HOUSE COMMITTEE ON HIGHER EDUCATION
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2006

A REPORT TO THE
HOUSE OF REPRESENTATIVES
80TH TEXAS LEGISLATURE

GEANIE W. MORRISON
CHAIR

COMMITTEE CLERK
MARY ANNE TAYLOR

Committee On
Higher Education

November 7, 2006

Geanie W. Morrison
Chair

P.O. Box 2910
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The Honorable Tom Craddick
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on Higher Education of the Seventy-Ninth Legislature hereby submits its interim report including recommendations for consideration by the Eighteith Legislature.

Respectfully submitted,

Geanie W. Morrison, Chair

Tony Goolsby, Vice Chair

Fred Brown, CBO

Jesse Jones

Pete Gallego

Linda Harper-Brown

Helen Giddings

Patrick Rose

Glenda Dawson

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Members: Fred Brown, Pete Gallego, Jesse Jones, Glenda Dawson, Linda Harper-Brown, Helen Giddings, Patrick Rose

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INTRODUCTION

The Honorable Tom Craddick, Speaker of the House of Representatives, appointed nine members of the 79th Legislature to serve on the House Committee on Higher Education. The committee membership includes the following: Rep. Geanie Morrison, Chair; Rep. Tony Goolsby, Vice-Chair, Rep. Fred Brown, Rep. Glenda Dawson, Rep. Pete Gallego, Rep. Jesse Jones, Rep. Linda Harper-Brown, Rep. Helen Giddings and Rep. Patrick Rose.

Pursuant to House Rules, the Committee has jurisdiction over all matters pertaining to:

(1) education beyond high school;
(2) the colleges and universities of the State of Texas; and
(3) the following state agencies: the Texas Engineering Experiment Station, the Texas Engineering Extension Service, the Texas Higher Education Coordinating Board, the Texas Guaranteed Student Loan Corporation, the State Medical Education Board, the Prepaid Higher Education Tuition Board, and the Texas Transportation Institute.

During the interim, the committee was assigned seven interim charges (which are detailed on the next page). The following report outlines the committee's findings.

The Committee held four public hearings to take invited testimony on the interim charges. The hearings took place on April 18, 2006, April 25, 2006, May 2, 2006 and May 10, 2006.

HOUSE COMMITTEE ON HIGHER EDUCATION

INTERIM STUDY CHARGES AND SUBCOMMITTEE ASSIGNMENTS

1. Evaluate state supported financial aid programs, and whether they are structured and administered in a manner that will most effectively allow the state to meet the goals set forth in *Closing the Gaps*.

2. Consider formula funding models for institutions of higher education, and evaluate whether current formulas most effectively promote excellence and support the goals set forth in *Closing the Gaps*.

3. Evaluate accessibility to higher education, and identify whether certain areas of the state are underserved with respect to bachelor's and associate's degree programs.

4. Examine existing methods of facilities funding for institutions of higher education, and identify the most efficient means by which to allocate state resources.

5. Study community college service areas, and determine whether - and to what extent - existing boundaries should be modified to reflect population shifts or other demographic changes.

6. Review and analyze all higher education funding formulas. (Joint Interim Charge with the House Committee on Appropriations)

Charge 1

Evaluate state supported financial aid programs, and whether they are structured and administered in a manner that will most effectively allow the state to meet the goals set forth in *Closing the Gaps*.

Background

In 2001, the 77th Texas Legislature passed legislation (Senate Bill 573) directing the Higher Education Coordinating Board to initiate its proposal plan called *Closing the Gaps.* The plan, which is directed at closing educational gaps within Texas, as well as between Texas and other states, has four goals: to close the gaps in student participation, student success, excellence, and research.[1] Closing the Gaps is also an initiative to increase minority enrollment in Texas colleges and universities.

Currently there are four methods of financial aid aimed at closing the gaps in Texas including state grants, federal grants, and state loan programs. TEXAS Grant is the largest financial aid service in the state. The Texas Legislature established the TEXAS (Towards EXcellence, Access and Success) Grant in 1999 to create access to higher education for those deserving high school graduates with financial need. The TEXAS Grant, in combination with other aid, pays tuition and fees at the state's public colleges and universities, and the size of the award depends on the tuition and fees charged by the institution. In 2001, the Texas Legislature developed the TEXAS Grant II. TEXAS Grant II was a smaller program for students at community and technical colleges.

Other state financial aid assistance programs include the Texas Equalization Grant (TEG) and the B-On-Time Loan Program. The Texas Equalization Grant was established in 1971 as a means of meeting the demand for students wanting to enroll in institutions of higher education. TEG program provides students at private and independent institutions with grants to help cover the higher costs of attendance. The program was established at a time when rising college

enrollments had placed a strain on public higher education facilities.

The Texas B-On-Time Loan Program was created by the 78th Texas Legislature. Its intent was to provide some relief to students who qualified for a TEXAS Grant, but were not able to receive it because of limited funding. B-On-Time provides eligible students with zero-interest loans that are forgiven if they graduate on time and with a minimum grade point average established by state law.

In 2003, federal assistance accounted for 76.8 percent or nearly $2.7 billion of aid awarded in Texas; state programs accounted for 11.3 percent or $392 million; and other sources accounted for 11.8 percent or $410 million.[2] Despite the availability of nearly $3.5 billion in student aid in Texas, the state's students still face unmet needs. In the fiscal year 2003, students attending Texas' public universities had an average of $3,913 in unmet need; public community college students averaged $4,972; students at public state colleges had $4,007; and public technical college students had $6,592.[3] Achieving the goals established in Closing the Gaps will depend on an effective financial aid structure that encourages efficient allocations in ways that allow every college bound Texan access to higher education.

Findings

As of March 2006, the Texas Higher Education Coordinating Board released that 60,141 students were receiving approximately $167,752,581 in student financial aid. In their 2006 projections, the Coordinating Board estimates that 34,606 students will not be served by financial aid.

