
INTERIM CHARGE TWO

In 2003, following the 78th Regular Legislative Session, the Joint Interim Committee on Higher Education was charged with:

Study the equity and adequacy of higher education funding and its relationship to the purposes of higher education, including providing opportunities to students to achieve their educational goals, furthering knowledge through research, and providing direct services as local, regional, and state engines of economic development.

Higher education is essential to the advancement of society. Support for higher education demonstrates a society's commitment to progress. By exploring the frontiers of knowledge, higher education produces new ideas to meet future challenges and an investment in education is an investment in the future development and prosperity of Texas.

Higher education accounted for 12.8 percent of the state's total all-funds appropriation and 15.8 percent of the state's general revenue appropriation for the 2004-05 biennium.⁷

State general revenue appropriations to higher education totaled \$9.25 billion for the 2004-05 biennium, a 2.7 percent decrease from \$9.51 billion for the 2002-03 biennium.⁸

General Revenue Appropriations (in billions of dollars)⁹

Biennium	2002-03	2004-05
Universities	\$3.99	\$3.93
Community Colleges	\$1.78	\$1.73
Health-Related Institutions	\$2.17	\$2.08
Technical Colleges	\$.19	\$.17
Other	\$1.38	\$1.34
Total	\$9.51	\$9.25

State all-funds appropriations to Texas higher education for the 2004-05 biennium totaled \$15.3 billion, a 5.7 percent increase over \$14.31 billion in the previous biennium.¹⁰

All Funds Appropriations
(in billions of dollars)¹¹

Biennium	2002-03	2004-05
Universities	\$5.22	\$5.46
Community Colleges	\$1.78	\$1.73
Health-Related Institutions	\$4.50	\$5.06
Technical Colleges	\$.22	\$.21
Other	\$2.58	\$2.66
Total	\$14.31	\$15.13

Higher Education Funding for General Academics:

General Revenue funds accounted for 70.4 percent of the budgeted expenditures in fiscal year 2003 for the general academic institutions, university systems offices, and the two-year Lamar institutions.¹²

General Revenue-Dedicated or Other Education and General Income Funds constituted 29.3 percent of the institutions' expenditures in fiscal year 2003.¹³

Other Educational and General Income Funds consist of tuition and fees, including teaching and lab fees, interest on local funds, student teaching fees, and indirect cost recovery.¹⁴

Other funds, such as interest earnings on tobacco-related funds and Texas A&M's Real Estate Research Center fees, make up the remaining 0.3 percent.¹⁵

Expenditures from tobacco-related fees at The University of Texas System and The University of Texas at El Paso totaled \$2.1 million.¹⁶

General Revenue Fund expenditures for fiscal year 2003 were \$30.1 million less than the Article III bill pattern appropriations.¹⁷ This includes \$4.3 million carried forward from fiscal year 2002 in unexpended balances and adjustments from Article IX, 2002-03 General Appropriations Act.¹⁸ Adjustments included 54.7 million from Article IX, Sec. 10.19 for debt service for tuition revenue bonds authorized in House Bill 658, 77th Legislature, 2001; \$22.4 million from Article IX, Sec. 10.12 for salary increases and longevity pay; \$6.4 million from Article IX, Sec. 10.23 for transfers to institutions from the State Office of Risk Management; and a decrease of \$0.4 million from Article IX, Sec. 10.36 for reverse auction reductions.¹⁹ Institutions also had a reduction of \$117.3 million, or approximately 6.5 percent, of their appropriated General Revenue funds because of provisions within House Bill 7, 78th Legislature, Regular Session, 2003.²⁰

Other Education and General Revenue Funds generated in fiscal year 2003 exceeded preliminary estimates by 17.8 percent.²¹ The increase included \$29.7 million in unexpended balances from fiscal year 2002 and a rise in tuition, fees, and indirect cost recovery.²²

Higher Education Funding for Community Colleges:

Providing for community colleges has been a shared responsibility among the state, local taxpayers, and community college students.²³ State funds and local funds are the main sources of revenue for Texas' public community colleges.²⁴ Community college boards raise local funds through tuition and fees and local property taxes.²⁵ State funds are appropriated by the legislature based on formula funding, which distributes available state general revenue funds for a portion of the total administrative and instructional costs of the individual institutions.²⁶

