College for all Texans



FORMULA FUNDING RECOMMENDATIONS 2012

April 2012

Division of Planning and Accountability



Texas Higher Education Coordinating Board

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Mission of the Coordinating Board

The Texas Higher Education Coordinating Board's mission is to work with the Legislature, Governor, governing boards, higher education institutions and other entities to help Texas meet the goals of the state's higher education plan, Closing the Gaps by 2015, and thereby provide the people of Texas the widest access to higher education of the highest quality in the most efficient manner.

Philosophy of the Coordinating Board

The Texas Higher Education Coordinating Board will promote access to quality higher education across the state with the conviction that access without quality is mediocrity and that quality without access is unacceptable. The Board will be open, ethical, responsive, and committed to public service. The Board will approach its work with a sense of purpose and responsibility to the people of Texas and is committed to the best use of public monies. The Coordinating Board will engage in actions that add value to Texas and to higher education. The agency will avoid efforts that do not add value or that are duplicated by other entities.

The Texas Higher Education Coordinating Board does not discriminate on the basis of race, color, national origin, gender, religion, age or disability in employment or the provision of services.

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Executive Summary

The Coordinating Board's formula funding recommendations for the 2014-2015 biennium recognize the need to have a better balance of focus on meeting the student participation goals of the state's higher education plan, *Closing the Gaps by 2015,* and meeting the state's student success goals. Texas higher education institutions and the leadership of the state deserve recognition for significant gains in student enrollments over the past twelve years since *Closing the Gaps* was first adopted – and those gains must continue. However, if the goals of *Closing the Gaps* are to be fully realized, more emphasis must be placed on student success and the effective use of state, institutional, and student resources in retaining and graduating students.

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

- Align formula funding to the mission of the institution. Currently all sectors of public higher education use a similar enrollment input formula. This recommendation changes the basis to partially transition to outcomes that are measurements of student success.

- Provide institutional performance funding to recognize achievement in meeting student success goals, such as increasing the number of degrees and certificates awarded as well as increasing the number of transfers from two-year institutions to universities.

The funding levels recommended by the formula advisory committees recognize the needs of the institutions to pay for increased costs and growth in student enrollments. However, in recognition of the fiscal constraints that are expected in the next biennium, the recommendation of the Coordinating Board is to delay the funding level recommendation for general academic institutions and health-related institutions until further economic data is available.

The following contains the formula recommendations that were adopted by the Coordinating Board at its April 2012 meeting as well as an overview of the outcomes-based funding model recommendation.

Community and Technical Colleges

Recommendations:

- Provide $2,101.1 million in formula funding for instruction and operations. Estimated biennium increase is $255 million.
- Provide $233.5 million for the implementation of outcomes based funding programs. Estimated biennium increase is $233.5 million.
- Provide a 10 percent premium for courses in fields that are critical needs for the state. The cost is included in the formula increase referenced above.
- Provide small institution supplement funding to eligible districts. Estimated biennial increase is $1.5 million.

If the Board's recommendations are adopted and fully funded by the Legislature for the 2014-15 biennium, the estimated formula appropriation, including outcomes funding, would be $2,334.6 million, an increase of $488.5 million (26 percent). Recommended increases in non-formula items add $1.5 million. The result is a total increase in funding to $2,340.6 million,

which is a 26 percent increase over current biennium funding.

The formula advisory committee's recommendations are in Appendix A.

General Academic Institutions

Recommendations:

- Fund on outcomes outside the formula using up to 10 percent of the undergraduate formula funding. Allocate funds using a three-year rolling average of the metrics listed in the committee report and updated with the latest data available.
- Postpone a recommended funding level recommendation pending more current revenue data.
- Implement expenditure-based relative weights for the optometry discipline. Continue to fund the veterinary medicine discipline based on actual SCH and an expense-based weight determined by dividing the disciplines' actual expense by a calculated semester credit hour total (headcount times 24).
- Make no modifications to the relative weight matrix and allow it to function as is for the next three biennia to establish a trend.
- Retain the current space projection model for funding purposes and establish a workgroup to engineer a separate model that better estimates space need exclusively for use in project evaluations.
- Continue to study the differences between the general academic and health-related funding rates.
- Use the outcomes-based funding model to provide for mission specific funding.

The formula advisory committee's recommendations are in Appendix B.

Health-Related Institutions

Recommendations:

- The Coordinating Board is not recommending any structural change to the HRI formulas for the 2014-15 biennium.
- Postpone a recommended funding level recommendation pending more current revenue data.

The formula advisory committee's recommendations are in Appendix C.

Overview of the THECB's Outcomes-based Funding Model Recommendation

As the final biennium of *Closing the Gaps by 2015* approaches, Texas has made significant strides in meeting its goals for higher education. However, challenges have emerged over the past several years that will test the state's ability to deliver on the promise of higher education beyond 2015. The widening gap between the dramatic growth in enrollment and modest growth in degree completion threatens the state's continued economic competitiveness. Additionally, the rising cost of tuition and fees, combined with constrained state resources, have put a sense of urgency on Texas institutions of higher education to achieve state goals with greater efficiency.

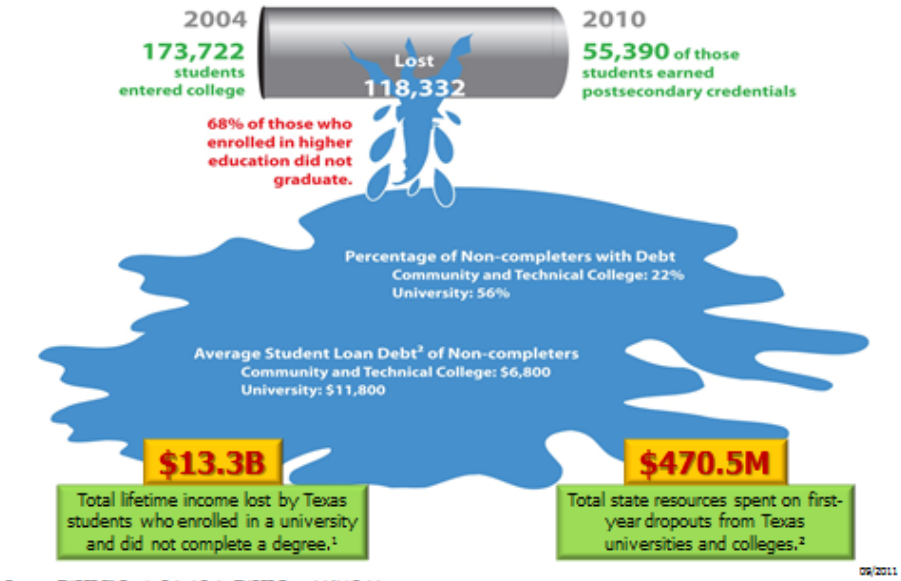
The question confronting Texas higher education today is whether the state can restructure current funding models to realize maximum efficiency and effectiveness in both enrolling the rapidly growing college-age population and helping students earn the educational credentials that the state's economy will need.

The Challenge

The data show that Texas has made dramatic gains in enrolling students in higher education, but much more modest gains in getting those students to earn their degrees or certificates. For 2010, total enrollment in Texas institutions of higher education was 20 percent above the *Closing the Gaps* target. However, the number of degrees and certificates awarded in that year was only 3 percent above target. The trend lines are diverging, with year-to-year increases in enrollment dramatically outpacing growth in completion.

These trends matter. According to a Georgetown University study, by 2018, Texas will create 2.2 million job vacancies both from new jobs and from job openings due to retirement that will require postsecondary credentials[1]. In those fields of particular importance to the future of Texas' economy – including computer science, engineering, physical science and math – the state is well behind in producing enough graduates to meet workforce demands. Graduations in STEM fields will need to increase by 90 percent by 2015 just to meet the *Closing the Gaps* target.

Students who attend, but do not complete, a degree or certificate program create real costs for themselves, their institutions and the taxpayer. These students forgo the increased earning potential associated with a degree or certificate, even as they face decades of indebtedness to student loan providers. These effects will be particularly impactful on the current



cohort of students entering higher education, who are largely low-income and first-generation. Failure to complete their education could lock them into low-wage careers, and convince their younger family members that higher education is simply not for them.

Furthermore, the large number of students who fail to complete account for hundreds of millions of dollars in state resources spent to support their education through financial aid and state formula funding. According to the American Institute of Research, $470.5 million in state expenditures were lost on first-year dropouts from Texas public four-year universities.[2] This reflects an inherent inefficiency in the allocation of state funding, and is one more factor that adds to the growing cost of higher education.