The following is a brief overview of the total amount of TEXAS Grant awards to institutions of

higher education in Texas. Independent two year institutions of higher education received 62 total awards, and the total funds awarded was $196,261. Independent four year institutions of higher education received 6,639 in total awards of student financial aid, and the total funds were $22,166,642. Public two year institutions of higher education received 13,498 total awards, and the total funds were $14,754,399. Public four year institutions of higher education received 39,195 in total awards worth approximately $129,288,085. The Health Science Centers of Texas were awarded 84 grants worth approximately $273,153 and technical institutions of higher education were awarded 664 grants totaling $1,073,440. The number of TEXAS Grants awarded as of March 2006 was 60,142, which are worth approximately $167,751,980.[4]

The following is a brief overview of the B-On-Time projections. As of April 2006, 11,563 students were receiving B-On-Time funds worth approximately $21,279,805. The B-On-Time student loan program assumes that the TEXAS Grant is fully funded and Be-On-Time recipients do not have financial need. In the fiscal year 2005, public four year institutions of higher education received 3,895 awards at approximately $13,120,347. Independent four year institutions received 1,108 awards at approximately $3,660,426. Public two year colleges received 261 awards at approximately $293,515 and state technical colleges received 121 awards at approximately $209,890.

As of fiscal year 2005, 26,225 Tuition Equalization Grants had been offered to students attending private institutions of higher education. The average grant award was $2,687. Overall enrollment growth increased at private institutions of higher education from 6.9 percent in 2004 to 8.5 percent in 2005.[5]

Of the four billion dollars in federal, state and loan money offered to Texas students, 75 percent of the financial aid is through loans. The Federal Pell Grant Program is awarded to eligible undergraduates pursuing a first baccalaureate degree. The actual award amount is based on cost of attendance, expected family contribution (EFC), and enrollment status in institutions of higher education. A student may receive a maximum Pell Grant Award of $4,050. In 2003-2004, 396,214 students in Texas were receiving a Pell Grant with an average award of $2,432. In 2003-2004, 34,465 students in Texas were receiving Federal Work Study dollars with an average $1,503 award. The Federal Perkins Loan and the Federal Stafford Loan programs are the largest national loan programs for students pursuing higher education. In 2003-2004, 23,205 undergraduate students in Texas were receiving up to a maximum loan of $4,000. The average award of the Perkins Loan was $2,366 in Texas, and 725,199 Texas students were awarded Stafford Loans at an average of $3,835 per loan.

Financial aid has increased with tuition. However, it is covering current students at a much faster rate than new students, meaning that the increase in financial aid has not kept pace with the increase in nationwide tuition. The maximum amount of a federal grant from the federal government has not risen over time to meet the needs of the Closing the Gaps initiative in the state of Texas. Closing the Gaps targets students that by precedent have very low enrollment numbers in higher education; these students may be defined by income, race, ethnicity or geography. Further, those students who are less likely to enroll in high numbers are also risk adverse when faced with taking out loans to finance higher education. Inherently, students of certain subgroups believe that the only way to finance higher education is through what they feel to be a devastating loan. To students who are not enrolling in great numbers, the message is

unclear about financing higher education; thus, students and parents of specific populations are unaware of the potential to combine several state and federal grant programs with loan programs like B-On-Time. To achieve Closing the Gaps, the state must continue to address need based and merit based financial aid separately. The state must address need and merit based financial aid when partnered with student loans, and independently of student loans. Inherently, there is a divide between what methods of financial aid and loan forgiveness programs are available, and what information about those programs is getting to specific populations that are targeted through Closing the Gaps. The state must address ways for students to learn about financial aid and loan forgiveness opportunities through accessible communication tools. Currently, information on financing higher education is available. However, specific subgroups are unaware of some of the means used by the state for promoting financial aid. Thus, the communication tools must not only be accessible, but streamlined, promoted and disseminated to those populations that are needed to complete the initiatives of Closing the Gaps.

The Legislature should continue to partner with institutions of higher education and state agencies to evaluate the effectiveness and efficiency of dual programs combining grant and loan programs. Of the many financial aid programs that exist, including but not limited to work study, grants, loans, and loan forgiveness, no single program package targets those populations who are entering higher education in lower numbers. For example, one single work study program without a loan program and without a financial aid program will not allow students, specifically those in the lower economic tier, to access higher education. A combination of federal, state and local grants along with loan forgiveness programs and work study should be evaluated further if Closing the Gaps is to be achieved. Further, and most importantly, when those programs are

evaluated for a best means approach, there must be a form of universal, accessible and efficient method to promote financial aid in the state of Texas.

Policy Recommendations

1.) The legislature should require the Texas Higher Education Coordinating Board to promote college access and success by researching a combination of all grant programs, loan programs and work study programs to address the goals of Closing the Gaps. These combinations of programs may include, but are not limited to, TEXAS Grants, B-On-Time loan programs, and work study programs. Further, the legislature should remove B-On-Time as 5 percent of the tuition set aside and make it a general revenue item.

2.) The legislature should require the Texas Higher Education Coordinating Board to build on existing outreach campaigns by creating a universal website for access to college financial aid information. Further, the legislature should require the Texas Higher Education Coordinating Board to create a universal clearing house for a uniform statewide financial aid application for four year and two year colleges.

3.) The legislature should place a higher priority on increasing the effectiveness of general revenue funds that promote affordability, access, quality and productivity in higher education.

Charge 2

Consider formula funding models for institutions of higher education, and evaluate whether current formulas most effectively promote excellence and support the goals set forth in *Closing the Gaps*.

Background

The proportion of appropriated funding, through formula funding, varies by sector. Sectors are distinguished by community colleges, universities and health related institutions. As of 2005, the Texas Higher Education Coordinating Board estimated that 86.7 percent of general revenue went to community colleges, 60 percent of all funds were appropriated to universities and 60 percent of general revenue was appropriated to health-related institutions. The term "All Funds" is defined as general revenue, local funds and state endowments under the legislative definition of appropriated funds.