The authority for formula funding development and appropriation recommendations is granted by the Texas Education Code to the Texas Higher Education Coordinating Board.²⁷ From the inception of the formula system to 1994, the Coordinating Board's recommendation was very straight forward and consistent with the Board's Master Plan; the recommendation was the amount generated from the All Funds Expenditure Report (AFER) plus inflation. This report (AFER, formerly known as the "Cost Study") is submitted every year by each community and technical college, and used to determine the institution's instructional and administrative expenses associated with eight specific areas referred to as the "eight elements of cost" (faculty salaries, departmental operating expense, instructional administration, student services, institutional support, organized activities, library, and staff benefits) for 26 institutional fields. The Coordinating Board compiles the results of the AFER and determines the median cost per student contact hour for each of the these elements of cost.²⁸ The total median cost of instruction and administration is then determined by multiplying the rates for each instructional program area, such as mathematics or dental hygiene, with the number of contact hours generated by that particular program area.²⁹ The resulting total cost of instruction and administration is typically referred to as "full formula funding." Due to budget concerns, in recent years the legislature has not fully funded the Coordinating Board's formula recommendations, with the result that each institution receives only a percentage of the full formula funding model.

Prior to the 74th Legislature (1995), the Coordinating Board recommended funding 80 percent funding of the formula.³⁰ In 1997, 73 percent of the formula was recommended, a result of *deducting* tuition and fees from the total

cost of instruction.³¹ For the 76th Legislature (1999), the Coordinating Board made three different recommendations: full formula funding, previous appropriation plus inflation, and a mid-range recommendation based on "zero ad valorem tax subsidy of instructional and administrative programs."³² Two years later, three formula models were included: full formula funding, a formula adjusted for inflation and "zero ad valorem tax subsidy," and a formula reflecting 81 percent of instructional and administrative costs.³³ Due to budget shortfalls, the Coordinating Board supported the 81 percent model. For the 78th Legislature(2003), a model with 66.65 percent of the FY 2001 AFER was recommended, again due to budget concerns.³⁴ All reports and recommendations to the Legislature from the Coordinating Board are based upon the formula rates generated from the AFER.

For the current 2004-05 biennium, the General Revenue formula appropriation of 1.599 billion is 52 percent of the full-cost formula.³⁵ This appropriation was 4.7 percent less than funding for 2002-03 (1.679 billion).³⁶

To illustrate the growth of community college enrollment with the history of funding by the state, local taxpayers, and students, from Fall 1994 to Fall 2003:

- 30.7 percent increase in enrollment (from 392,598 students to approximately 514,000 students),³⁷
- 30.4 percent increase in state formula appropriations (from \$576.4 million in FY 1994 to \$751.4 million in FY 2004);³⁸
- 122.5 percent increase in non-appropriated tuition and fees (from \$273.2 million in FY 1994 to \$607.9 million in FY 2003);³⁹
- 139.4 percent in non-appropriated property tax revenue (from \$310.3 million in FY 1994 to \$742.9 million in FY 2003).⁴⁰

Taking inflation into account, tuition and fees have increased 73.3 percent and property tax income has increased 86.9 percent since 1994.⁴¹ The formula appropriation has **decreased** by 0.9 percent during the same time period.⁴²

State funds may not be used to support physical plant costs at the 50 community and junior college districts, so no appropriation is made for that purpose.⁴³ The Texas State Technical Colleges (4 campuses) and the Lamar State Colleges (3 campuses) use the same formula as the community colleges for administration and instruction, but because they are state institutions, they are eligible for an additional infrastructure appropriation for their physical plant costs.⁴⁴

Community colleges enroll 45.2 percent (Fall 2003) of the state's higher education students which makes these institutions the largest sector of higher education.⁴⁵ Over 1.1 million students pass through the doors of Texas public and community colleges.⁴⁶ Seventy-four percent of the freshmen and sophomores in Texas public higher education are attending one of the state's community colleges.⁴⁷ The contact hour growth of community colleges for the 2004-05 shows an increase of 15 percent.⁴⁸