Access AND Success: The Outcomes-based Funding Model

The answer to this challenge, as is being realized across the country, is to restructure state support for higher education to recognize that students must have BOTH access to higher education AND success in completing their degree or certificate programs. Specifically, the Coordinating Board proposes to restructure the current funding model, where institutions are funded only on their student enrollment counts, to a model where funding will be determined by enrollments and how well institutions help their students complete their programs. This change will increase cost efficiency and successful student outcomes that benefit both the students and the taxpayers.

In moving toward an outcomes-based funding model, Texas is one of nineteen states that (as of 2010) have implemented or are developing funding models based in part on student outcomes. These states' experiences have provided valuable lessons for crafting a strong Texas outcomes-based funding model. A study of various state performance funding models by the National Center for Higher Education Management Systems (NCHEMS) identified eleven design principles for a strong model[3]. The Coordinating Board's proposal meets all eleven principles.

NCHEMS Principles	THECB Recommendation	
All funding models are performance-based, to include enrollment.	90% of formula funding based on performance in growing enrollments.; 10% based on performance in successful educational outcomes.	✔
Agreement on goals before putting performance funding in place.	NCHEMS cites *Closing the Gaps* as a model for achieving statewide consensus on goals for higher education.	✔
Don't construct performance metrics too narrowly.	Metrics reward success on broad categories of student outcomes, such as degree attainment and persistence benchmarks.	✔
Design the funding model to promote mission differentiation.	Funding model for universities is focused on degree completion; funding model for community colleges is focused on student progress.	✔
Include provisions that reward success with underserved populations.	**Universities.** Include metrics that reward success with at-risk students, such as Pell recipients, GED students, and older students. **Community Colleges.** Include metrics that reward developmental education and college readiness.	✔
Include provisions that reward progress as well as ultimate success (i.e. degree completion).	Models for both universities and community colleges reward persistence and progress toward completion.	✔

NCHEMS Principles	THECB Recommendation	
Limit the categories of outcomes to be rewarded	University model has seven metrics; the Community College Model has five metrics.	✔
Use metrics that are unambiguous and difficult to game	Metrics are clear and rely on demonstrable, quantifiable measures of student attainment.	✔
Reward continuous improvement, not attainment of a fixed goal	As formula funding is based on an allocation, institutions will compete among each other to improve both enrollment and student success to gain share of funding.	✔
Make the performance funding pool large enough to command attention (a minimum of 10% being a reasonable target).	Funding model is based on 10% for both universities and community colleges.	✔
Ensure that the incentives in all parts of the funding model align with state goals.	All metrics based on goals in *Closing the Gaps.*	✔

Also, the model being proposed by the Coordinating Board has been shaped by several years of examination and consideration by the Governor, the Legislature and other major stakeholders in Texas higher education. The proposal adheres to the requirements and the intent of HB 9, passed overwhelmingly by both chambers during the 82nd Texas Legislature, which instructs the Coordinating Board to devise funding formulas that incorporate measures of student success in allocating state funding.

The proposal adopted by the Coordinating Board strongly mirrors the work of the Formula Advisory Committees (FACs), composed of institutional representatives from Texas public institutions of higher education. Per HB 9, both the Formula Advisory Committees for universities and for community and technical colleges evaluated numerous options for basing funding on student outcomes, and each was able to come to consensus on a proposal to modify funding formulas to provide incentives to increase student success.

Coordinating Board's Recommendation for Two-Year Colleges

The Coordinating Board concurs in part with the outcomes-based funding proposal presented by the Formula Advisory Committee for Community and Technical Colleges. A key difference is that the Coordinating Board recommends a quicker, more substantial implementation of the proposal. Specifically, the Coordinating Board recommends that funding equal to 10 percent of the base enrollment formula funds be allocated under the outcomes-based methodology in each year of the 2014-2015 biennium.

Institutions would earn momentum points for the number of students annually completing each of the following metrics. Funding would be allocated to an institution in proportion to its share of the total momentum points earned statewide.

- **Developmental Education:** Points awarded for completion of development education in math, reading and writing.
- **Gateway Courses**: Points awarded for completion of first college level math and college level English course.
- **College Credit Hour Attainment**: Points awarded when student completes first 15 college credits; first 30 college credits; and for completion of core curriculum.
- **Credentials Awarded**: Points earned for students completing an associate degree, certificate or apprenticeship. Also bachelor's degrees to those community colleges offering bachelor's degrees.
- **Transfers to a Four Year Institution**: Points awarded for students transferring to a general academic institution after having completed 15 hours of coursework.

The Coordinating Board does not recommend two momentum points included in the Formula Advisory Committee proposal: a basic skills category to include attainment in ABE, GED and high school graduation, and completion of an English as a Second Language sequence. The Coordinating Board does not have sufficient data to certify institutional performance on these measures.

Coordinating Board's Recommendation for General Academic Institutions

The Coordinating Board concurs with the recommendation made by the Formula Advisory Committee for General Academic Institutions. Currently, universities are funded based on the

number of students enrolled on the 12th class day. Under this proposal, 90 percent of undergraduate funding, and 100 percent of graduate student funding, would continue to be allocated on this basis.

This proposal would institute an outcomes-based allocation methodology to be funded outside of the instruction and operations formula with 10 percent of the funding that would have been allocated to undergraduate weighted semester credit hours.

The model would allocate funds based on a three-year rolling average of institutions' performance on the below metrics. All metrics would be weighted the same, except for the critical field metric which would receive a double weight. All metrics are based only on undergraduates – graduate and professional students are excluded from the calculation.

- **Total Undergraduate Degrees**: Total number of Bachelor's Degrees awarded by an institution in a given year.
- **Time-to-Degree Factor:** Total Bachelor's Degrees multiplied by the school's six-year graduation rate, to incent timely completion.
- **Institutional Mission Factor:** Degrees divided by Full Time Student Equivalents (FTSEs) and multiplied by 100. This aggregate measure adjusts for part-time and transfer students, providing a common framework for comparing degree productivity among institutions with different missions and student bodies.
- **Cost-to-Degree Factor**: Degrees weighted using cost-based weights, to compensate for the varying costs associated with differing degree types.
- **Critical Fields Factor**: Degrees awarded in fields identified as critical workforce needs such as Computer Science, Engineering, Math, Physics, Nursing, Allied Health and Teaching Certificates for Math and Science).
- **At-Risk Factor:** Degrees awarded to students who meet federal criteria for being at high risk for non-completion. Indicators are being a federal Pell Grant recipient, part-time student, GED recipient, or entering higher education at age 20 or older.
- **Persistence Factor:** Points awarded for students who complete their 30th, 60th, or 90th hour at the institution, to incentivize the use of effective persistence policies.

Coordinating Board's Recommendation for Health-Related Institutions

The state's public health-related institutions have high graduation rates and do not face the same challenges with increasing student degree attainment as Texas' public universities and two-year colleges. Therefore, the Coordinating Board does not recommend any outcomes-based restructuring of the funding formula.

Conclusion

There is broad consensus among stakeholders that Texas higher education cannot meet the needs of tomorrow's students with a "business-as-usual" approach. The challenge that the state faces in meeting the workforce demands of a growing and diversifying economy requires a fundamental rethinking of how to structure public support for postsecondary education to accomplish statewide goals.

These outcomes-based formula funding models, developed by the Formula Advisory Committees and endorsed by the Commissioner and the Coordinating Board, will provide

incentives for new, innovative approaches to helping students succeed. Adoption of these proposals will enhance not only the economic competitiveness of the state, but also the future income and quality of life of thousands of additional Texans who will be able to earn their degrees and workforce certificates.

Authority for Funding Formula Development

Texas Education Code, Section 61.002

In the exercise of its leadership role, The Texas Higher Education Coordinating Board shall be an advocate for the provision of adequate resources to institutions of higher education, to the end that the State of Texas may achieve excellence for college education of its youth.

Texas Education Code, Section 61.059(b)

The board shall devise, establish, and periodically review and revise formulas for the use of the governor and the Legislative Budget Board in making appropriations recommendations to the Legislature for all institutions of higher education, including the funding of postsecondary vocational-technical programs. As a specific element of the periodic review, the board shall study and recommend changes in the funding formulas based on the role and mission statements of institutions of higher education. In carrying out its duties under this section, the board shall employ an ongoing process of committee review and expert testimony and analysis.