The formulas also vary by sector. There are three sectors including community colleges, universities, and health related institutions. Through the current formula funding process, Community colleges have one formula, which is named the instructional formula. Universities have an instruction and operations formula. The operations formula includes a teaching experience supplement and small institution supplement. Universities also have an infrastructure support formula which community colleges do not have. Health related institutions have an instruction and operations support formula along with an infrastructure support formula.

Community and technical college formulas cover academic and technical programs. The formula is based on annual cost studies of instructional costs and administrative costs. The formula divides the costs by contact hours, and the median cost of each discipline is determined. The median cost of each discipline is then used as a method of determining how much funding community colleges receive from the state. Universities' instruction and operations formula is

calculated based on 19 academic disciplines in five levels. The costs are divided by semester credit hours, relative to costs per semester credit hour. The average cost of each discipline at each level becomes the matrix weight in the universities' formula. Levels in the university formula are determined by the discipline, i.e. upper or lower division math, science or liberal arts. In short, an upper division Math course calculated as an academic discipline and divided by a semesters' number of credit hours would be weighted more than a freshman level English course that was calculated the same way, but weighted differently.

Appropriated funds are distributed in two ways, either directly in a bill pattern or indirectly in other parts of the Appropriations Act. The Texas system of higher education has 35 general academic teaching institutions, nine health related institutions, fifty community colleges, one technical college system with four main campuses, three lower division state colleges, seven service agencies at the Texas A&M University system, and the Texas Higher Education Board. Funding a general academic institution is different than funding a community college or health related institution. For general academic institutions, the funding within the "All Funds" formula includes the teaching experience, infrastructure, tuition revenue bonds, research development fund, excellence, institutional enhancement, special items and instruction and operation. In the last fiscal year, general academic institutions received approximately $5,425,500,000 in the "All Funds" formula. For general academic institutions, the funding with the general revenue formula were the same items under the "All Funds" formula receiving approximately $3,889,300,000 in general revenue. The formula for general revenue was 74.5 percent and the formula for "All Funds" was 75.3 percent.

Direct appropriations to each institution are lump sum, meaning the universities may spend the state appropriated money wherever it is needed at that specific institution. State contributions for higher education group insurance and tuition revenue bonds are sum certain and must be spent only for those purposes. General Revenue may be used for construction only if each house of the legislature passed the bill with a two-thirds vote. Formulas are used to allocate funds to institutions of higher education not as a tool for the legislature to budget items.

General academic institutions have three formulas: the instruction and operations formula, the teaching experience and the infrastructure formula. The instruction and operations formula is enrollment based and calculated on semester credit hours. The teaching experience is quantified by semester credit hours taught by tenure and tenure track professors, and the infrastructure formula is calculated and quantified on predicted square feet. Formulas for general academic institutions are weighted differently in the operations and instructions formula. For example, it costs more money in facility space and teaching for an engineering course or graduate course than it does a liberal arts course or an undergraduate course.

The general formula for the 35 academic institutions is calculated by adding state general revenue to the local funds of the 35 institutions. Local funds can be defined as tuition for that university, fees for a specific university and interest rates. After adding general revenue to local funds, the formula divides that by the statewide weighted semester credit hours. This gives a funding rate that can be applied to general academic institutions. Formula funding for the health-related institutions is similar to the general academic formula. The instruction and operation support formula allocates funding per full-time equivalent student based on a funding weight

determined according to the student's instructional program. A small class supplement is for additional funding to compensate for diseconomies of scales, which are for instructional programs with enrollments of less than 200 students at individual campuses. The infrastructure support formula allocates funding for physical plant support and utilities based on the predicted square feet at the institutions multiplied by a rate per square foot. For health related institutions, there are no similar formulas to the research support formula and the mission-specific support formula. The research support formula provides support for medical and clinical research of the institutions. The funds are allocated to the health related institutions using a base amount plus a percentage of research expenditures. The mission specific support formula applies only to the University of Texas M.D. Anderson Cancer Center and the University of Texas Health Center at Tyler. There is also no similar formula to the graduate medical education formula that provides support for medical education on a per resident basis. Funding is based on a base value of $4,806 per medical resident in an accredited program per biennium.[6]

Findings

The current formula funding matrix was adopted in 2004 from what is perceived to be the most objective analysis of each university's actual costs. Funds are distributed based on weights that the majority of the University Formula Advisory Committee and the Texas Higher Education Coordinating Board agreed upon. However, the system was developed based on need and urgency and it should not be absolute in how funds are distributed. For example, in testimony on May 10, 2006, it was indisputable that the matrix rewards the quantity of students and encourages enrollment numbers without encouraging completion rates.

There are special provisions needed to address specific problems within the current funding matrix. For example, the Coordinating Board acknowledges the workforce shortage issues in nursing and the fields of math and science. The legislature must address the current gaps in the formula funding structure that inherently disincentivize specific programs. The Coordinating Board has researched alternatives including incentive programs, productivity, and quality assurance tied to completion. As one possible alternative, for example, special provisions of the current formulas could be expanded to address workforce needs. A model that encourages specific workforce needs with incentive programs tied to completion rates could be introduced without depleting the intent of the current matrix.

The legislature's share of community college funding in 2003 was 31 percent. Community college boards raise local funds through tuition and fees and property taxes to target expenses associated with construction and maintenance. State appropriations to community colleges are used for instructional and administrative costs as defined by eight areas, including: faculty salaries; department operating expenses; instructional administration; student services; institutional support; organized activities; library costs; and staff benefits. All reports to the legislature regarding formula funding for community colleges are from the Report of Fundable Operating Expenses. The Texas Association of Community Colleges has documented that in the last decade, less than 100 percent of the formula has been funded for community colleges. In the 79th legislative session, the recommended formula was 60 percent. For the upcoming biennium, the formula recommendation from the Texas Higher Education Coordinating Board to the legislature will be 100 percent of the Report of Fundable Operating Expenses.

