee, the Committee voted to propose a uniform policy for the administration of the 2 percent set-aside on medical tuition as required by Section 61.539, Texas Education Code, to fund the PELRP.

The Committee recommendation is that the calculation should be based on the tuition charges collected, net of exemptions and waivers, as authorized by Texas Education Code, Section 54.051 (f). The calculation is to be made on both resident and nonresident statutory tuition collections. The 2 percent set-aside should be remitted to the State Treasury "by the tenth working day of the month following the deposit" as required by the State Comptroller of Public Accounts Fiscal Policy and Procedure A.040.

Coordinating Board Recommendation

The Coordinating Board concurs.

Coordinating Board Additional Points

The Coordinating Board would like to emphasize the health education operating environment that necessitates these recommendations. Medical school enrollments and graduate medical education slots need to increase. There is general consensus that growth rates need to be between 15 to 30 percent by 2020. They come from the *Code Red* report, the Council on Graduate Medical Education's recommendation, and the Association of American Medical Colleges. Additionally, Texas should strive to achieve a physician workforce that is closer to the national average for physicians per 100,000 population in order to increase Texas' ranking from 186 per 100,000 population to that national average of 230.

If Texas is going to address these shortages, it is most important that substantive changes to funding and the administration process are passed in the next legislative session. Changes made for the 2010-11 biennium will not show results until six to seven years have passed, 2016 – 2017. As the Committee has noted, real progress in *Closing the Formula Funding Gap* must occur before substantial progress can be made in achieving the goals of *Closing the Gaps* educationally and providing an adequate level of medical workforce by 2020.

Other Coordinating Board Recommendation CB Trusteed Funding – All Institutional Sectors

Nursing Shortage Reduction Program – The Nursing Shortage Reduction Program provides incentive funds to professional nursing programs that show an increase in nursing graduates. The program is open to community/technical colleges, state universities, independent institutions, health-related institutions, and diploma programs. Since the program's inception in FY2006, the program has awarded institutions funding based on a cumulative increase in nursing graduates of 1,379.

The Coordinating Board recommends an increase in funding for the program from the \$14.7 million in 2008-09 to \$25 million for 2010-11.

This recommendation is made in the broader context of the demonstrated need for additional nurses in Texas. According to *The Supply of and Demand for Registered Nurses and Nurse Graduates in Texas*, which was prepared last session for the Texas Legislature by the Texas Center for Nursing Workforce Studies, Texas needs an additional 3,400 nursing graduates by 2010 in order to meet the projected demand for nurses in 2020. The report noted that increased funding required for 2010-11 was over \$95 million.

All dollar amounts relative to recommendations in this report are provided in the following table.

Coordinating Board Dollar Recommendations Health-Related Institutions & Nursing Shortage Reduction Program 2010-11 Biennium

Summary by Formula	HRI Formula Advisory Committee Recommendation (millions)	2008-09 Biennium Appropriation (millions)	2010-11 Coordinating Board Recommendation (millions)	Change Amount (Percent)
Instruction & Operations	\$ 951.3	\$ 928.9	\$ 951.3	\$ 22.4 (2.4%)
Infrastructure	293.4	243.2	293.4	50.2 (20.6%)
Research Enhancement	84.3	66.6	84.3	17.7 (26.6%)
Mission Specific	228.6	223.0	228.6	5.6 (2.5%)
Graduate Medical Education	50.0	50.0	66.5	16.5 (33.0%)
Totals	\$ 1,607.6	\$ 1,511.7	\$ 1,624.1	\$ 112.4 (7.4%)
CB Trusteed Funding				
Nursing Shortage Reduction	N/A	\$ 14.7	\$ 25.0	\$ 10.3 (70.0%)

Appendix A

Texas Higher Education Coordinating Board Commissioner's Charge to the Texas Public Health-Related Institutions Formula Advisory Committee For the 2010-2011 Biennium

Background: As a part of the biennial legislative funding process in Texas, Health-Related Institutions form a Formula Advisory Committee (HRIFAC) in order to make formal recommendations for formula funding for Health-Related Institutions. This process is similar to other formula advisory committees for academic institutions and community colleges.

The HRIFAC will meet during the summer and fall of 2007 to discuss formula elements and make a formal recommendation in regard to funding amounts for FY2010 and FY2011 to the Commissioner of Higher Education in February 2008.