[1] Anthony Carnevale et al, *Help Wanted: Projections of Jobs and Education Requirements Through 2018*, Georgetown University Center on Education and the Workforce, June 2010.
[2] Mark Schneider, *Finishing the First Lap: The Cost of First-Year Student Attrition in America's Four-Year Colleges and Universities*, American Institute of Research, October 2010.
[3] Dennis Jones, *Performance Funding: From Idea to Action*, National Center for Higher Education Management Systems, December 2011.

Appendix A

Community and Technical Colleges Formula Advisory Committee

FY 2014 - 2015 Biennium Appropriations

Formula Funding Recommendations

Recommendation 1: Formula Funding

The Texas Legislature should establish the full funding of the community and technical college formula as priority. The Legislature should fund the entire cost of instruction, after the accounting for tuition collections, in partnership with local funding efforts to support institutional infrastructure. The Committee recommends that 100 percent of the formula be funded for FY2014 and FY2015. The Legislature should also fully fund growth in contact hours.

Recommendation 2: Outcomes Based Funding

Collectively serving an increasingly diverse and challenging population, community and technical colleges in the state of Texas are key to the economic wellness and development of our individual communities and the state as a whole. Recognizing the economic and geographic diversities, changing demographics and varying challenges within each of our communities requires a deliberative and intentional approach to implementing an incentive based funding initiative. Many students served by community colleges enroll with significant deficiencies, many of which can be cured, but not without additional resources. With no other available entry to higher education, they come to community colleges. With that said, an inclusive and thoughtful model has been developed in the state of Washington that we recommend be adapted for the Texas Performance Project. In Washington, one (1) percent made a difference in graduation rates and persistence through greater focus and uniformity on how Community Colleges measure student success. In addition, initial research on that model has been conducted by the Community College Research Center.

This model is designed to award colleges momentum points based on student achievement as measured by multiple factors. The promising practice encompassing this model rests in its fair, readily understandable and tested methodology, regardless of the diverse needs and characteristics of the local community populations. Although the Washington state model appears very promising, it has only been in existence since 2006-07.

While this momentum point model can be used as a basis for Texas, we must ensure its success by following the same deliberative and intentional process that the state of Washington used. Initially allocating a small portion of dedicated funding to this effort (i.e. $10 million) will help achieve "buy in" from the various constituencies supporting student achievement and success, targeting full implementation by year 3. Therefore, the formula funding committee recommends the following:

- Funding for student achievement momentum points should be viewed as an incentive model over and above the current formula based system.
- Three year implementation plan for academic years ending:
    - 2013: Data Measurement Year
    - 2014: Learning Year. Request $10 million be allocated for realignment strategies in support of the Texas Performance Project. During learning year, based on data measurement year, a committee will be formed to recommend methodology for awarding momentum points funding.
    - 2015: 1st Performance Year, $25M Incentive Fund to be allocated

    - After the first performance year, and for subsequent biennia, the expectation is that the CTC Formula Advisory Committee will discuss outcomes and make recommendations for future funding levels and funding allocation models
- The momentum points methodology should incorporate recognition of student achievement or progress from the least prepared student to the most college ready student.
- The model will award momentum points for the number of students annually completing each of the following categories including Dual Credit and Early College High School Achievement:
    1. Basic Skills – significant gain in Adult Basic Education, GED, high school graduation. The definition of significant gain should be defined via a working group process to be determined at a later date.
    2. English as a Second Language – momentum as measured from a pre-test to completion of ESL sequence
    3. Developmental Education – completion of development course sequence in math, reading and writing based on a college readiness pre-test
    4. Gateway Courses – completion of first college level math course and college level English course
    5. College Credit Hour Attainment
        - Student earns first 15 college credits
        - Student earns first 30 college credits
        - Completion of core curriculum
    6. Degrees/Certifications Awarded – students completing an associate degree, certificate or apprenticeship. Momentum points will be earned for the completion of bachelor's degrees to those community colleges offering bachelor's degrees.
    7. Transfers – students transferring to a general academic institution after having completed 15 hours of coursework. Currently, students transferring out-of-state are not tracked by the Texas Higher Education Coordinating Board. A process by which institutions can obtain credit for students who transfer to out-of-state institutions should be developed and implemented.

Recommendation 3: Developmental Education

The Texas Higher Education Coordinating Board should modify its RFOE cost study to separately list the direct instructional costs for developmental math, reading, and writing instruction. The Legislature should fund developmental contact hours based on the funding rate generated by the newly modified RFOE cost study. Further research is needed to define indirect costs related to the provision of developmental education coursework.

Recommendation 4: Distance Education and Dual Credit Coursework

Basic research and discussion suggests that costs associated with dual credit courses do not differentiate from non-dual credit course costs. The same basic research and discussion suggests that any course costs may differentiate based on delivery mode. In general, delivery of course work by online methodologies versus traditional face to face classroom appears to have an associated increase in cost for a variety of published reasons. Based upon limited state funding in the past legislative session and apparent limited state funding in the next legislative session, there appears to be no increases in funding available for coursework delivered by

distance learning. It is not suggested that funding from traditional course delivery be reallocated to increase funding for coursed delivered by on-line methods.

There is no recommendation for a cost study to enhance funding for dual credit or distance learning until there is an assurance of new and additional funding for the community college portion of higher education funding.

Recommendation 5: Critical Fields

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

Recommendation 6: Small School Supplement

This annual supplement is intended to address problems related to the lack of economies of scale in instruction and operations associated with small institutions. Recommend $6 million funding split 50 percent of funding based on Contact Hours and 50 percent of funding based on tax effort/yield. (Contact Hours eligibility: any district generating less than 2 million state-funded contact hours which is allocated by district's contact hours minus 2 million, times $0.43. Tax effort/yield eligibility: districts with above average tax effort and below average tax yield qualify.)

Recommendation 7: Bachelors of Applied Technology

Background: In 2005, three Texas community colleges began offering applied baccalaureate degree programs. As part of the implementation process, a recommendation for funding for upper division coursework was adopted through the University Formula Advisory Committee. This recommendation was included in the THECB Formula recommendations for the 2006-2007 biennium. The basic premise was to achieve similar levels of funding for upper division course work across all sectors of higher education. That thought is also codified in statute in 130.0012 of the Education code where it reads, "In its recommendations to the legislature relating to state funding for public junior colleges, the coordinating board shall recommend that a public junior college receive substantially the same state support for junior-level and senior-level courses offered under this section as that provided to a general academic teaching institution for substantially similar courses…."

This funding methodology served the colleges well during the implementation and startup of the programs. Since then there have been inconsistencies in the application of said methodology. During the last biennium, the introduced version of HB1 included no funding for existing BAT programs at community colleges. Funding was later reinstated during the session.

Considerations that need to be addressed include how to comply with the spirit of the law and how to support the start of new degree programs at the respective colleges. Each college has the authority to offer up to five applied baccalaureate degrees and each college will develop and implement those programs on varying time lines. The impact of doing so with no growth factor included has resulted in wide variances between the funding levels for upper division

credit hours across higher education sectors for substantially similar courses. The funding amount allocated for BAT programs at community colleges no longer approximates the amount allocated for general academic institutions.

Recommendation: The Coordinating Board should adopt a separate and specific recommendation for BAT funding at community colleges that is aligned with state statute. The recommendation should include a base rate amount and a growth factor from inception of the program.

Recommendation 8: Policy Statement: The Sustainable Community College

Background: During 82nd Legislative session there were significant proposed policy changes to the funding for four community colleges in Texas. The discussion of "zero-funding" these institutions was based on an analysis done by Legislative Budget Board staff that emphasized contact hour growth over a particular period of time. The assumption made by LBB staff was that contact hour growth should be the key indicator of institutional success. Testimony offered by LBB staff before the House Appropriations Subcommittee on Education reinforced the notion that the zero-funding recommendation was based on a snapshot of contact hours in a particular prior year compared to a recent snapshot of college contact hours.

The state of Texas has never made funding of community colleges contingent upon a growth/no-growth metric. In fact, nowhere in state statute is this concept articulated. The Texas Education Code does define the scope and mission of community colleges in Texas in clear and uncertain terms:

> 130.0011. PUBLIC JUNIOR COLLEGES; ROLE AND MISSION. Texas public junior colleges shall be two-year institutions primarily serving their local taxing districts and service areas in Texas and offering vocational, technical, and academic courses for certification or associate degrees. Continuing education, remedial and compensatory education consistent with open-admission policies, and programs of counseling and guidance shall be provided. Each institution shall insist on excellence in all academic areas--instruction, research, and public service. Faculty research, using the facilities provided for and consistent with the primary function of each institution, is encouraged. Funding for research should be from private sources, competitively acquired sources, local taxes, and other local revenue.