The current cost based methodology for formula funding should serve as a cornerstone for developing an objective formula funding matrix that achieves a growth in enrollment to reach Closing the Gaps while promoting productivity and quality in higher education. The current multi-formula method achieves the intent of the Formula Funding Advisory Committee; however, it does fall short in addressing productivity for specific programs and specific shortages. The current matrix does not address specific disciplines tied to graduation rates in workforce areas of math, science and engineering. The legislature must simultaneously cooperate with all entities of higher education to create a formula funding matrix that achieves the mission of Closing the Gaps, while creating a matrix tied to completion. The legislature must also examine and work to alleviate the disincentives for specific programs. This should be pursued while continuing to promote fair distribution among all University Systems.

Policy Recommendations

1.) The legislature should require the Texas Higher Education Coordinating Board to research formula funding incentive programs that directly target Closing the Gaps. Further research should be conducted to formulate a best means approach to promote improved operational productivity.

2.) The legislature should require the Texas Higher Education Coordinating Board to develop a methodology that addresses the teaching supplement. Quality of higher education, completion of undergraduate courses and degree programs and quantity as defined by enrollment numbers are currently addressed as dichotomous policy implications. The legislature should ensure that higher education in Texas promotes higher enrollment numbers and higher completion rates

while not sacrificing the productivity and effectiveness of the institutions of higher education.

3.) The legislature should reevaluate current incentive programs that address enrollment and completion numbers. Further, the legislature should promote the highest quality of higher education programs that promote institutional productivity and stability.

4.) The legislature should evaluate a better formula funding system for community colleges in order to Close the Gaps. Community Colleges will absorb 50 percent of the new students from "Closing the Gaps." The legislature must address a formula which encourages state aid and evaluates other methods of funding community colleges so that the quality of education is not sacrificed.

Charge 3

Evaluate accessibility to higher education, and identify whether certain areas of the state are underserved with respect to bachelor's and associate's degree programs.

Background

Closing the Gaps by 2015 was adopted in October 2000 by the Texas Higher Education Coordinating Board. The Coordinating Board worked with higher education, business, and community leaders from across the state to develop a plan with very focused and measurable targets. The plan, which is directed at closing educational gaps within Texas, as well as between Texas and other states, has four goals: to close the gaps in student participation, student success, excellence, and research. The main goal of Closing the Gaps is participation rates. The goal of Closing the Gaps by 2015 was to add an additional 630,000 students to Texas institutions of higher education. Further, the target was to increase the overall Texas higher education participation rate from 5 percent in 2000 to 5.6 percent by 2010 and to 5.7 percent by 2015. Closing the Gaps was a means of enrolling total student population from three subgroups: African Americans; Hispanics; and Anglos. Closing the Gaps is designed to increase higher education participation rates for African Americans from 4.6 percent in 2000 to 5.6 percent by 2010 and 5.7 percent by 2015. The vision is to also increase the participation rate for Hispanics from 3.7 percent in 2000 to 4.8 percent by 2010 and to 5.7 percent by 2015. Finally, a target was set to increase student population for Anglo students from 5.1 percent in 2000 to 5.7 percent by 2010 and to retain 5.7 percent in 2015.

In 2005, the Texas Higher Education Coordinating Board issued a progress report of revised goals tailored to success, teacher education research, and allied health. This initiative indicates success rates of those students now entering institutions of higher education. By 2015, the revised goal of the Coordinating Board was to award 210,000 undergraduate degrees and other identifiable student successes from high quality programs. The revised targets addressing student

success include: increase the overall number of students completing bachelor's degrees, associate's degrees and certificates to 171,000 by 2010, and to 210,000 by 2015; increase the number of students completing bachelor's degrees to 100,000 by 2010, and to 112,500 by 2015; increase the number of students completing associate's degrees to 43,400 by 2010, and to 55,500 by 2015; increase the number of students completing doctoral degrees to 3,350 by 2010, and to 3,900 by 2015; increase the number of African-American students completing bachelor's degrees, associate's degrees and certificates to 19,800 by 2010, and to 24,300 by 2015; increase the number of Hispanic students completing bachelor's degrees, associate's degrees and certificates; to 50,000 by 2010, and to 67,000 by 2015; and increase by 50 percent the number of students who achieve identifiable successes other than with certificates and degrees by 2015. Further, the Coordinating Board laid out a target to exceed the average performance of the 10 most populous states in workforce education provided by community and technical colleges.

Revised targets in Closing the Gaps in research issued by the Texas Higher Education Coordinating Board include increasing the level of federal science and engineering research by 2015. Further, increased development obligations to Texas institutions are 6.5 percent of obligations to higher education institutions across the nation. Targets also include increasing federal science and engineering obligations to Texas universities and health related institutions from 5.6 percent of the obligations in 2000 (or $1.1 billion in 1998 constant dollars) to 6.2 percent in 2010, and to 6.5 percent of obligations to higher education by 2015. Finally, research goals include increasing research expenditures by Texas public universities and health-related institutions from $1.45 billion to $3 billion by 2015 (approximate 5 percent increase per year).

Closing the Gaps in teacher education issued by the Coordinating Board include increasing the number of teachers initially certified through all teacher certification routes to 34,600 by 2010, and to 44,700 by 2015. Further, Closing the Gaps seeks to increase the number of math and science teachers certified through all teacher certification routes to 6,500 by 2015. Closing the Gaps in allied health issued by the Coordinating Board include increasing number of students completing allied health and nursing bachelor's and associate's degrees and certificates to 20,300 by 2010, and to 26,100 by 2015.