The current formulas for determining funding levels at Health-Related Institutions were developed for the 2000-01 biennium. Starting in 2006-07, the formula for Graduate Medical Education was added to fund medical residents. In 2008-09, two mission-specific formulas for The University of Texas M. D. Anderson Cancer Center were consolidated into one new formula, Cancer Center Operations.

The formula recommendations under discussion relate to appropriations in the bill patterns of the Health-Related Institutions, and in the case of Graduate Medical Education for Baylor College of Medicine, funding trustee to the Coordinating Board.

The key elements of each of the Health-Related formulas are summarized in the following sections.

Instructions & Operations (I&O)

The Instruction and Operations (I&O) formula is intended to fund items such as faculty salaries, departmental operating expenses, instructional administration, and libraries. It is allocated on a per full-time student equivalent (FTSE) basis with a funding weight predicated on the instructional program of the student. This formula applies to all health-related institutions except The University of Texas Health Center at Tyler, which does not offer undergraduate instruction.

Programs with enrollments of less 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 \$10,841 per FTSE for the 2008-2009 biennium. Formula weights for each discipline, the related minimum 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	\$ 10,841
Biomedical Science	1.018	\$ 20,000	\$ 11,036
Health Informatics (Allied Health)	1.000	\$ 20,000	\$ 10,841
Nursing - Undergraduate	1.138	\$ 20,000	\$ 12,336
Nursing - Graduate	1.138	\$ 20,000	\$ 12,336
Pharmacy	1.670	\$ 20,000	\$ 18,104
Public Health	1.721	\$ 20,000	\$ 18,657
Dental Education	4.601	\$ 30,000	\$ 49,877
Medical Education *	4.753	\$ 30,000	\$ 51,525

* except for Medical Education – Austin, Small Class Size Supplement is \$20,000

The I&O Formula represents about 75 percent of total I&O, Infrastructure, and Research Enhancement funding to the HRIs, unchanged from 2006-07.

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:

- Number and level of FTE students
- Number of faculty
- Single or multiple programs and campuses
- Actual clinical space
- Research and current E&G expenditures

The 2008-09 HRI FAC 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 Health-Related Institutions. The Committee recommended the following criteria for qualification as 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 2008-09 is as follows:

HRIs except UT M.D. Anderson Cancer Center & UT Health Center at Tyler	\$	7.98
UT M.D. Anderson Cancer Center & UT Health Center at Tyler	\$	7.20

The Infrastructure Formula represents about 20 percent of total I & O, Infrastructure, and Research Enhancement funding to the HRIs, unchanged from 2006-07.

Research Enhancement

Health-related institutions generate state appropriations to support research through 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 1.5 percent of its research expenditures as reported to the Coordinating Board.

The Research Enhancement Formula represents about 5 percent of total formula funding for HRIs and is unchanged from 2006-07.

Mission Specific

Mission Specific formulas provide funding for The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Center at Tyler based on their primary statutory missions. Starting in the 2008-09 biennium, the two mission-specific formulas for The University of Texas M. D. Anderson Cancer Center - Science Park Operations and the formula portion of Patient Care, were consolidated into a new formula entitled Cancer Center Operations.

- Operations formula appropriations to M. D. Anderson are based on the total number of Texas cancer patients served at M. D. Anderson. The rate of \$2,900 per year for fiscal years 2008 and 2009 is based on the number of total Texas cancer patients served in 2004.
- The Health Center's formula is \$6.68 per primary chest diagnosis reported in FY2004 for FY2008 and \$6.18 per primary chest diagnosis reported in FY2005 for FY2009.

Graduate Medical Education

The formula for bill pattern Graduate Medical Education began with the 2006–07 biennium. Graduate Medical Education funds qualified the Accreditation Council for Graduate Medical Education/American Osteopathic Association (ACGME/AOA) medical residents that train in Health-Related Institutions in Texas. Residents at the Baylor College of Medicine are funded at the same rate as other institutions through an appropriation trusted to the Coordinating Board to be distributed to Baylor.

For the 2008-09 biennium, a total of \$62.8 million was appropriated for Graduate Medical Education. The appropriation provides \$11,268 per resident for the biennium.