Discussion: Given the importance of state funding for the viability of these institutions a clear statement of what makes a community college successful in the eyes of policymakers is essential. Such a statement must be clear and unambiguous in affirming the critical role all community colleges play in the future of local communities and the state of Texas.

A key concept of any policy statement should include the notion of sustainability. In many towns and cities across the state the goal of local institutions, such as the community college, should be to serve as catalysts of sustainability. The goal is often not ongoing growth in student enrollment and contact hours, but rather providing access to quality educational opportunities for students. These colleges are deeply embedded in the local cultural and economic environments, serving as institutions that ensure the ongoing viability of their communities.

Potential Contextual Metrics: Having a set of metrics that provide context of the community demographics that college's face will help policymakers have a clear understanding of the unique circumstances each institution faces.

Potential Metrics

- Population growth rate
- Percentage of population under 30
- Unemployment rate
- Percentage of local population enrolled in higher education
- Number of students served through dual credit / early college start programs
- Linkages to local economies through workforce training programs
- Impacts on the sustainability of local economies

Draft Policy Statement: Community Colleges in Texas, regardless of student enrollment size, play a critical role in the sustainability of their communities. The state of Texas has made it clear in state statute the mission and role of these institutions. On-going contact hour growth is not part of this mission. More accurately, the measure of a viable community college should center on the role it plays in maintaining educational and workforce training opportunities essential for the sustainability of a local community. Simply basing a policy decision of rates of contact hour growth, as compared to other institutions, misses the essential function community colleges serve in the health and vitality of a community.

Any such discussion should include an analysis of such factors as population growth rates, local unemployment rates, percent of population of college age and percentage of those enrolled in higher education, number of high school students served thorough dual credit and early college start programs, linkages to local economies through workforce training programs, and the impact on local economies.

Attachment 1

PUBLIC COMMUNITY AND TECHNICAL COLLEGES
FORMULA ADVISORY COMMITTEE ROSTER

Name/Title	Institution/Address
Dr. Pamela Anglin President	Paris Junior College Paris, Texas
Dr. Gregory Williams President	Odessa College Odessa, Texas
Erma Johnson Hadley Chancellor	Tarrant County College District Fort Worth, Texas
Dr. Gary Hendricks Vice Chancellor for Financial and Administrative Services	Texas State Technical College System Waco, Texas
Dr. Paul Szuch President	Lamar Institute of Technology Beamont, Texas
Dr. Richard Rhodes President	Austin Community College Austin, Texas
Van Miller Vice President for Finance	Blinn College Brenham, Texas
Dr. Michael Dreith President	Western Texas College Synder, Texas
Dr. Greg Powell President	Panola College Carthage, Texas
Wendy Gunderson TCCTA Representative	Collin College – Preston Ridge Campus Frisco, Texas
Dr. Millicent Valek President	Brazosport College Lake Jackson, Texas
Dusty Johnston President	Vernon College Vernon, Texas
Eleazer Gonzalez Chief Administrative and Financial Officer	Laredo Community College Laredo, Texas
Diane Synder Vice Chancellor Administration & Finance	Alamo Community College District San Antonio, Texas
Dr. Paul Illich Director, Institutional Research	McLennan College Waco, Texas

Attachment 2

Commissioner's Charge to the Community and Technical College Formula Advisory Committee (CTCFAC) for the 2014-2015 Biennial Appropriations Texas Higher Education Coordinating Board

Background: The Community and Technical College Formula Advisory Committee (CTCFAC) has a single formula to address. The Committee reviews an annual cost study for public two-year institutions' academic and technical instruction costs and instructional administrative costs. Instructional costs are aggregated by discipline and divided by certified contact hours associated with each discipline. A prorated amount of the instructional administrative costs is added to each discipline cost per contact hour for a "grand total" discipline-based cost per contact hour.

The Committee discusses what portion of the *Report of Fundable Operating Expenses* (RFOE cost study) to fund and its recommendation has always been 100 percent. During the most recent legislative session, due to the economic circumstances of the state, the Commissioner and the Coordinating Board recommended funding the growth in contact hours at current funding rates. That would have added 19.4% (or $377M) to the formula. The result was a flat funded formula that resulted in a drop in funding on a per contact hour basis.

The Legislature approved the following rates per contact hour for the 2012-2013 biennium, based on attempted contact hours. These rates were approximately 50 percent of those recommended by the Coordinating Board.

Discipline	FY 2012/2013	
Agriculture	$	5.66
Architecture and Precision Production Trades	$	6.20
Biology, Physical Sciences, and Science Technology	$	5.03
Business Mgt, Marketing, and Administrative Services	$	5.12
Career Pilot	$	21.51
Communications	$	5.79
Computer and Information Sciences	$	6.11
Construction Trades	$	6.20
Consumer and Homemaking Education	$	5.11
Engineering	$	7.17
Engineering Related	$	5.53
English Language, Lit, Phil, Hum, and Interdisciplinary	$	5.31
Foreign Languages	$	4.83
Health Occupations-Dental Asst., Medical Lab, and AA Nursing	$	8.21
Health Occupations-Dental Hygiene	$	11.96
Health Occupations-Other	$	6.50
Health Occupations-Respiratory Therapy	$	8.87
Health Occupations-Vocational Nursing	$	6.48
Mathematics	$	4.90
Mechanics and Repairers-Automotive	$	6.43

Mechanics and Repairers-Diesel, Aviation, Transport Workers	$	6.74
Mechanics and Repairers-Electronics	$	5.98
Physical Education and Fitness	$	6.04
Protective Services and Public Administration	$	5.50
Psychology, Social Services, and History	$	4.58
Visual and Performing Arts	$	6.20

Commissioner Charges

The CTCFAC is asked to conduct an open, public process, providing opportunities for all interested persons, institutions, or organizations that desire to provide input to do so. Specifically, the CTCFAC is asked to propose a formula with appropriate levels of funding and financial incentives necessary to best achieve the four major goals included in *Closing the Gaps* and to provide the Commissioner with a preliminary written report of the Committee's activities and recommendations by December 15, 2011, and a final written report by February 1, 2012.

The charges specific to the CTCFAC are to:

1. Study and make recommendations on the best method of moving towards a more outcomes based funding formula that supports student success and identifies measurements that recognize progression to success.
2. Study and make recommendations on changes to the funding model of developmental education that will increase the effectiveness of the programs delivered including the development of a cost study methodology to gather comparative costs.
3. Study and make recommendations on changes to the funding model of distance education coursework and dual credit coursework that will increase the effectiveness of the programs delivered including the development of a cost study methodology to gather comparative costs.
4. Study and make recommendations on changes to the funding model that will improve success of colleges to meet the goals of *Closing the Gaps* in areas of critical need to the state.

Appendix B

General Academic Formula Advisory Committee

FY 2014 - 2015 Biennium Appropriations

Formula Funding Recommendations

The General Academic Formula Advisory Committee (GAFAC), organized in August 2011 (Attachment 1), met to address the charges identified by the Commissioner related to formula funding for the 2014 - 2015 biennium (Attachment 2). The GAFAC met on the following days: August 3, September 13, October 11, November 8, and December 8, 2011.

The GAFAC recommends the following:

1. On the charge to study and make recommendations on funding on outcomes-based methods that support student success, the GAFAC recommends funding on outcomes outside the formula using up to 10 percent of the undergraduate formula funding. Allocate funds using a three-year rolling average of the following metrics updated with the latest data available:

    - Total Undergraduate Degrees
    - Total Undergraduate Degrees adjusted by 6-Year Graduation Rate
    - Total Undergraduate Degrees per 100 Undergraduate FTSE
    - Total Undergraduate Degrees Expense Weighted
    - Critical Fields: Undergraduate Degrees for Computer Science, Engineering, Math, Physical Sciences, Nursing, Allied Health and Teaching Certificates for Math and Science
    - At-Risk Pell, SAT/ACT, Part-Time, GED, and First-Time Undergraduate 20 or Over
    - Retention - 30, 60, and 90 Hours

    Apply a double weight to the critical fields metric as compared to the others.