In April 1999, a Coordinating Board Planning Committee was appointed to develop a new higher education plan. Four task forces were formed to focus on key issues of higher education participation, performance and research. The four task forces were the committee on OCR Issues, the task force on participation and success, the task force on health professions education and the task force on development of the technology workforce. The four task forces reviewed data performed by the RAND Corporation, or a review board to conduct an analysis on priority and efficiency needs of higher education programs and services in Texas. In July 2000, the Coordinating Board reviewed the draft of the higher education plan recommended by the Planning Committee and authorized, with some modification, its distribution for comment.

The success of Closing the Gaps does not only depend on financial resources, but also on institutional creativeness, legislative support and legislative initiative in meeting institutional targets for 2005, 2010 and 2015. The strategy to develop a performance system to determine progress is one of the plan's key elements.

The Coordinating Board received a legislative appropriation in 2000 to expand access to data currently collected through several different operational systems. Legislative support was provided for this program in close cooperation with the Texas Education Agency and State Board for Educator Certification for development of a P-16 Student/Staff Public Education Data Warehouse.

Findings

From the 2005 progress report from the Texas Higher Education Coordinating Board, much progress has been made in participation rates. The 188,294 growth in student enrollment from fall 2000 to fall 2004 represents the largest four year enrollment increase in the history of Texas higher education. Anglo and African-American student participation targets for 2005 have been met. Although the large number of Anglo students has significantly increased total enrollment, the percentage increase for Anglo students was only 10.7 percent between fall 2000 and fall 2004. African-American participation during the same period rose by a healthy 27.5 percent. Hispanic enrollment from fall 2000 to fall 2004 increased by about 72,000 students (30.3 percent), averaging nearly 18,000 more Hispanic students annually. Because of the magnitude of growth needed to reach Hispanic participation targets, this impressive increase is not sufficient to reach the 2005 enrollment target. An average annual increase of 23,520 Hispanic students is needed. Although 2005 targets have been reached for total enrollment and for African-American and Anglo enrollment, Hispanic enrollment is not yet on track to meet its target. Texas must increase Hispanic college enrollment by an additional 30,600 students next fall to reach the 2005 target for that group. In addition, the percentage of recent high school graduates who enter college is not increasing, suggesting a need to enhance efforts to encourage them to prepare for,

enroll and succeed in college.[7]

Findings from the Coordinating Board also indicate progress in success rates, teacher education, and allied health. In 2001, the number of academic credentials (certificates, associate's and bachelor's degrees) awarded increased by only 526 awards over 2000. During the following three years, however, the number of academic awards increased by more than 7,000 annually –7,874, 7,548, and 7,327. These increases moved the state past the original 2005 *Closing the Gaps* success target. Texas higher education institutions awarded a total of 139,040 undergraduate degrees and certificates in 2004. The 2005 target for associate's degrees was reached in FY 2004. The number of certificates and undergraduate degrees awarded to African-Americans has increased significantly, and the 2005 target was exceeded in FY 2003. The past year's growth was an impressive 9.9 percent, or 1,330 more awards. The number of certificates and undergraduate degrees awarded to Hispanics increased by about 9.5 percent for three consecutive years, to 31,419 in FY 2004. The 2005 intermediate target of 31,000 has been surpassed. The number of doctoral degrees awarded increased slightly in FY 2003 after falling to a low of 2,539 in FY 2002. The growth in FY 2004 was more robust at 5.9 percent or 152 degrees to 2,729. The computer science, engineering, engineering technology, and physical science programs included in the technology category have been revised to match federal changes. In 2004, these awards totaled 14,867, far short of the 2005 target of 19,000. The target likely will not be met since the number awards has increased by only 2,293 since FY 2000.

Allied health and nursing undergraduate awards exceeded the 2005 target in FY 2004. Teacher preparation has changed tremendously since *Closing the Gaps* originated. According to the State

Board of Educator Certification, 70 percent of newly certified teachers in 2000 were prepared in traditional university undergraduate programs. By 2003, traditionally prepared teachers represented 46 percent of new certifications, alternative certification programs accounted for 34 percent, and post-baccalaureate programs were responsible for 20 percent. The analysis provided by the Texas Higher Education Board illustrates that the state continues to award more degrees and certificates to African-American and Hispanic students. Further Allied health and nursing and teacher education awards have passed their 2005 intermediate targets.

When addressing Closing the Gaps and participation in higher education, the Texas Higher Education Coordinating Board illustrates that to increase enrollment among specific populations there must be a uniform and concise way to reach parents and students who may be unlikely to go to college. Students who are unlikely to go to college are often unaware of the state and federal financial aid programs and loan programs.

The Texas Higher Education Coordinating Board has launched a statewide campaign to disseminate more information regarding access and affordability targeting students who are unlikely to attend college. The initiative is a Mobile Go Center. There are currently three Go Centers that have been purchased by the College for All Texans Foundation with grants and gifts. The Go Centers are mobile automobiles in a 38 feet long trailer that is air conditioned and equipped with ten laptop computers, a printer-scanner-copier, and high speed internet. The Go Centers will be operated by the University of Texas at San Antonio, Houston Community College, and Dallas County Community College beginning in March 2006. The University of Texas-Pan American will operate its own trailer as a fourth Mobile Go Center.

The Go Centers travel and set up at sporting events, supermarkets, malls, parking lots, schools and other various places that have been indicated as having a large population of youth. The Centers are specifically targeting students and parents who believe there is no opportunity to attend college. The AT&T Foundation has awarded a grant of $100,000 per year for eight years to equip each center with technology. Numerous private foundations have contributed to the ability of College for Texans to purchase the initial three Mobile Go Centers. However, the sheer size of the state of Texas illustrates the need for more centers. The Go Centers are one means of achieving Closing the Gaps by targeting the populations who are lagging behind in college access. College for Texans, the Texas Higher Education Coordinating Board, the Guaranteed Student Loan Corporation and numerous others including individual systems are seeking way to target specific populations of enrollment.

Policy Recommendations

1.) The legislature should continue state support for the College for Texans program, and increase funding for a universal access site that provides information on state and federal loan programs for students and parents. College for Texans is currently an online resource for juniors in high school to begin planning for college.