A major goal of *Closing the Gaps by 2015* that was adopted by the Coordinating Board in November 2000 is to enroll 500,000 more students in higher education across Texas by 2015.⁴⁹ Based on the trends of the 1990's, 200,000 of these students could be expected to enroll even without additional recruitment and retention efforts, so the campaign targets the 300,000 "missing" students who would not otherwise enroll in higher education. Increasing community college enrollment is a key component of this critical, widely accepted initiative. Community colleges are the largest sector of higher education with a Fall enrollment of 514,548 students enrolled in semester-length credit courses,⁵⁰ accounting for 45.2 percent of students enrolled in higher education.⁵¹ In FY 2003, 48 of the 50 community college districts had increased enrollment from the previous year base and 33 of these colleges had 10 percent or more growth.⁵² State officials expect that trend to continue, which means that over 250,000 of the targeted 500,000 increased enrollment will occur on community college campuses.

Higher Education Funding for Health-Related Institutions:

The institutions' expenditures for fiscal year 2003 were approximately 4.9 percent more than the appropriated amounts, primarily because of the growth in indirect cost recovery associated with research grants and an increase in hospital income at The University of Texas M.D. Anderson Cancer Center.⁵³

Forty-seven percent of General Revenue Funds and 30 percent of General Revenue-Dedicated Funds were expended by the health-related institutions in fiscal year 2003 for educational programs.⁵⁴ These programs included:⁵⁵

- Medical education in the prevention, diagnosis, and treatment of diseases;
- training in biomedical sciences;
- nursing and dental education;
- pharmacy education and training;

- physicians assistant academic and clinical training;
- education for allied health professionals who will be involved in identifying, evaluating, treating, and preventing diseases, injuries, and conditions; and
- training in public health programs that focus in preventive care/health promotion for public health needs.

Approximately 70 percent of the institutions' expenditures from Other Funds and 30 percent of General Revenue Funds were expended for patient care, which included operational support activities and delivery of care in the institutions' hospital and clinics.⁵⁶ The health-related (except for The University of Texas Southwestern Medical Center at Dallas, the University of North Texas Health Science Center at Fort Worth, and Texas Tech University Health Sciences Center) generate the majority of their Other Funds, which are primarily hospital income, through the operation of a hospital or dental clinic.⁵⁷

The institutions had expenditures from Tobacco-related Funds totaling \$52.6 million in fiscal year 2003.⁵⁸ These funds were expended for programs benefiting medical research, health education, and treatment programs.⁵⁹

The institutions also had a reduction of approximately 2.1 percent of their appropriated General Revenue Funds because of provisions in House Bill 7, 78th Legislature, Regular Session, 2003.⁶⁰ Institutions achieved this reduction primarily by reducing travel, freezing faculty hiring, reducing administration and departmental expenses, curtailing capital expenditures, increasing class size, and reducing student services.⁶¹

Community College Tax Base:

The Texas Education Code assigns each community college district service areas for providing educational services.⁶² The statute defines service area as (1) territory within the boundaries of the district as well as (2) territory outside the boundaries of the district in which the community college provides service. (See Appendix B)⁶³

Currently, 35 percent of the state's taxable property valuation (not geographic territory) is located outside a community college district.⁶⁴ The citizens residing in those areas are being served by community colleges but are not providing property tax support. In most cases, students from outside a community college district are paying higher out-of-district tuition and fees in the absence of tax support. On average, these students pay 29 percent higher tuition and fees than their in-district counterparts.⁶⁵

Studies conducted on the appropriateness of the current districts show that 46 out of 50 public community college districts would receive additional tax revenues by re-aligning district lines, three would see no revenue change and one would lose money.⁶⁶ These facts indicate that only a few of the college districts' taxing areas are aligned with their service areas.

Colleges do have annexation authority under current statutes, but most of these methods are fairly cumbersome and the hurdle for successful annexation elections is fairly high. There have been some successful annexation elections in recent years, but also some dramatic failures.⁶⁷

Tuition Revenue Bonds:

Tuition Revenue Bonds (TRBs) are issued by institutions of higher education for which future revenue (tuition and fees) is pledged for repayment of the bonds.⁶⁸ The Legislature must authorize bond issuance through legislation, and bond proceeds are generally used to fund institutional construction projects, such as classroom facilities, dormitories, and other university buildings.⁶⁹ All institutions issue, sell and service the debt on their own bonds, except that the Texas Public Finance Authority issues bonds for Midwestern State University, Stephen F. Austin University and Texas Southern University.⁷⁰ The authorization and issuance of the bonds is not contingent on an appropriation for related debt service, but legislative practice has been to use General Revenue to reimburse institutions for the cost related to debt service.⁷¹ The Tuition Revenue Bond debt service appropriation can only be used for paying related debt service, and lapses at the end of the biennium if not used for that purpose.⁷²