    The recommendation is contingent on a funding level of 10 percent or less. Require GAFAC to review the models metrics, weights, and effectiveness biennially. Reconsider the equity of the model if the funding level is significantly increased or funded inside of the Instruction and Operations (I&O) formula funding model. And, fund hold-harmless to accommodate for drastic changes in funding associated with the recommended model.

    A review of the history and details of the funded Performance Incentive Funding model, the Coordinating Board recommended Outcomes-Based Funding model, and models adopted by other states resulted in the following recommendations:

    a. Fund on actual outcomes and not on increases, similar to the Tennessee model, as it is the more stable, practical, and equitable methodology.

    b. Recommend the Coordinating Board reevaluate and update the list of critical fields.

    c. Varying the weights for individual metrics yielded the conclusion that a weight of two for critical fields and a weight of one for all other metrics most equitably allocated funds at the 10 percent of undergraduate funding level. Additionally, Texas A&M University at Galveston's metrics should all be given an additional weight to account for ship-born operations.

d. The next GAFAC should review the at-risk factors, some of which need refinement if the funding to this model increases.

e. Fund the model with the following metrics as defined and noted as serving the indicated purpose in the model:

- Total Undergraduate Degrees: Undergraduate degrees reported on the Graduation Report in the given fiscal year (includes AAS degrees). Total undergraduate degrees is the primary outcome measure under the premise that most students enroll at a general academic institution with the intent that the outcome will be the award of a degree.

- Total undergraduate degrees adjusted by 6-Year Graduation Rate: Total undergraduate degrees multiplied by 6-Year Graduation Rate (3-Year Graduation Rate for Upper-Level only institutions). The adjustment for graduation rate provides an incentive to have students graduate in a timely manner.

- Total undergraduate degrees per 100 undergraduate FTSE: Total undergraduate degrees divided by fall Full-Time Student Equivalents (FTSE) as reported in the accountability system and multiplied by 100. FTSE is calculated by dividing the undergraduate fall semester credit hours (SCH) reported on the fall Class Report (includes state funded and non-state funded hours) by 15. Total undergraduate degrees per 100 undergraduate FTSE produces a comprehensive outcomes ratio that converts enrollments into degrees awarded This aggregate measure captures outcomes of all undergraduate students, including part-time and transfer students, and provides a common "level field" basis for comparing and incentivizing degree productivity regardless of institutional size or mission.

- Total undergraduate degrees expense weighted: Total Undergraduate Degrees weighted using undergraduate upper-level relative weights similar to the I&O formula. Total undergraduate degrees expense weighted compensates for the varying cost associated with differing degree types. Institutions receive a relative increase for more expensive degrees.

- Critical fields: Undergraduate degrees for Computer Science, Engineering, Math, Physical Sciences, Nursing, Allied Health and Teaching Certificates for Math and Science. Undergraduate degrees in these fields as reported on the Graduation Report or Math and Science Teacher Certifications per State Board for Educator Certification (SBEC) in the given fiscal year. The critical fields metric incents institutions to graduate more students in these fields, which are seen as critical to *Closing the Gaps*.

- At-Risk Pell: Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were Pell grant recipients (FADS). At-Risk Pell is a surrogate that compensates for the additional expense of graduating a financially challenged at-risk student. It incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of a degree.

- At-Risk SAT/ACT: Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students whose SAT/ACT score is below the national average for the year taken.

- At-Risk Part-Time: Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were concurrently enrolled in fewer than 12 SCH when first reported on the Student Report.

- At-Risk GED: Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who received a GED.

- At-Risk first-time undergraduate 20 or Over: Undergraduate degrees reported on the Graduation Report in the given fiscal year awarded to students who were first reported on the Student Report at age 20 or older.

- The at-risk factors: SAT/ACT, part-time, GED, and first time undergraduate 20 or Over are designed to compensate for the additional expense of graduating an at-risk student who may be academically challenged. It incents institutions to adopt effective and efficient practices that will aid at-risk students to the completion of an award.

- Retention - 30, 60, and 90 SCH: Count of undergraduate students, which have cumulatively earned 30, 60, or 90 college-level SCH at their current institution. Hours earned prior to the student attending the institution reporting the hours are not included. A point can be earned for a student who completes multiple thresholds in a given fiscal year. These measures are designed to incentivize the use of effective persistence policies.

2. On the charge to recommend the appropriate funding levels for the I&O and infrastructure formulas and the percent split between the "utilities" and "operations and maintenance" (O&M) components of the infrastructure formula the GAFAC recommends the following:

    a. Fund the I&O formula at $3.7 billion with a rate of $57.50 for the 2014 – 2015 biennium. The recommendation increases the rate by 7.0 percent from the $53.71 funded during the 2012 – 2013 biennium and accounts for 2 percent inflation using the CPI-U index forecasted to 2014. The recommended total anticipates a 3.2 percent increase in weighted SCH between the 2011 and 2013 base year. While the GAFAC understands the Legislature reduced funding due to a reduction in tax collections, the GAFAC is confident institutions cannot continue to meet the *Closing the Gaps Goals* at current funding levels and urges Legislators to find funds to support higher education.

    b. Conduct the expenditure study over the next two years and use the updated three-year rolling average cost per SCH to produce the relative weight matrix to allocate 2014 - 2015 biennium formula funding.

c. Fund the Infrastructure formula at $786 million with a rate of $5.33 for the 2014 - 2015 biennium. The recommendation increases the rate by 7.0 percent from the $4.95 funded during the 2012 – 2013 biennium and accounts for 2 percent inflation using the CPI-U index forecasted to 2014. The recommended total anticipates an 8.4 percent increase in predicted square feet between fall 2010 and fall 2012.

d. Split the recommended Infrastructure rate using FY 2012 utility rates. This recommendation requires the LBB to augment its current biennial data collection to include total O&M expenditures. In the event this is not possible, the GAFAC recommends a 50 percent O&M and 50 percent utilities split based on the FY 2011 utility rate survey the GAFAC conducted.

e. Update the utility rate adjustment factors using the fiscal year 2012 utilities expenditures.

f. Allocate the Infrastructure formula using the fall 2012 space model predicted square feet.

g. Fund the Small Institution Supplement using the same methodology and funding levels as the 2012-2013 biennium.

3. On the charge to study and make recommendations on the treatment of programs delivered by fewer than three state institutions in the relative weight matrix, the GAFAC recommends implementing the use of expenditure-based relative weights for the optometry discipline. And, continuing to fund the veterinary medicine discipline based on actual SCH and an expense-based weight determined by dividing the disciplines' actual expense by a calculated semester credit hour total (headcount times 24).

    a. Optometry and veterinary medicine are the two disciplines currently offered by fewer than three State institutions.

    b. For optometry, prior GAFAC recommendations advised the preservation of the static weights for optometry until the collection of additional expense data could be collected for the discipline. However, the probability of successfully including other states' expense data into our study is unlikely and moving to expense based weights for this discipline is consistent with other disciplines in the study that have fewer than three institutions contributing expense data. Additionally, the conversion appears to have a minimal impact at this time to the University of Houston. Implementing expenditure-based relative weights for the optometry discipline will reduce the formula funding for the discipline by no more than $500,000.

    c. For veterinary medicine, the multiplier of nearly two to one created under the current methodology was an attempt by Coordinating Board staff to calculate a weight that would generate the same level of general revenue for the program as received prior to the program's inclusion in the I&O formula.

        i. The program was funded as a special item in Texas A&M University's bill pattern for the 2000-2001 biennium at $41.7 million, a decrease of $4.3 million when

compared to the 1994-1995 appropriation. For the 2002-2003 biennium appropriations, the Health-Related Formula Advisory Committee recommended the program be funded at the same level of general revenue as the 2000-2001 biennium and out of the general academic institution's pool of funds. The Program's special item was reduced to $3 million for the biennium and Texas A&M University's I&O support strategy appears to have increased by the special item amount of approximately $46 million.

ii. For the 2004-2005 biennium appropriations, the Legislative Budget Board calculated a weight of 16.72 by estimating the general revenue appropriated for the program for I&O from the previous biennium and dividing by the actual SCH. For this biennium, general academic institutions' formula was calculated entirely on static weights.

iii. For the 2006-2007 biennium appropriations, the formula was to be funded using a combination of half static and half relative weights. Because veterinary medicine was not included in the initial expense studies, a weight needed to be developed. The Coordinating Board staff calculated the weight of 8.15 (only 49 percent of the previous weight of 16.72) which would have resulted in a 22 percent decrease in funding when compared to the previous biennium. To prevent a radical reduction in funding, Coordinating Board staff divided the program's expenses by a calculated SCH (headcount times 24) instead of actual to generate the expense-based weight.

iv. This methodology generated $40 million in general revenue (I&O and Infrastructure) for the program, a 4 percent or $1.7 million reduction compared to 2000-2001. Under an expense-based weight of 8.15, the program would have received $18.2 million less in I&O formula general revenue, a 46 percent reduction.