Commissioner's Charges

Similar to the other formula advisory committees, the HRI FAC is asked to conduct an open, public process, providing 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 HRI FAC should make appropriate recommendations 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 the *Closing the Gaps*. Formula rates, weights, and categories, as appropriate, should be recommended for each of the following formulas:
 - a. Instruction & Operations
 - b. Infrastructure
 - c. Research Enhancement
 - d. Mission Specific
 - e. Graduate Medical Education
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.
4. For the past two biennia, qualified Graduate Medical Education residents have been funded regardless of the number of years of residency that had been completed. Review the residency programs and their related number of years of residency required to determine an appropriate limit for the numbers of years of residency that should be funded through the Graduate Medical Education formula. Consideration should be given to the needs of medical facilities and critical specialties in Texas in order to effectively utilize Graduate Medical Education funding.
5. Examine the various methods currently employed by the health-related institutions to submit the required 2 percent of medical student tuition to support the Physician Education Loan Repayment Program (PELRP) and proposed options to streamline the process and ensure accuracy in the collection of funds.
6. Provide the Commissioner with a preliminary written report of the Committee's recommendations by December 15, 2007, and a final written report February 1, 2008.

Appendix B

Texas Public Health-Related Institutions Formula Advisory Committee Recommendations for 2010-11 January 30, 2008

Charge 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*. Formula rates, weights, and categories, as appropriate, should be recommended for each of the following formulas:

- a. Instruction & Operations
- b. Infrastructure
- c. Research Enhancement
- d. Mission Specific
- e. Graduate Medical Education

Committee Recommendation

In response to this charge, the Committee is recommending a plan to return formula funding rates to the level of 2000-01 in two biennia, with further increases in future biennia to restore purchasing power lost to inflation. The specific rates for each of the formulas are provided in the sections below.

The Committee's recommendation proposes rates that it feels are viable in the legislative process to start the progress toward *Closing the Formula Funding Gap* that had developed since the inception of the current Health-Related Institutions funding formulas. The Committee noted that the intent of the formulas was to have changes in full-time student equivalent (FTSE), predicted space, and research expenditures drive the appropriations level for Health-Related Institutions. This process worked well through the 2002-03 biennium. In later years, the formulas have been relegated to being a method of allocation with rates being the output of the formulas, as opposed to being used to maintain the relative level of funding per student, predicted space, and research expenditures.

The result has been a significant decrease in the amount of formula funding per student/predicted square foot/research expenditures as the growth in formula drivers has far exceeded the increase (in some instances the decrease) in General Revenue appropriated through the formulas. As a result, institutions have had to educate and care for more Texans while receiving less state support for each.

The Committee recommends that if sufficient funding is not available to fund the requested rates, a conscious decision be made to fund a certain stated percentage of that rate, and not just determine an available rate of funding. In this manner, adequate rates to fund the Health-Related Institutions are not lost by a misuse of the formula funding process.

Graduate Medical Education (GME)

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 \$5,634 per year per resident only covers 38 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 Health-Related Institutions to maintain and increase the number of accredited residency positions in Texas. Given the importance of having sufficient residency positions to keep graduating Texas medical school students from leaving the state, the Committee recommends that the GME formula funding rate be increased for the 2010-11 biennium, but this increase must not be at the expense of other existing formula funding.

Charge 2: Review the current I&O Formula weights and determine if new weights should be requested.

Committee Recommendation

The Committee reviewed the current I&O Formula weights to determine if new weights should be requested for 2010-11. In light of the inadequacy of the current funding level of the I&O Formula, the Committee's position is that any requests for changes in formula weights at this time would only distract from the primary overall issue of inadequate funding. Accordingly, the Committee is not proposing any changes in I&O Formula weights for 2010-11, although it recognizes that changes should be considered in the future. Since the emphasis of this report is on the needed rate, the Committee chose not to dilute the value of that emphasis and to focus on rate restoration.

Charge 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.

Committee Recommendation

The Committee reviewed the current specialty categories funded through the I&O Formula. Similar to Charge 2, the Committee's position is that any requests for changes to the specialty categories at this time would only distract from the primary overall issue of inadequate funding. Accordingly, the Committee is not proposing any change in specialties for the 2010-11 biennium.

Charge 4: For the past two biennia, qualified Graduate Medical Education residents have been funded regardless of the number of years of residency that had been completed. Review the residency programs and their related number of years of residency required to determine an appropriate limit for the numbers of years of residency that should be funded through the Graduate Medical Education formula. Consideration should be given to the needs of medical facilities and critical specialties in Texas in order to effectively utilize Graduate Medical Education funding.

