



# The Budgeting Process for Public Universities in Texas

Texas Higher Education Leadership Conference  
November 21, 2019

**Scott C. Kelley, Ed.D.**  
*Executive Vice Chancellor for Business Affairs  
The University of Texas System*

1

## Agenda

- State of Texas Budget Overview
- Higher Education Formula Funding – General Academic Institutions
- Institutional Funding and Budgeting Activities
- Long-Range Strategic Financial Planning

2

# State of Texas Budget Overview

3

## State Funding Sources

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



4

## Method of Finance – State Budget

### General Revenue (GR)

State's Primary Operating Fund

- State Tax Revenues (Sales Tax)
- Lottery Proceeds
- Investment Income
- Many State Fees

### General Revenue (GR) -Dedicated

- Tuition Revenue
- Fees
- State Parks
- Department of Insurance Operating

### Federal Funds

- Grants from Federal Government
- Employee Benefits on Federal Programs

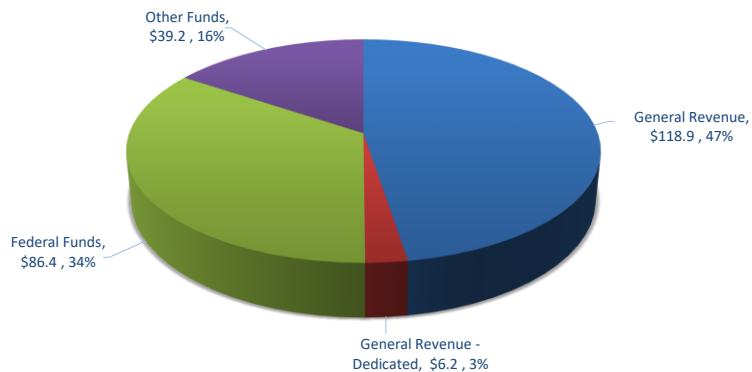
### Other Funds

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

5

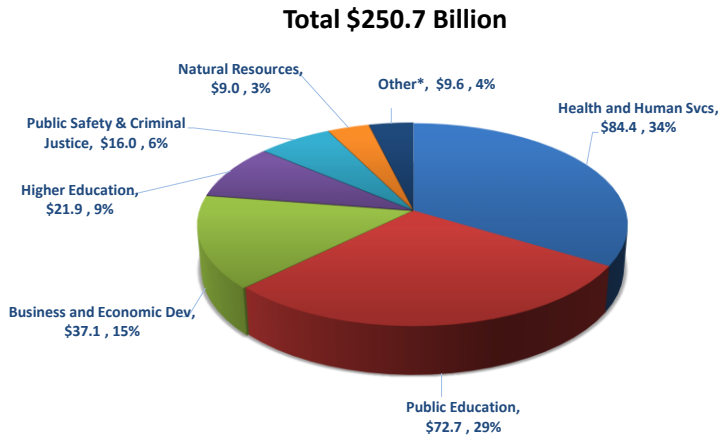
## State Budget – All Funds 2020-2021 Biennial Appropriations by Method of Finance

Total \$250.7 Billion



6

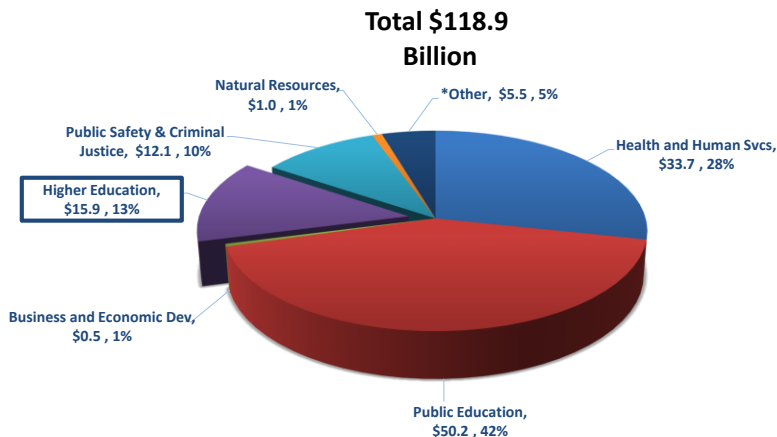
## State Budget – *All Funds* 2020-2021 Biennial Appropriations *by Function*



\*Other includes appropriations for General Government, Judiciary, Regulatory, the Legislature, and Contingent Appropriations made in Art. IX (excluding \$11.5B for HB 3, which is included in the Public Education total)