4. On the charge to study and make recommendations on modifications necessary to improve the relative weight matrix for the I&O formula, the GAFAC recommends not making any modifications to the matrix and allowing it to function as is for the next three biennium to establish a trend.

    a. The GAFAC considered removing the enrollment classification adjustment and funding all the hours taught in a course at the same level. Funding at the enrollment classification level when the classification is lower than the course level prevents institutions from elevating reported course levels and effectively increasing funding levels. The measure is producing a minimal effect indicating there are few instances where classification is lower than course level. While the GAFAC appreciates the simplification of removing the adjustment, it recommends continuing the adjustment at this time and having the next GAFAC review the matter.

    b. The GAFAC considered establishing a separate discipline for developmental education and voted against it due to the cost of collecting the data in consideration that less than 1 percent of the hours taught at general academic institutions are classified as developmental education.

c. The GAFAC reviewed how mathematics were being funding and agreed these hours should continue to be funded as Science for junior and senior level courses and liberal arts for all other course levels.

5. On the charge to study and make recommendations on modifications necessary to improve the predicted space calculation for the infrastructure formula, the GAFAC recommends retaining the current model for funding purposes and establishing a workgroup to engineer a separate model that better estimates space need exclusively for use in project evaluations.

    a. The GAFAC assigned a workgroup to review the history and details of the current space model and the nationally recognized Council of Educational Facility Planners International (CEFPI) model. While the current model at one time modeled space need near actual space use, it now predicts more space than used by most institutions.

    b. In an attempt to analyze the issue efficiently and completely, the members considered scenarios based on the current model with adjusted coefficients and CEFPI and determined any change would significantly redistribute funding. Therefore, the workgroup agreed validation and modification of the model's coefficients in the provided time would result in an inequitable and inaccurate space model.

    c. The follow-up workgroup should examine the effect of the changes in areas of technology and faculty and student expectations in distance education, library use, and other programmatic drivers on space requirements. The group should consider the use of faculty and staff Full-Time-Equivalents (FTE/FTSE) as a more accurate driver of space needs than the current use of expenditures. For two-year institutions, consider calculating academic and vocational FTSE's on reported contact hours instead of SCH. While only marginally increasing these institutions' modeled teaching space, this will increase the accuracy of the model. The workgroup should be encouraged to explore other methodologies and drivers as appropriate to assure the revised analysis provides an equitable representation of the space needs at each modeled institution.

6. On the charge to study and make recommendations on funding disciplines taught by general academic and health-related institutions at common rates and weights, the GAFAC does not have a recommendation to realign the two formulas at this time.

    a. After extended discussion, it was determined that there is no conclusive comparative analysis of Health-Related Institutions (HRI) and General Academic Institutions (GAI) expenditures available to form a basis for significant changes to the formulas.

    b. The differences between HRI based and GAI based funding formulas for nursing, health services, and pharmacy disciplines should be the subject of further study and discussion. The study should consider the inclusion of additional funding for these disciplines outside the formulas. For example, outcomes-based funding or health

program funding through appropriations outside the formula similar to the current Professional Nursing Shortage Reduction Program.

7. On the charge to study and make recommendations on mission specific funding for the general academic institutions, the GAFAC recommends the use of the incentive components in the recommended Outcomes-Based Funding model to provide for mission specific funding.

Attachment 1

General Academic Formula Advisory Committee Roster

Name	Institution
Ms. B.J. Crain, Chair Vice President for Finance and Chief Financial Officer Texas A&M University	Texas A&M University College Station, Texas
Ms. Jean Bush, Vice Chair Senior Associate Vice President for Finance	University of North Texas Denton, Texas
Mr. Scott Kelley Executive Vice Chancellor Business Affairs	The University of Texas System Austin, Texas
Ms. Cynthia Villa Vice President Business Affairs	The University of Texas at El Paso El Paso, Texas
Dr. F. Dominic Dottavio President	Tarleton State University Stephenville, Texas
Dr. Marc Nigliazzo President	Texas A&M University Central Texas Killeen, Texas
Dr. John Antel Senior Vice President for Academic Affairs and Provost	University of Houston Houston, Texas
Dr. John Price President	University of North Texas at Dallas Dallas, Texas
Dr. Baker Pattillo President	Stephen F. Austin University Nacogdoches, TX
Dr. John Rudley President	Texas Southern University Houston, Texas
Dr. Robert Neely Provost and Vice President Academic Affairs	Texas Woman's University Denton, Texas
Dr. John Opperman Vice Chancellor for Policy and Planning	Texas Tech University System Lubbock, Texas
Mr. Michael Reid Vice President Finance and Administration	Angelo State University San Angelo, Texas
Dr. Perry Moore Vice Chancellor for Academic Affairs	Texas State University System Austin, Texas
Mr. Paul Woodfin Vice President of Finacial Services	TSTC-System Waco, Texas
Dr. Alba Ortiz President's Chair for Education Academic Excellence, PH.D.	The University of Texas at Austin Austin, Texas

Attachment 2

Commissioner's Charge to the General Academic Formula Advisory Committee (GAFAC) for the 2014-2015 Biennial Appropriations Texas Higher Education Coordinating Board

Background: The GAFAC addresses the Instruction and Operations (I&O), infrastructure, small institution supplement, and teaching experience supplement formulas. The general academic formulas, first used in the mid-1960s, were reworked for the 1998-1999 biennium, and first funded with an expenditure based relative weight matrix in the 2010-2011 biennium.

The I&O formula funds faculty salaries, departmental operating expenses, library, instructional administration, research enhancement, student services, and institutional support and allocates on attempted semester credit hours (SCH). Appropriated at $53.71 per weighted SCH for the 2012-2013 biennium, the formula allocates 83 percent of the general academic formula funds (teaching experience supplement included). The teaching experience supplement incentivizes the use of tenured faculty instructors in undergraduate courses and allocated 2012-2013 biennium funds with a 10 percent bonus of weighted SCH.

The infrastructure formula funds plant-related and utility expenses and allocates on predicted space. Appropriated at $5.25 per predicted square foot for the 2012-2013 biennium, the formula allocates 17 percent of the formula (small institution supplement included). The small institution supplement distributes additional resources on headcount for the reduced economies of scale associated with operating small institutions.

Commissioner's Charges: The GAFAC, conducted in an open and public forum, is charged with proposing a set of formulas that provide the appropriate funding levels and financial incentives necessary to best achieve the four major goals of *Closing the Gaps.* A preliminary written report of its activities and recommendations is due to the Commissioner by December 15, 2011, and a final written report by February 1, 2012. The GAFAC's specific charges are to:

1. Study and make recommendations on funding on outcomes-based methods that support student success.
2. Recommend the appropriate funding levels for each funding formula and percent of infrastructure funding to dedicate to utilities.
3. Study and make recommendations on the treatment of programs delivered by fewer than three State institutions in the relative weight matrix.
4. Study and make recommendations on modifications necessary to improve the relative weight matrix for the instruction and operations formula.
5. Study and make recommendations on modifications necessary to improve the predicted space calculation for the infrastructure formula.
6. Study and make recommendations on funding disciplines taught by general academic and health-related institutions at common rates and weights.
7. Study and make recommendations on mission specific funding for the general academic institutions.

Appendix C

Health-Related Institutions Formula Advisory Committee

FY 2014-2015 Biennium Appropriations

Formulas Funding Recommendations

In accordance with the biennial Formula Advisory Committee process, the Health-Related Institutions (HRIs) submit their report for consideration by the Commissioner of the Texas Higher Education Coordinating Board.

Committee Background:

The FAC held four additional meetings between September 2011 and December 2011. A list of HRI FAC members is provided in Attachment 1. The committee voted to discuss all of the commissioner's charges as a committee of the whole.

The Commissioner of Higher Education delivered his charge to the HRIs Formula Advisory Committee (HRI FAC) at its first meeting on August 3, 2011 (Attachment 3).