2.) The legislature should continue to evaluate the effectiveness and potential statewide benefits of the Go Center campaigns. The legislature should continue to support all efforts that allow students more financial aid access.

3.) The legislature should require that the Texas Higher Education Coordinating Board study the

state's current capacity to accommodate the number of students needed to meet the goals set forth in Closing the Gaps, and create a methodology and delivery model that ensures the legislature that institutions of higher education will be able to meet the enrollment and retention demands of Closing the Gaps.

4.) The legislature should require that the Texas Higher Education Coordinating Board study the state's current degree offerings, along with accessibility to those degrees, and report back to the legislature whether the state is currently offering the degrees necessary to meet Texas workforce demands.

Charge 4

Examine existing methods of facilities funding for institutions of higher education, and identify the most efficient means by which to allocate state resources.

Background

As previously stated, the goals of Closing the Gaps hopes to enroll 1.6 million students in higher education by the year 2015. Currently, community colleges, universities and health related institutions do not have the space to absorb that growth. Because there is a space deficit, it is inevitable that the state find a way to address that deficit to meet the goals set forth by Closing the Gaps. In 1997, the Texas legislature incorporated a Space Projection Model designed by the Texas Higher Education Coordinating Board. This model does an assessment for new construction needs at all of the state's public universities and state colleges. The space model projects the net assignable square feet of educational and general space an institution needs in five categories. The five categories are teaching, library, research, office and support space. Each sector has various "drivers," and many of those are based on enrollment. The space model does not account for increased efficiency that could result from technological advances or improved utilization of space, meaning that there is no formula that benefits a university who is using online courses, night courses, or weekend courses to better utilize space.

The space model by the Texas Higher Education Coordinating Board does not include community college facilities because community college districts assume their own costs through local taxing districts. However, community colleges are expected to enroll approximately 70 percent of the new students needed to achieve Closing the Gaps, and currently 49 percent of students participating in higher education are enrolled in community colleges.

The largest policy component of facility needs is tuition revenue bonds. Chapter 55 of the Texas Education Code grants public universities and colleges the authority to issue revenue bonds for

the purpose of providing funds to acquire, purchase, construct, improve, enlarge, and equip buildings, structures, activities, services, operations, or other facilities. The facilities are to be payable from and secured by liens on and pledges of all or any part of any of the revenue funds of the board of regents and its institution of higher education. "Tuition" revenue bonds are revenue bonds for which tuition charges are pledged in the bond covenants as the revenue stream for payment.

The legislature first authorized tuition revenue bonds for several campuses in 1971 and 1973. The total amount authorized was $267.5 million.[8] Historically, the state has appropriated funds to the institutions to repay all or a portion of the debt service on revenue bonds issued by Chapter 55 of the Texas Education Code. However, Section 55.19 of the Education Code states that bonds issued by a board are payable solely from the revenues, income, receipts, or other resources of the board.

The current legislative process for issuing bonding authority requires institutions of higher education to first submit their projects to the Texas Higher Education Coordinating Board for preliminary evaluation. The Coordinating Board then uses its methodology to review cost, efficiency and space needs for each institution. Each project is then given a rating; however, it is not ranked by the Coordinating Board. For the 2005 session, institutions requested $3.1 billion in tuition revenue bond authority for 119 projects. During the 79th regular session, no tuition revenue bond authority was granted. In the third called session of the 79th session, institutions requested $3.6 billion in tuition revenue bond authority. Sixty three projects totaling approximately $1.8 billion in tuition revenue bond authority was approved by the legislature.

After the legislature authorizes the issuance of bonds, the institutions request project and financing approval from their board of regents. The boards of regents for each institution are responsible for approving projects. The projects are submitted to the Coordinating Board for evaluation and those evaluations are provided to the Governor, the Speaker, the Lt. Governor and the Legislative Budget Board. The institution then submits an application for the Bond Review Board. The Bond Review Board verifies that the institution has approval for the issuance of the bonds, analyzes the project requests and determines that the financing system is appropriate. An institution or system is permitted to aggregate the bond amounts for all of its institutions and to pledge an aggregate amount of tuition. The Bond Review Board authorizes the issuance of the bonds, and the Attorney General reviews and approves the issuance of bonds. The institution or system then sells the bonds and services the debt.

Other public policy components of facility funding are the Permanent University Fund (PUF), the Higher Education Assistance Fund (HEAF), the Available University Fund (AUF), also known as the "excellence" fund, and the Permanent Higher Education Fund (PHEF). All public institutions of higher education except community colleges and the Texas A&M University System College of Dentistry receive funding for construction and other capital purposes from the Permanent University Fund or the Higher Education Assistance Fund. The amount of funds allocated for each PUF institution is determined by the Boards of Regents of The University of Texas System and Texas A&M University System each year. The allocation of HEAF funds to each institution is determined by the legislature and may be revised every five years.

The PUF was established in the Texas Constitution of 1876 through the appropriation of land

grants previously given to The University of Texas at Austin plus one million acres of land. Today, the PUF still owns approximately 2.1 million acres of land located in 24 counties primarily in West Texas. The PUF is a public endowment contributing to the support of institutions of The University of Texas System and the Texas A&M University System that were parts of those systems when HEAF was created. The PUF provides support to 21 institutions of the UT and A&M Systems, including health related institutions of both systems and the Texas A&M land grant research and service agencies.

The PUF is managed by the board of regents of the UT System. The UT System contracts with the University of Texas Investment Management Company to provide day-to-day management of the PUF and other university investments. At the end of August 2005, assets of the PUF had a market value of $9.2 billion, which does not include the value of PUF lands of $1.5 billion. PUF income derived from the total return on investments and net surface income from PUF lands is deposited in a separate account called the Available University Fund. Two-thirds of the AUF is appropriated to the University of Texas System and one-third is appropriated to the Texas A&M System. The amount of AUF funds allocated to each eligible institution is determined by the boards of Regents for the University of Texas and Texas A&M Systems. The 79th legislature appropriated $755.3 million to the AUF for the University of Texas and A&M University to use for capital purposes.