7

## State Budget – *General Revenue* 2020-2021 Biennial Appropriations *by Function*



\*Other includes appropriations for General Government, Judiciary, Regulatory, the Legislature, and Contingent Appropriations made in Art. IX (excluding \$11.5B for HB 3, which is included in the Public Education total)

8

# Higher Education Formula Funding – General Academic Institutions

9

## Higher Education Funding Components – General Academic Institutions

- **Formula Funding**

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

- **Non-Formula Funding**

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

10

## What Functions are the Formulas Designed to Fund?

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



11

## What Functions are NOT Included in the Formula Funding?

- Non-Formula Support Items
- Tuition Revenue Bonds
- Texas Research University Fund
- Texas Research Incentive Program
- Comprehensive Research Fund
- Core Research Support
- AUF, Auxiliary, and Other Institutional Funding



12

## Components of Formulas for General Academic Institutions

There are two major formulas and one smaller one:

- Instruction and Operations
- Infrastructure Support \*
- Teaching Experience Supplement

\* Additionally, some institutions qualify for a Small Institution Supplement to recognize the reduced economies of scale. Applies to institutions with less than 10,000 students.

13

## The Importance of Credit Hours

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

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

14

## How Does the Instructions and Operations Formula Generate Funds?

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



15

## The “Base Period”

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

16



## What are Weighted Credit Hours?

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

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

17

## Weighted Credit Hours

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

### Examples:

- A 3 hour lower division history course with 20 students enrolled would generate 60 weighted SCH (20 students x 3 SCH x 1.00 weight)
- A 3 hour masters level business course with 20 students enrolled would generate 196 weighted SCH (20 students x 3 SCH x 3.27 weight)
- A 3 hour doctoral education course with 20 students enrolled would generate 487 weighted SCH (20 students x 3 SCH x 8.12 weight)

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

18

## The Formula Matrix 2020-2021 Biennium

<b>Weighting</b>	<b>Lower Div</b>	<b>Upper Div</b>	<b>Masters</b>	<b>Doctoral</b>	<b>Special Prof</b>
Liberal Arts	1.00	1.75	4.30	12.38	-
Science	1.51	2.76	7.33	21.87	-
Fine Arts	1.45	2.66	6.69	8.47	-
Teacher Education	1.46	1.98	2.41	8.12	-
Agriculture	1.87	2.38	7.43	13.58	-
Engineering	1.96	2.99	6.00	18.47	-
Home Economics	1.11	1.80	3.06	10.50	-
Law					4.99
Social Services	1.58	1.85	2.31	23.84	-
Library Science	2.19	1.75	3.02	15.16	-
Vocational Training	1.22	2.93	-	-	-
Physical Training	1.38	1.33	-	-	-
Health Services	0.97	1.56	2.62	11.28	2.80
Pharmacy	7.37	4.13	34.67	39.21	4.47
Business Admin	1.13	1.79	3.27	28.23	-
Optometry	-	-	-	-	7.08
Teacher Ed Practice	2.00	2.19	-	-	-
Technology	1.91	2.29	3.82	11.55	-
Nursing	1.37	2.04	2.74	10.29	-
Developmental Ed	1.00	-	-	-	-
Veterinary Medicine	-	-	-	-	24.58

19

## Getting from weighted SCH to Instruction and Operations income

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

- For the 2020-2021 biennium, the value is \$55.85 per weighted SCH

So, looking at our examples again:

- The lower division history course earned **\$3,351** (60 wsch x \$55.85)
- The masters business course earned **\$10,947** (196 wsch x \$55.85)
- The doctoral education course earned **\$27,199** (487 wsch x \$55.85)