Executive Summary

Texas' HRIs are the primary producers of the state's physicians, nurses, dentists, pharmacists, public health leaders, biomedical scientists, and various allied health professionals. The population of Texas, which per the 2010 U.S. Census experienced the fifth fastest growth over the last decade at nearly 21 percent, will likely continue to stress our state's capacity to meet the healthcare needs and demands of our citizens. Texas is already facing substantial workforce shortages in most of the health professions. These shortages are only expected to become more severe in the future.

Training a healthcare workforce in this environment of continuing growth and increasing need will put even more pressure on Texas' HRIs. But these pressures are occurring at the same time that critical funding for students, space, research, and residents is declining.

Here are some key Texas facts and figures to consider when assessing the state's healthcare workforce shortages and needs:

- Texas ranks 46th in the U.S. in numbers of active patient care physicians per 100,000 population.[1]
- Texas ranks 48th in the number of active patient care primary care physicians per 100,000 population.[1]
- Texas ranks 23rd in the number of medical residents per 100,000 population (despite having the 4th highest number of residents overall).[1]
- Texas ranks 2nd overall in physicians retained in the state who completed undergraduate medical education (UME) within the state.[1]
- Texas ranks 5th in physicians retained who completed graduate medical education (GME) within the state.[1]

[1] Association of American Medical Colleges (AAMC) 2011 State Physician Workforce Data Book

- Texas ranks 3rd in physicians retained that completed both UME and GME within the state.[1]

{Taken together, these last three points suggest that Texas' physician workforce challenges are much less about undergraduate medical and resident retention within the state but more about population growth and sufficiency of Texas' absolute numbers of medical graduates and residents.}

- Demand for full-time registered nurses in Texas exceeds supply by 22,000 and this is projected to widen to 70,000 by 2020.[2]

- Texas ranks 43rd in the number of registered nurses per 100,000 population.[3]

- Nearly 85percent of the public health workforce in Texas has no formal, professional public health training.[4]

- Texas ranks 44th in the number of dentists per 10,000 population.[5]

Given the criticality of these shortages and limitations, we believe that it is imperative for Texas to embark on an effort to restore per unit funding, back to the original formula funding levels of fiscal years 2000 and 2001.

The most succinct way we can depict the erosion of state support for HRIs, over the now fourteen years of formula funding, is as follows:

Funding "per unit":

	FYs 2000 & 2001	FYs 2012 & 2013	%Change
Full Time Student Equivalent:	$11,383	$8,874	-22%
Research Dollar Expended:	2.85%	1.10%	-61%
Per Square Foot-			
UTMDACC/UTHSC-Tyler :	$10.68	$6.26	-41%
All Other HRIs	$11.18	$6.55	-41%

The FYs 2012 and 2013 formula funding levels "per unit" rates include both House Bill 1 and House Bill 4 appropriations.

The graduate medical education (GME) formula did not exist at the inception of HRIs' formula funding, in 2000. This formula also has not been funded at sufficient levels to cover the costs of residency education and program administration; FY 2012-2013 funding per resident decreased by 29 percent from the previous biennium's level.

None of these figures above reflect any adjustment for purchasing power changes over the

[2] Texas Center for Nursing Workforce Studies, Texas Department of State Health Services
[3] Kaiser Family Foundation, Statehealthfacts.org, U.S. Bureau of Labor Statistics and 2010 U.S. Census Data
[4] The Future of Public Health in Texas: A Report by the Task Force on the Future of Public Health in Texas
[5] *Health, United States, 2010*, Centers for Disease Control and Prevention, National Center for Health Statistics

nearly decade and a half since the funding formulas began.

The state's HRIs are under great pressure in continuing to support Texas' workforce needs and to provide excellence in healthcare-related education, research, and service with these diminishing levels of "per unit" support. HRIs have reduced state funded administrative staff, deferred maintenance, and limited or postponed new programs in order to continue to produce a quality healthcare workforce. Local funding sources, including institutional reserves and clinical enterprise margins, have also been used to offset formula reductions.

External factors are likely to limit HRIs' abilities to continue absorbing costs related to the increasing gaps between formula funding rates and associated actual costs. HRIs' clinical enterprises also face major funding uncertainties with the implementation of healthcare reform legislation. Anticipated declines in sponsored research funding levels may require HRIs to provide additional "bridge" funding for faculty researchers' salaries and research operations in order to retain productive researchers until they obtain additional external funding. This is most often a cost effective alternative to program closures and then recruiting new, more costly faculty, later.

Enrollment, research, and infrastructure growth without adequate formula funding support carries the potential risk of quality erosion. The path to reduced "quality" is short but restoring lost "quality" education, research, and infrastructure takes much longer.

We recommend that Texas begin a process of restoration of these "per unit" levels of funding for the FYs 2014 and 2015 biennium.

Report and Committee Recommendation

HRIs are funded by four primary formulas: Instruction and Operations (I&O), Infrastructure, and Research Enhancement (all implemented by the 76th Legislature) and Graduate Medical Education (GME). The University of Texas M. D. Anderson Cancer Center (UTMDACC) and The University of Texas Health Science Center at Tyler (UTHSC-Tyler) have additional formulas that reflect their unique missions:

- The 79th Texas Legislature also established a new formula for GME.
- The 80th Texas Legislature converted the UTMDACC Mission Specific Formula into a new "Cancer Center Operations Formula".
- The 81st Legislature converted the UTHSC-Tyler Mission Specific Formula into a new "Chest Disease Center Operations Formula" for UTHSC Tyler.

In order to meet the educational needs of Texas' growing and diverse population and to meet the state's demands for healthcare, it is important that the four HRI formulas be funded at levels that address the requirements of *Closing the Gaps*.

The Texas Legislature has added significant appropriations to HRI formula funding since its inception; total formula funding for the three primary formulas in existence in FYs 2000 & 2001, $1.07 billion, rose to $1.23 billion for FYs 2012 & 2013, a 15% increase (over a dozen years). However, funding per Full Time Student Equivalent (FTSE), per research dollar expended and per physical plant square foot has declined between the FYs 2000 & 2001 biennium and the present FYs 2012 & 2013 biennium, as follows:

	FYs 2000 & 2001	FYs 2012 & 2013	%Change
Full Time Student Equivalent (FTSE):	$11,383	$8,874	-22%
Research Dollar Expended:	2.85%	1.10%	-61%
Per Square Foot-			
UTMDACC/UTHSC-Tyler :	$10.68	$6.26	-41%
All Other HRIs	$11.18	$6.55	-41%

The FYs 2012 and 2013 formula funding levels "per unit" rates include both House Bill 1 and House Bill 4 appropriations.

Despite these "per unit" reductions in funding, HRIs have made important progress in increasing enrollment and research to serve the workforce and healthcare needs of Texas. However, they have done so by using funds from other sources, including institutional reserves and deferring new programs, limiting other programs, and delaying investments in technology and facilities infrastructure renewal. All of these factors have hampered education and enrollment growth.

Instruction and Operations Formula

Funding for students' education and training is provided through the largest of the formulas, that for Instruction and Operations (I&O). A uniform rate is established for each FTSE; this rate

is then weighted dependent on the student's particular program of study (e.g., medicine, nursing, dentistry, etc.) and its estimated, differential costs.

The per FTSE I&O Formula funding rate has decreased 22 percent between FYs 2000 & 2001 and FYs 2012 & 2013 (before consideration of purchasing power reductions). During the same period, HRIs have served the needs of Texans by increasing their enrollment of medical and health professionals by 70 percent. Continuation of this increasing divide between FTSE growth and funding per FTSE is not in the best interest of the State of Texas.

At the current rate of funding – $8,874 per "base" FTSE per year – achieving the goals of *Closing the Gaps,* as well as serving the increasing demands for healthcare in Texas, is not readily attainable. HRIs continue to explore and implement cost effective and efficient methods to educate quality healthcare professionals. However, costs savings from increases in scale (i.e., enrollment increases) are limited by the nature of healthcare education. Such limitations include costs associated with required faculty supervision and monitoring ratios in clinical settings, additional laboratory facility requirements, and the costs of additional clinical training settings for students.

The committee recommends that additional funds be added to ultimately restore the FYs 2000 & 2001 per FTSE funding rates over the next three biennia.

Infrastructure Formula

Funding for HRIs for physical plant support and utilities is calculated using the Infrastructure Support Formula, which is driven by the predicted square feet[6] for HRIs produced by the Space Projection Model. Currently in the Space Projection Model, all HRIs are functioning with a deficit in predicted square feet versus actual square feet.