TRBs were first authorized in 1971 in the amount of \$185 million.⁷³ The 77th Legislature (2001) authorized \$1.081 billion for TRBs.⁷⁴ In 2003, the 78th Legislature authorized nearly \$253.9 million in tuition revenue bonds.⁷⁵

Dramatic Enrollment Growth Fund:

The purpose of the dramatic enrollment growth fund is to provide general revenue funds for institutions of higher education that experience dramatic enrollment growth during the biennium.

Separate appropriations are made to general academic institutions and two-year institutions and different thresholds for dramatic enrollment growth are applied to each sector. General academic institutions receive dramatic enrollment growth funds if enrollment increases 3 percent in the first year of the biennium

or 6 percent in the second year of the biennium.⁷⁶ The enrollment growth fund for general academic institutions was instituted by the 77th Legislature (2001). Prior to that time, general academics were appropriated an estimated growth amount for each year of the biennium.

The threshold levels for determining dramatic enrollment growth for two year institutions have varied. The 75th Legislature (1997) provided the first appropriation for two year dramatic growth (\$2.0 million) and defined dramatic enrollment growth as any enrollment increase over 10 percent in a two year period (e.g., from Fall 1995 to Fall 1997).⁷⁷ In 1999, the 76th Legislature appropriated \$10.0 million to the dramatic enrollment growth fund and established a two-tier system for eligibility.⁷⁸ Funds first went to colleges with more than 10 percent enrollment growth.⁷⁹ If any funds were left over, college districts with more than 5 percent enrollment growth received these funds.⁸⁰ The 77th Legislature (2001) appropriated the same amount to the dramatic enrollment growth fund (\$10.0 million) and kept the same threshold levels and added increases in nursing enrollment as the first priority for this fund.⁸¹ The 78th Legislature (2003) combined the dramatic enrollment growth fund with the new campus fund. Of the \$18.0 million appropriated, \$16.4 million was dedicated to new community college campuses.⁸² Increases in nursing enrollment is the first priority for any remaining funds.⁸³ If any funds remain, colleges with a yearly enrollment growth of 15 percent will receive an appropriation followed by any colleges with an 8 percent yearly growth.⁸⁴

Seamless Transfer:

Texas has emerged as a national leader in terms of the breadth and depth of its transfer initiatives.⁸⁵ It is one of a handful of states that has a statewide common course numbering system for college courses and may well be the only state in which every public institution of higher education participates in common course numbering voluntarily.⁸⁶ The statewide core curriculum and field of study curricula also put Texas in a relatively small group of states that do not depend on an exhaustive list of institution-to-institution course equivalencies to drive transfers.⁸⁷ Moreover, a 2001 report of the Texas Higher Education Coordinating Board's Transfer Issues Advisory Committee had two key findings: first, that transfer in Texas is quite efficient, with many students losing zero or only a few semester credit hours in the process; and second, that community college students who complete at least 30 semester credit hours prior to transferring to a university tend to perform comparably with students who began at the same university.⁸⁸

A list of initiatives, at the state and local levels that enhance the ease with which Texas students may enroll in public higher education and later transfer from one public college or university to another, are grouped into three categories:⁸⁹

- *Statewide initiatives* apply to all public colleges and universities. Some, like the core curriculum, were instituted by the Texas Legislature.
- *Localized initiatives* often exist between two institutions or within a particular region. The number and variety of these varies greatly.
- *Secondary to postsecondary transfer initiatives* include multiple ways for students to earn college credit while in high school that may later apply to an associate's or bachelor's degree program. Several of these are outlined in state or federal law.

Small Colleges Funding Floor:

The state's appropriation to community colleges is based on the number of contact hours each institution produces during the base year (for the upcoming session: Summer 2004, Fall 2004, and Spring 2005).⁹⁰ The small college funding floor provides a minimum state appropriation for the two or three colleges in the state that do not generate enough contact hours to provide basic instructional support. Since the 72nd legislative session (see chart below), a minimum state appropriation has been made to keep these small, rural colleges viable.