Committee Recommendation

The Committee reviewed the distribution of GME resident counts from June 2006 that were used as the basis for funding GME for the current biennium of 2008-09. The review showed that out of 5,572 residents only 17 residents were in their eighth year of residency or greater. Based upon these data, the Committee recommends that the GME Formula funding be limited to a maximum of seven years in total length for any resident funded. This limit is also congruent with the longest period of training required for any accredited specialty if completed without interruption.

Charge 5: Examine the various methods currently employed by the Health-Related Institutions to submit the required 2 percent of medical student tuition to support the Physician Education Loan Repayment Program (PELRP) and proposed options to streamline the process and ensure accuracy in the collection of funds.

Committee Recommendation

In consideration of this charge, the Committee appointed a sub-committee of three members to review the methods and process that Health-Related Institutions are using in administering the PELRP.

Based upon the work of the sub-committee, the Committee voted to propose a uniform policy for the administration of the 2-percent set-aside on medical tuition as required by Section 61.539, Texas Education Code, to fund the PELRP.

The Committee recommendation is that calculation should be based on the tuition charges collected, net of exemptions and waivers, as authorized by Texas Education Code, Section 54.051 (f). The calculation is to be made on both resident and nonresident statutory tuition collections. The 2 percent set-aside should be remitted to the State Treasury "by the tenth working day of the month following the deposit" as required by the State Comptroller of Public Accounts Fiscal Policy and Procedure A.040.

Appendix C

Health-Related Institutions Formula Funding

General Appropriations Act, 80th Legislature, Page III-224
2008-09 Biennium

Sec. 29. Health Related Institutions Funding. Appropriations made in this Act for funding for health related institutions shall consist of three formulas plus supplemental non-formula items.

1. Instruction and Operations Support Formula. The Instruction and Operations Support Formula shall provide funding on a per student or full time equivalent basis. Funding for each instructional program is based on the following funding weights per student, with a base value per weighted student of \$10,841:

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

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

2. Infrastructure Support Formula. Funding to the health-related institutions for plant support and utilities shall be distributed by the infrastructure support formula which is driven by the predicted square feet for the health related institutions produced by the Space Projection Model developed by the Texas Higher Education Coordinating Board. The rate per square foot is \$7.98 for all health related institutions, excluding The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler. For these two institutions, the per square foot rate is \$7.20.

Because the Space Projection Model does not account for hospital space, separate infrastructure funding for hospital space at The University of Texas Medical Branch at Galveston, The University of Texas M.D. Anderson Cancer Center, and The University of Texas Health Center at Tyler shall be included in the total funding for hospital and patient care activities.

3. Research Funding. The health-related institutions shall retain 100 percent of indirect research costs recovered on grants. Each institution also receives research enhancement funding of \$1,412,500 plus 1.5 percent of its research expenditures as reported to the Texas Higher Education Coordinating Board.

4. Graduate Medical Education Formula. The Graduate Medical Education Formulas shall provide funding on a per medical resident basis. Funding is based on a base value of \$11,268 per medical resident in an accredited program. Appropriations for Graduate Medical Education for FY 2008 are \$5,634 per resident and appropriations for FY 2009 are \$5,634 per resident.

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

6. Supplemental Non-formula Items. Institutions shall receive a direct reimbursement as applicable for staff group insurance, workers' compensation insurance, unemployment insurance, public education grants, medical loans, tuition revenue bond payments, and facility lease charges. Institutions may receive an appropriation for special items. Hospital and clinic operations shall be funded through a combination of hospital and clinic revenue and general revenue.

7. Formula Study Committees. These formulas shall be reviewed and updated by study committees appointed by the Texas Higher Education Coordinating Board and recommended changes forwarded to the Legislature, Legislative Budget Board, and Governor by June 1, 2008.