20

## Income from a 3 credit hour class with 20 students enrolled

I&O Income	Lower Div	Upper Div	Masters	Doctoral	Special Prof
Liberal Arts	\$ 3,351	\$ 5,864	\$ 14,409	\$ 41,497	-
Science	\$ 5,082	\$ 9,271	\$ 24,574	\$ 73,275	-
Fine Arts	\$ 4,859	\$ 8,936	\$ 22,396	\$ 28,372	-
Teacher Education	\$ 4,915	\$ 6,646	\$ 8,098	\$ 27,199	-
Agriculture	\$ 6,255	\$ 7,987	\$ 24,909	\$ 45,518	-
Engineering	\$ 6,590	\$ 9,997	\$ 20,106	\$ 61,882	-
Home Economics	\$ 3,742	\$ 6,032	\$ 10,276	\$ 35,186	-
Law	\$ -	\$ -	\$ -	\$ -	\$ 16,699
Social Services	\$ 5,306	\$ 6,199	\$ 7,763	\$ 79,866	-
Library Science	\$ 7,316	\$ 5,864	\$ 10,109	\$ 50,824	-
Vocational Training	\$ 4,077	\$ 9,830			-
Physical Training	\$ 4,636	\$ 4,468			-
Health Services	\$ 3,239	\$ 5,250	\$ 8,768	\$ 37,810	\$ 9,383
Pharmacy	\$ 24,686	\$ 13,851	\$ 116,168	\$ 131,415	\$ 14,968
Business Admin	\$ 3,798	\$ 5,976	\$ 10,947	\$ 94,610	
Optometry					\$ 23,736
Teacher Practice	\$ 6,702	\$ 7,316			-
Technology	\$ 6,423	\$ 7,651	\$ 12,790	\$ 38,704	-
Nursing	\$ 4,580	\$ 6,814	\$ 9,159	\$ 34,459	-
Developmental Ed	\$ 3,351				-
Veterinary Medicine					\$ 82,379

21

## Infrastructure Support

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

22

## Coordinating Board Space Projection Model

### 5 Dimensions

Teaching Space

Library Space

Research Space

Office Space

Support Space

### Variables

Programmatic areas and level of SCH

FTE faculty, FTE Students, approved programs

Research expenditures, FTSE

FTE Faculty, FTE non-faculty, current fund E&G Expenditures

9 percent of total predicted square feet for all other factors



23

## Teaching Experience

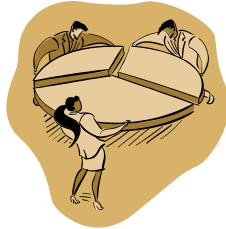
- This is a simple add-on to the Instruction and Operations formula.
- Designed to provide bonus or incentive for the institution to assign tenure/tenure track faculty to teach undergraduate students
- For 2020-2021 Biennium – extra 10% weight
- The intent is to reward institutions for NOT using TAs and Adjuncts to teach undergraduates.



24

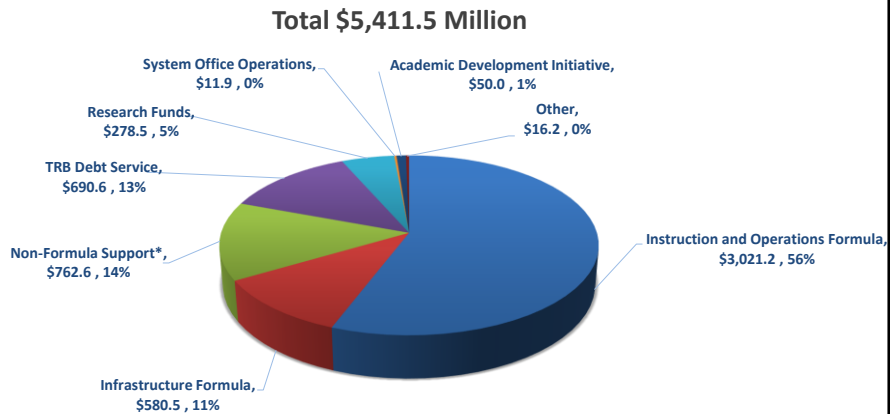
## Formula Funding Distribution Across Higher Education Institutions

- For Higher Education, it is important to grow in weighted semester credit hours at a rate at least as fast as the state as a whole.
- Why? Because the formulas are used as a mechanism to **distribute** higher education funding.
- Universities growing slower than average end up with smaller pieces of the funding pie, while fast growing institutions benefit.