Summary of Community College Funding Floor⁹¹

<u>Legislature/Biennium</u>	<u>Biennial Amount</u>	<u>Colleges Receiving Floor Appropriation</u>
78th: FY 2004, FY 2005	\$4,184,374	Clarendon, Ranger
77th: FY 2002, FY 2003	\$4,636,750	Clarendon, Ranger
76th: FY 2000, FY 2001	\$4,250,000	Clarendon, Ranger
75th: FY 1998, FY 1999	\$4,050,000	Clarendon, Frank Phillips, Ranger
74th: FY 1996, FY 1997	\$4,000,000	Clarendon, Frank Phillips, Ranger
73rd: FY 1994, FY 1995	\$4,000,000	Clarendon, Frank Phillips, Ranger
72nd: FY 1992, FY 1993	\$3,252,638	Clarendon, Ranger

Dual Credit:

Dual credit courses are college courses that also count toward high school requirements upon successful completion.

Most if not all community colleges have strong dual credit programs with their service area high schools. These are win/win programs for all concerned, but there are problems that limit their success. Low income students do not qualify for federal financial aid until they are out of high school so many students cannot afford the tuition, fees and books. Some school districts pay all or part

of the cost; some wealthier college districts waive the tuition and fees; and some provide scholarship assistance to the truly needy students. Currently, the state pays Average Daily Attendance (ADA) to the public schools and pays the formula rate to community colleges. Colleges can (and most do) charge for tuition, fees and books.

The State, by allowing tuition waivers to dual credit students, has created a climate of competition among colleges for these students which places larger urban and property-rich districts at an advantage over smaller, less populous and less wealthy districts. Also, it may work to the detriment of district taxpayers and regular students. Larger institutions may waive tuition for dual credit students and charge their students higher tuition and fees while smaller colleges may not have the enrollment to support higher charges. Taxpayers in those districts that waive tuition are subsidizing the out of district service area dual credit students as are the non dual credit regularly enrolled students who are paying higher tuition and fees.

By granting the right to waive tuition, the state seems to support a public policy in favor of dual credit and there are clearly some public policy advantages.

1. Dual credit college level courses make the last year of high school more challenging and productive—especially for students in those districts too small to have advanced placement classes. By definition, students are able to jump start their college program while finishing their high school studies which makes maximum use of their high school time and increases the likelihood that they can finish college in four years or less and enter the work force—a benefit to them, their parents and the state treasury.
2. Most of the dual credit courses are general education courses – history, English, government, economics, etc. that can be taught much more economically at community colleges than in senior colleges, thereby saving the state money and in some cases ease university schedule crowding. This is especially important since many, if not most, dual credit students enroll in a senior college rather than a community college upon graduation.
3. Since high school students do not qualify for federal financial aid programs, dual credit programs favor those families most able to pay the tuition, fees and book costs. Some colleges have a scholarship program for students who meet a means test, but the cost remains a deterrent to many students, especially minority students, from considering dual

credit. A tuition free dual credit would facilitate the state's "Closing the Gap" efforts.

4. The legislature has also recently granted state universities and technical colleges the same right to waive dual credit tuition as the two-year colleges. For the four-year institutions funding system, this waiver does not result in an actual loss of revenue as it does in the community colleges, and thus may create an un-level playing field. In some parts of the state, this is being used by Texas State Technical Colleges to the detriment of the local community colleges.

STARLINK and Virtual Colleges of Texas:

STARLINK connects all of the community and technical colleges in the state through its statewide satellite and internet based network. In FY 2004, STARLINK produced and distributed 43 hours of professional development programming to benefit higher education, state agencies, and other public entities. Programming included 9 faculty development teleconferences, 5 teleconferences for the Texas Higher Education Coordinating Board, and a distance learning nursing re-entry course. The facilities and offices of STARLINK are located at the LeCroy Center of the Dallas County Community College District.