Because the PUF was not appropriated to all Texas universities, the legislature provided an amendment to the state constitution in 1983 and 1984 to allow appropriations to universities, health-related institutions, and Texas State Technical College institutions that do not share PUF

income. The HEAF fund was created and is used for many of the same purposes that the PUF was, but for more institutions. Under the HEAF, institutions can acquire land, and construct, repair and rehabilitate buildings. They can also purchase capital equipment and library materials with HEAF funds.

In 1994, the legislature created a dedicated endowment, the Higher Education Fund (HEF) for the benefit of non-PUF institutions. Each year between 1996 and 2001, the HEF endowment received appropriations of $50 million per year. Beginning in Fiscal Year 2002, the $50 million appropriated to the HEF endowment was reduced by the amount of interest earned by the HEF, and a corresponding amount was transferred to the Texas Excellence Fund for the benefit of HEAF eligible institutions. At the end of August 2005, the net investment assets of the HEF had a market value of $496 million. The intent of the legislature has consistently been to create a permanent, self sufficient funding source to replace the Higher Education Fund (HEF). Thus, in 1996, the legislature created the Permanent Higher Education Fund (PHEF). Appropriations to the HEF will permanently end and annual distributions from the PHEF will begin to go to universities once the PHEF fund balance reaches $2 billion.

Findings

The Texas Council of Public University Presidents and Chancellors have illustrated that the Texas Higher Education Coordinating Board plans to spend over $10 billion in capital expenditures in the next five years with tuition revenue bonds and other revenue bonds as the major source of funds to pay for expenses. Expenses include capital needs, and the state funds for those capital needs. The Texas Higher Education Coordinating Board illustrates that the state's universities, colleges and technical colleges reported a 4.7 million square foot space

deficit. Applying the targets set forth by Closing the Gaps participation, there will be a deficit of approximately 15.5 million square feet by 2015. Along with targets set forth by the Coordinating Board, institutions of higher education have begun to issue individual targets in enrollment to begin Closing the Gaps. The Coordinating Board illustrates that if those targets were applied

today, the space model produces a space deficit of approximately 15.5 million square feet by 2015.

As of February 28, 2006, the net investment assets of the PUF had a market value of approximately $9.8 billion and the PUF's rate of return over the last decade averaged 9.6 percent per year. For the fiscal year 2006, the budgeted amounts for the AUF, or "excellence" fund, were as follows: $111.4 million for the University of Texas at Austin; $29.7 million for the University of Texas system; $82.5 million for Texas A&M University; $12.1 million for Texas A&M Prairie View; and $6.8 million for the Texas A&M system.[9] From 1996 to 2007, the legislature appropriated an extra $175 million each year on top of the existing $100 million in general revenue. Starting in fiscal year 2008, the amount will increase again to $262.5 million. For the Permanent Higher Education Fund, or PHEF, distributions to eligible universities will be based on the previous fiscal year's annual earning. Out of those earnings, 90 percent will be distributed to universities and 10 percent re-invested into the fund. As of February 28, 2006, the market value of the PHEF was approximately $532 million.

Issuance of debt service is limited by statutory law. The Texas State Constitution allows the University of Texas and Texas A&M systems to use all their AUF income for debt service. HEF

institutions are limited to using 50 percent of their respective HEF allocations for HEF debt service. The Constitution limits the amount of PUF backed bond issuance to 10 percent of the cost value of the PUF at the time of issuance for Texas A&M and 20 percent for the University of Texas system. As of December 31, 2005, the estimated potential debt to Texas A&M University was $452,150,000 and $613,001,926 for the University of Texas System.[10]

Stable funding for institutional support and maintenance is essential for the growth of higher education in Texas and achieving the goals of Closing the Gaps. However, without some type of stable mechanism to predict the flow of state revenue, institutions are limited in forecasting enrollment growth and future capacity needs. There are two facts regarding capital needs in Texas: (1) enrollment in Texas Universities is growing with the initiative of Closing the Gaps and (2) there is a need for capital funding to utilize existing space and create new space to manage enrollment growth.

Texas is not the only state to see increases in enrollment, thus the Texas Council of Public University Presidents and Chancellors began to research other states and their enrollment numbers along with capital funding in those states. The Texas Council of Public University Presidents and Chancellors launched a national study on capital funding. Their report included responses from 37 of the 50 states. The preliminary results illustrated several key initiatives beneficial to the state of Texas. Most states had a regular and consistent review of facility needs; some states used methods produced by institutions and others used agencies or legislative direction. In 73 percent of the respondents, an appropriations act or form of enabling legislation identifies specific projects to be debt financed. Seventy-three percent of states responding to the

survey appropriate debt service for state issued debt, and 62 percent of the responding states may receive state appropriations for the total construction costs of projects. Also, sixty-two percent of responders indicated that the state required the institutions to share in capital project debt at some level, and 22 percent of states reported using a revolving bond fund to support debt issuance for university facility projects. Finally, the survey illustrated that 41 percent of the states indicated that the state did have a formula to measure the needs for classroom, research and administrative space.[11]

The Texas Council of Public University Presidents and Chancellors referenced the National Association of State Budget Officers (NASBO) who conducted a nation capital budgeting survey in 1997. The NASBO identified several key features in states who were satisfied with their capital budgeting process. The states which were most satisfied with their process use a formal way to keep legislatures informed about the capital budget needs of the state. Some states had formal committees who only examine financing of capital funding needs and sates that have a committee produce a report of the capital budget process with forecast predictions. States that have made drastic changes in their capital outlook have emphasized a longer range outlook for capital planning, some with life cycle cost analysis and others with links to long range performance levels. Some states, Illinois and Montana for example, have dedicated long term funding sources for capital expenditures, and North Dakota has hired a state architect to oversee capital projects. In short, states that are satisfied with how capital needs are addressed have a uniform and consistent process of communication between all agencies, the legislative and executive branches of government.[12]

Policy Recommendations

1.) The state should require the Texas Higher Education Coordinating Board to implement a statewide plan for access to institutional funding and begin researching other states that have led successful initiatives in capital funding. The state should require the Texas Higher Education Coordinating Board to implement a system to maintain a universal ranking system with universal language regarding tuition revenue bonds and facility funding.