25

## General Academic Institutions 2020-2021 Biennial *General Revenue* Appropriations *by Function*



\*Non-Formula Support includes \$60.4 million in direct appropriations made to institutions in Art. IX

26

# Institutional Funding and Budgeting Activities

27

## General Academic Institution Funding

### APPROPRIATED FUNDS

#### **Formula General Revenue**

**Non-Formula General Revenue** (Non-Formula Support items, Benefits, Tuition Revenue Bonds)

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

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

#### **Other Income**

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

28

## General Academic Institution Funding

### NON-APPROPRIATED FUNDS, "Institutional Funds"

#### **Designated Funds**

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

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

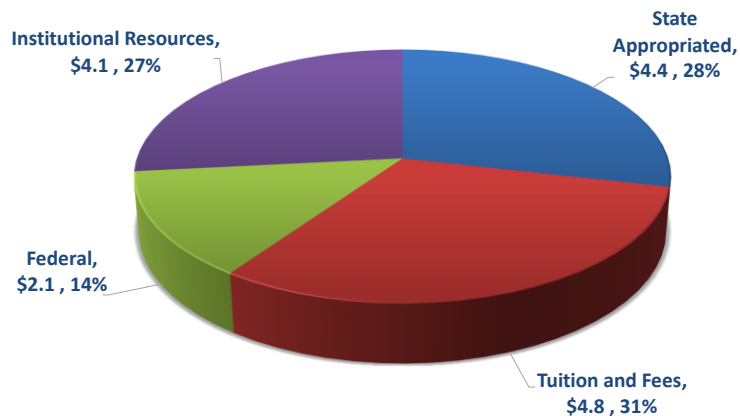
**Restricted Funds** (These funds have restrictions on their use. For example, research grants specify how grant funds may be spent)

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

29

## Sources and Uses – General Academic Institutions (GAI) FYE 2018

Total \$15.3 Billion



30

## Typical Budget Development Calendar Legislative Year



**March** – University Develops Initial Budget Policies

**April – May** - Colleges/Schools Prepare Budgets

**End of May** – Legislative Session Ends

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

**July** - Central Budget Office Reviews and Consolidates University Budget

**August** – System and Board Reviews and Approves

**September 1<sup>st</sup>** – Operating Budget Effective Date

31

## Legislative Appropriations Request (LAR)

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

32



## Fiscal Notes and Analysis of Bills

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



33

## Analysis of Appropriations/Funding

- Analyze the financial impact of the Appropriations bills as they are introduced
- Adjust forecasts and budget summaries, as needed



34

## Typical Budget Development Calendar Non-Legislative Year



**February** – University Develops Budget Policies

**March – April** – Colleges/Schools Prepare Budgets

**May** - Central Budget Office Reviews and Consolidates University Budget

**June – July** – Central Budget Office Prepares Legislative Appropriation Request

**July – August** – System and Board Reviews and Approves

**September 1<sup>st</sup>** – Operating Budget Effective Date

35

## External Influences for Budget Policies and Priorities

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



36

## **Budget Considerations**

Consider all Potential Funding Sources, Including State Appropriations

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

Scrutinize Existing Budget for Cost Reduction Opportunities and Efficiencies

Determine Solution for Any Shortfall – Consider Designated Tuition Increases

37

## **Long Range Strategic Financial Planning**

38

## Performing in Challenging Times

Nationwide, higher education is facing unprecedented pressure:

- Lower enrollment trends in many states
- Reduced state appropriations
- More competition for research dollars

In Texas, the situation is much better

- Strong enrollment demand across Texas institutions
- The recent Legislative session was good for higher education
- Texas has some of the nation's strongest research institutions

That said, thinking long term is prudent to maintain success

39

## “But We Already Build an Annual Budget”

A budget describes revenue and expense expectations for the forthcoming year, or an increment of a year. Its time horizon reflects objectives that are achievable in the short term.

This time horizon is insufficient for planning purposes given the uncertainties facing institutions of higher education today.

Long-range plans, of five years at a minimum, are required. Integrated strategic financial plans identify where the institution wants to be in the future and how it plans to get there strategically and financially.

40

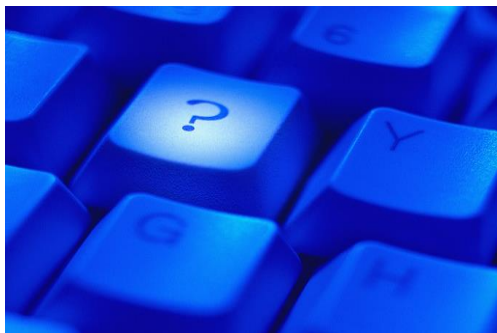
## Using the Long-Range Plan

The long-range financial plan:

- Quantifies the institution's strategic initiatives
- Offers a quantitative view of future performance in the form of financial statements and metrics that can inform budget targets
- Provides a set of operating assumptions on which annual operating budgets can be based
- Presents a set of quantitative metrics that can be used to assess financial performance

41

## Questions



42