The Virtual College of Texas (VCT) is a consortium of accredited, public Texas community and technical colleges. The mission of VCT is to provide distance learning access to all Texans wherever they may live, regardless of geographic, distance, or time constraints. VCT maximizes student access with its seamless model of delivering distance education. Students enroll at a local college, and are able to take courses provided by other colleges throughout Texas while still receiving support services from the local institution. Over 8,000 students enrolled in VCT courses during the 2003-04 academic year. The 78th Legislature provided additional funding to VCT to expand online degrees and certificates. As a result, VCT distributed 11 grants totaling \$560,000 to 10 two-year institutions and their collaborating partners to develop degrees and certificates such as medical lab technician, process technology, alternative teacher certificate, mental health-substance abuse prevention, child development and others. VCT is hosted by the Austin Community College District.

TEXAS Grant Program:

In 1999, the 76th Legislature established the TEXAS Grant Program to provide a grant of money to enable well-prepared eligible students to attend institutions of higher education in Texas.⁹²

When the TEXAS Grant Program was first authorized, it made two promises to students with financial need in Texas:⁹³

- prepare for college while in high school and the state will pay for your tuition and fees as a freshman in college; and
- meet program academic standards while in college and the state will continue to pay tuition and fees for up to 150 hours, six years, or until you acquire your bachelor's degree, whichever occurs first.

As funding for the program grew rapidly in Fiscal Years 2002 and 2003, the TEXAS Grant program fulfilled both of those promises. Studies indicate that students and parents came to recognize the program's name and took steps to be able to qualify for the assistance if promised. However, funding was held level for the 2004-2005 biennium. In Fiscal Year 2003, the program had \$85 million for entering students after its commitment to continuing students was fulfilled. In Fiscal Year 2004, it had only \$25 million for new students. As a result, efforts to maintain successful students while they acquire their degrees are depleting the program's ability to provide awards to students graduating from high school.⁹⁴

While the TEXAS Grant program has been a positive step, it is deeply flawed in that it is inconsistent with the goals of the *Closing the Gaps* initiative.

TEXAS Grant II Program:

The purpose of Texas Grant II is to provide financial aid to eligible students in Texas public two-year colleges.⁹⁵ For the current 2004-05 biennium, \$9.7 million was appropriated. This serves about 2,000 community college students, or less than 1% of their enrollment. Demographics suggest that about 50% of the students in these institutions would meet the requirements of the TEXAS Grant II Program.⁹⁶

Texas Grant II eligibility requirements are easier to administer and better fit the mix of students at community colleges.⁹⁷ Since community colleges currently receive only about 10% of funds allocated to Texas Grant⁹⁸ (total funding of \$324 million for 2004-05 biennium, or about \$32 million for community colleges), additional funding to TEXAS Grant II would be an important step in *Closing the Gaps*, since a majority of new students enrolling in college before 2015 are expected to begin their education at two-year institutions.⁹⁹

Texas B-On-Time Student Loan Program:

Like the TEXAS Grant Program¹⁰⁰, the Texas B-On-Time Loan Program¹⁰¹ is also targeted toward students who recently graduated from high school having

completed the recommended or higher curriculum. The program provides zero interest loans to such students if they meet other program requirements.¹⁰² It also forgives those loans if the student graduates from college with an associate's degree or bachelor's degree on time with at least a 3.0 overall grade point average.¹⁰³

House Bill 3015, Tuition Deregulation, requires all universities charging more than the \$46 per semester credit hour for designated tuition to set-aside a minimum of 20 percent for financial aid, and at least five percent of the 20 percent set-aside must be used fund the B-On-Time program.¹⁰⁴

All Sources of Financial Aid:

The Joint Interim Committee on Higher Education requested pie charts for each general academic institution showing all sources of financial aid including grants, loans, scholarships, gifts, and work study from federal, state, and private sources. (See Appendix C)

For each institution, the first pie chart gives an overall picture of financial aid in three categories (gift aid, loans, and workstudy), and the other three pie charts provide the breakdown for each of those three categories.

All charts are based on information from the Coordinating Board's 2003 Financial Aid Database and include information regarding private sources only to the extent that such aid is received by students also receiving need-based aid. Other sources of private aid generally do not go through the institutions' financial aid offices and data therefore cannot be collected.

Cost of Attendance vs. Financial Aid Available:

On March 11 2004, the Joint Interim Committee on Higher Education requested charts that describe the cost of attendance vs. financial aid available. (See Appendix D)

The charts, submitted by the Coordinating Board show the cost of education and financial aid available at each Texas public university.