2.) The legislature should require that general revenue funding be used to reimburse higher education institutions for the cost related to debt service of all approved tuition revenue bonds, and thereby appropriate general revenue to the authorized tuition revenue bonds.

3.) The legislature should create an incentive program that encourages institutions of higher education to better utilize facility space through online courses, and also night, weekend and summer courses.

Charge 5

Study community college service areas, and determine whether-and to what extent-existing boundaries should be modified to reflect population shifts or other demographic changes.

Background

The primary mission of Texas Community Colleges is to serve Texas public junior college students, their local taxing districts and service areas in Texas, as well as offer vocational, technical and academic courses for certification or associate degrees. Public community college districts are created by local communities and are governed by locally elected boards. They are funded through a combination of locally assessed taxes, tuition and fees, and state general revenue appropriations.

The Texas Education Code, Subchapter J, assigns each community college district service areas for providing educational services. The statutes define 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. The Texas Higher Education Coordinating Board exercises general control of the public junior colleges of Texas. The coordinating board has the responsibility for adopting policies, enacting regulations, and establishing general rules necessary for carrying out the duties with respect to public junior colleges as prescribed by the legislature. The Coordinating Board may authorize the creation of public junior college districts as provided in the statutes, giving particular attention to the need for a public junior college in the proposed district and the ability of the district to provide adequate local financial support.[13]

The legislature approves the establishment of any new public community college campus within an existing junior college district or the establishment of any new junior college district if proposed during or within three months prior to a legislative session. For any new public junior college campus to be established within an existing junior college district when the legislature is

not in session, the Legislative Budget Board must approve the proposal. Territory may be annexed to the junior college district for junior college purposes only if the territory consists of territory wholly within a College District, a county, or a municipality, and is contiguous to the junior college district or located in the service area of the College District established under Education Code Chapter 130, Subchapter J. A junior college district cannot be annexed if the territory is included in the boundaries of another junior college district or a campus of the Texas State Technical College System.

Findings

There are 74 public community and technical colleges in the state of Texas. Primary Service Area Population is based on three factors. The first is the county in which the college is physically located. The second includes counties from which at least 5 percent of the student population is drawn, and finally the population of adults 18-64 years. The Texas State Technical College System (TSTC) institutions and the Lamar State Colleges have no taxing authority and are funded by local tuition and fees and state general revenue appropriations. The Texas State Technical College System and Lamar State Colleges vary slightly in content from community colleges profiles. As defined by the Texas Education Code, the emphasis of each TSTC System campus shall be on advanced and emerging technical programs not commonly offered by public junior colleges. The service area for the TSTC System institutions is the State of Texas. The Lamar State Colleges do not have a state-defined service area at this time.

Two year institutions are the largest sector of higher education in Texas with community colleges educating the majority of students in the state. The enrollment at community colleges has

increased 39.4 percent in the last decade. The most important challenge for community colleges will be for the institutions and the state to provide the programs and opportunities needed in the service area of each community college district. The intent of service areas for junior colleges was to avoid duplication of services among neighboring two year institutions. Thus the intent of service areas is no longer present if there is no clear communication to potential students about the distinct services each community college offers. Currently there is no central clearinghouse of information where students or high school counselors can learn about the services, costs, or aid in specific community college service areas.

Policy Recommendations

1.) The state legislature should require the Texas Higher Education Coordinating Board to review the state community college system; including, but not limited to financing, service areas and annexation.

2.) The legislature should require the Texas Higher Education Coordinating Board to implement a dispute resolution system for community college service area disputes.

Charge 6

Review and analyze all higher education funding formulas. (Joint Interim Charge with the House Committee on Appropriations).

Background

As illustrated in the language of Interim Charge 2, the proportion of appropriated funding, through formula funding, varies by sector. Sectors are distinguished by community colleges, universities and health related institutions. The current formula funding matrix was adopted in 2004 from what is perceived to be the most objective analysis of each university's actual costs. Funds are distributed based on weights that the majority of the University Formula Advisory Committee and the Texas Higher Education Coordinating Board agreed upon. However, the system was developed based on need and urgency and it should not be absolute in how funds are distributed.

There are special provisions needed to address specific problems within the current funding matrix. The legislature must address the current gaps in the formula funding structure that inherently disincentivize specific programs. The Coordinating Board has researched alternatives including incentive programs, productivity, and quality assurance tied to completion. A model that encourages specific workforce needs with incentive programs tied to completion rates could be introduced without depleting the intent of the current matrix.

The current cost based methodology for formula funding should serve as a foundation for developing an objective formula funding matrix. The matrix should be designed in a way that achieves a growth in enrollment to reach Closing the Gaps while promoting productivity and quality in higher education. The current multi-formula method achieves the intent of the Formula Funding Advisory Committee; however, it does fall short in addressing productivity for specific programs and specific shortages. The legislature must simultaneously cooperate with all

entities of higher education to create a formula funding matrix that achieves the mission of Closing the Gaps, while creating a matrix tied to completion. The legislature must also examine and work to alleviate the disincentives for specific programs. This should be pursued while continuing to promote fair distribution among all University Systems.

Policy Recommendations

1.) The legislature should require the Texas Higher Education Coordinating board to research formula funding incentive programs that incentivize completion rates and fully address Closing the Gaps. The legislature should require the Texas Higher Education Coordinating Board to develop a formula funding matrix that addresses the teaching supplement, the quality and the productivity of higher education institutions.

ENDNOTES

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