8. Mission Specific Support. The University of Texas M.D. Anderson Cancer Center and the University of Texas Health Center at Tyler do not provide formal medical education which qualifies for instruction support under subsection 1 above. Therefore, funding allocated to these institutions shall be based on the following criteria:

a. Pilot program. It is the intent of the Eightieth Legislature that the General Revenue Operations formula funding provided to The University of Texas M.D. Anderson Cancer Center in Strategy A.4.1, Cancer Center Operations is part of a Pilot Program as described below. The University of Texas M.D. Anderson Cancer Center has a statutory mission to eliminate cancer through patient care, research, education, and prevention. General Revenue funds appropriated to The University of Texas M.D. Anderson Cancer Center in Strategy A.4.1, Cancer Center Operations, shall be based on the total number of Texas cancer patients served at The University of Texas M. D. Anderson Cancer Center. General Revenue appropriations for FY 2008 and FY 2009 shall be based on the number of total Texas cancer patients served in 2004. The rate per patient shall be \$2,900 in FY 2008 and \$2,900 in FY 2009 for Strategy A.4.1, Cancer Center Operations. 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. The Higher Education Coordinating Board shall monitor and report the validity in funding The University of Texas M.D. Anderson Cancer Center in this manner by December 1, 2008. In the event the report indicates that this new methodology of funding The University of Texas M.D. Anderson Cancer Center's Operations formula funding is not appropriate, then it is the intent of the Eightieth Legislature to return funding its cancer center operations to the previous mission specific calculation and funding.

b. The University of Texas Health Center at Tyler has a statutory mission to conduct research, develop diagnostic and treatment techniques, provide training and teaching programs, and provide diagnosis and treatment of inpatients and outpatients with respiratory diseases. General Revenue funds appropriated to The University of Texas Health Center at Tyler in Strategy A.1.1, Medical Education and Research Items, shall be based on the number of new primary chest disease diagnoses each year in Texas as reported by participating Texas hospitals in the Texas Hospital Association Patient Data System program. General Revenue appropriations for FY 2008 shall be based on the number of new primary chest disease diagnoses reported in 2004, and General Revenue appropriations for FY 2009 shall be based on the number of new primary chest disease

diagnoses reported in 2005. The rate per primary chest diagnosis shall be \$6.68 for FY 2008 and \$6.18 for FY 2009.

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

Appendix D

TEXAS PUBLIC HEALTH-RELATED INSTITUTIONS FORMULA ADVISORY COMMITTEE FOR THE 2010-11 BIENNIUM

Name/Title		Institution/Address	Email/Phone/Fax
Mr. Leon Leach, Chair Executive Vice President	(08)	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
Mr. Kevin Dillon, Vice Chair Executive Vice President, Finance and Business Affairs	(08)	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) 500-3439
Mr. Elmo M. Cavin Executive Vice President	(10)	Texas Tech University Health Sciences Center 3601 4th Street Lubbock, TX 79430	elmo.cavin@ttuhsc.edu (806) 743-3080 FAX (806) 743-2910
Dr. James S. Cole Dean, Baylor College of Dentistry	(10)	Texas A&M University System Health Science Center 3302 Gaston Drive Dallas, TX 75246	jcole@bcd.tamhsc.edu (214) 828-8300 FAX (214) 828-8496
Dr. Cary Cooper Dean, Graduate School of Diomedical Sciences	(08)	The University of Texas Medical Branch at Galveston 301 University Blvd. Galveston, TX 77555-0126	ccooper@utmb.edu (409) 772-2665 FAX (409) 747-0772
Roland Goertz, M.D. President	(08)	McLennan County Medical Education and Research Foundation 1600 Providence Drive Waco, TX 76707	goertzr@aol.com (512) 427-6206 FAX (512) 427-6168
Mr. H. Steve Lynch Jr. Executive Vice President for Business Affairs	(08)	The University of Texas Health Science Center at San Antonio 7703 Floyd Curl Drive San Antonio, TX 78229-3900	lynch@uthscsa.edu (210) 567-7020 FAX (210) 567-7027
Mr. Vernon Moore Vice President of Business and Finance	(08)	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. Michael Mueller Director, Budget Office	(08)	University of North Texas Health Science Center at Fort Worth 3500 Camp Bowie Blvd. Fort Worth, TX 76107-2644	mmueller@hsc.unt.edu (817) 735-5475 FAX (817) 735-0222

Name/Title	Institution/Address	Email/Phone/Fax
Dr. Mary Ellen Weber (10) Vice President for Government Affairs and Policy	The University of Texas Southwestern Medical Center at Dallas 5323 Harry Hines Blvd. Dallas, TX 75390-9131	maryellen.weber@utsouthwe stern.edu (214) 648-3684 FAX (214) 648-3604

Note: *Committee members' terms end August 31 in the year indicated in parenthesis*

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