Current infrastructure funding levels only partially cover utility, facility support and routine maintenance costs. Increased infrastructure rates would also allow institutions to address deferred maintenance (which ultimately extends the life of current facilities, a much less expensive alternative to replacing facilities entirely).

The Committee recommends that, over the next three biennia, additional funds be added to restore the infrastructure support rates to their original FYs 2000 & 2001 levels.

Research Enhancement Formula

Under the current Research Enhancement Formula, each HRI annually receives research enhancement funding in the base amount of $1,412,500 plus an amount equal to 1.10 percent of each institution's research expenditures (as reported to the Texas Higher Education Coordinating Board). While the base amount of this formula has not changed since the inception of the formulas, the rate has decreased from 2.85 percent to the current level of 1.10 percent, a 61 percent overall decline. The Committee believes that this reduction impedes research growth.

[6] "Clinical Space" included in the Space Projection Model, is the actual educational and general (E&G) clinical space devoted to the diagnosis and care of patients in the instruction of health professions and allied health professions.

Consistent with the formula recommendations above, the Committee recommends and requests that additional funds be made available to restore the research factor percentage over the next three biennia. Doing so would enhance HRIs' research capabilities. Most HRIs conduct significant levels of research which drive new and innovative approaches in medicine and clinical care benefiting the citizens of Texas. By supporting research, this funding also supports economic growth more generally for the state.

Graduate Medical Education (GME) Formula:

Graduate Medical Education has been funded as a separate formula since FYs 2006 & 2007. The Committee notes that the current level of funding for the GME Formula covers less than one third of the full GME education costs that were estimated by the Coordinating Board in 2004. The GME formula was initially funded with $25 million, resulting in a rate of $2,340 per resident. In the subsequent two biennia, additional funds were added to the formula to approach the education costs estimated by the Coordinating Board, resulting in a rate of $6,305 per resident in FYs 2010 & 2011.

The GME rate represents another aspect of the *Closing the Formula Funding Gap,* which could put at risk the ability of HRIs to increase the number of accredited residency positions in Texas. Given the importance of residency positions in retaining graduating residents in the state, the Committee recommends that the GME formula funding rate be increased for the FYs 2014 & 2015 biennium by an additional 13.03 percent. As shown in Attachment 2, this is the committee's average requested increase for the three main formulas: I&O, Infrastructure and Research Enhancement. However, this increase should not be at the expense of other existing formula funding.

Summary

Health-Related funding formulas have not been implemented as originally envisioned by the Legislature. Current HRI formula funding is already largely "outcome-based" because of our high graduation rates and rapidly expanding research enterprises. Therefore, the structure of existing formulas is appropriate. However, HRI formulas have been implemented simply as a means for allocating available General Revenues. Using the formulas as an allocation vehicle has resulted in a significant reduction in formula funding rates at a time of substantial growth in formula indicators, or "drivers" (i.e., numbers of students, predicted square feet, research expenditures) at HRIs. Current funding levels place institutions at risk for maintaining excellence. Continued growth in enrollments and research prowess without additional and stable "per unit" state contributions may negatively impact teaching capacity and accreditation and will increase the backlog of deferred maintenance.

In 2007, the HRI FAC formulated a plan of *Closing the Formula Funding Gap* in order to assist the Commissioner, the Legislative Budget Board, and the Legislature, and enable HRIs to receive sufficient resources to meet the established goals of *Closing the Gaps* educationally. Our committee has chosen to continue this approach for the 2014 and 2015 biennium. It is critically important to note that the Committee's recommendation applies to all formula funding areas, Instruction & Operations, Infrastructure, and Research Enhancement, not just to the Instruction & Operations formula. HRIs are proposing continuation of the *Closing the Formula Funding Gap* plan developed in 2007. The plan consists of restoring the formula's "per unit" funding rates to

FYs 2000 & 2001 levels (without any adjustment for inflation) over three biennia. We recognize the significant “price tag” of this restoration and thus recommend this three biennium approach.

In order to highlight the need to close the formula funding gap, HRIs have not requested any structural changes to the formulas for the FYs 2014 & 2015 biennium.

Details of this plan are provided in the Committee’s recommendations as discussed below and in the detailed Attachment 2.

Within this background and framework, the Committee respectfully presents its recommendations to the Commissioner’s charges.

Attachment 1

HEALTH-RELATED INSTITUTIONS FORMULA ADVISORY COMMITTEE

Name/Title	Institution
Institution Representatives:	
Mr. Kevin Dillon - Chairman Senior Executive Vice President, Chief Operating & Financial Officer	The University of Texas Health Science Center at Houston Houston, Texas
Mr. Michael Mueller- Vice Chariman Vice President for Finance and CFO	University of North Texas Health Science Center at Fort Worth Fort Worth, Texas
Mr. Elmo M. Cavin Executive Vice President	Texas Tech University Health Sciences Center Lubbock, Texas
Dr. Cary Cooper Vice President and Dean, Graduate School of Biomedical Sciences	The University of Texas Medical Branch at Galveston Galveston, Texas
Dr. Nancy W. Dickey President, Texas A&M Health Science Center and Vice Chancellor for Health Affairs, A&M System	Texas A&M University System Health Science Center College Station, Texas
Mr. Leon Leach Executive Vice President	The University of Texas M. D. Anderson Cancer Center Houston, Texas
Ms. Andrea Marks Vice President of Business and Finance	The University of Texas Health Science Center at San Antonio San Antonio, Texas
Mr. Vernon Moore Vice President of Business and Finance	The University of Texas Health Center at Tyler Tyler, Texas
Dr. Mary Ellen Weber Vice President for Government Affairs and Policy	The University of Texas Southwestern Medical Center at Dallas Dallas, Texas
Lay Members:	
Roland Goertz, M.D. President	McLennan County Medical Education and Research Foundation Waco, Texas

Attachment 2

Health-Related Institutions
Detailed Formula Funding Recommendation
For FYs 2014-2015

The presentation of funding amounts in the report is presented on an "All Funds" basis. This approach is consistent with the historical Committee and Coordinating Board approach on providing formula recommendations. The Instruction and Operations and the Infrastructure Formulas use an "All Funds" method of finance where approximately 90-95% of the formula is General Revenue and the balance is General Revenue-Dedicated funds (certain tuition and fee revenue). Other formulas are funded solely from General Revenue. In this report, only All Funds figures are used - no distinction is made between General Revenue or General Revenue Dedicated funds.

A detailed comparison of HRIs' formula funding amounts for FYs 2012 & 2013 (historical) and FYs 2014 & 2015 (requested) is shown in the table below. It is important to note that amounts projected for FYs 2014 & 2015 include no "per unit" growth (such as FTSE enrollment growth) from FYs 2012 & 2013 levels. The cause of dollar growth below between the two biennia is due solely to the proposed one-third restoration of "per unit" formula funding, from current to original FYs 2000 & 2001 levels.

	FY 2012-13	FY 2014-15	$ Change	% Change
Instruction & Operations Formula	$ 928,211,493	$ 1,012,427,228	$ 84,215,735	**9.07%**
Infrastructure Formula	238,274,307	294,286,154	56,011,847	**23.51%**
Research Enhancement Formula	62,911,178	82,856,724	19,945,546	**31.70%**
Total	$ 1,229,396,978	$ 1,389,570,106	$ 160,173,128	**13.03%**
Mission Specific	259,624,573	283,180,061	23,555,488	**9.07%**
Graduate Medical Education	45,988,260	51,980,526	5,992,266	**13.03%**
Total All Formulas	$ 1,535,009,811	$ 1,724,730,693	$ 189,720,882	**12.36%**

Detailed rate and other information are discussed in the following sections:

Instruction & Operations Formula

The Instruction and Operations Formula is intended to support the Instruction, Academic Support, Student Services, and the Institutional Support categories. The I&O Formula rate recommended for the *Closing the Formula Funding Gap* for FYs 2014 & 2015 is recommended to be $9,710. All students in the spring 2013 formula run should be calculated at the base rate to ensure that growth is funded.

	FY 2000-01	FY 2012-13	FY 2014-15
I & O Funding Rate	**$ 11,383**	**$ 8,874**	**$ 9,710**

The Committee recommends that the Legislature calculate both base student population and the growth according to the most updated FTSE student count (or spring enrollment) at the base rate multiplied by the discipline weights. This calculation will ensure that the base rates are maintained at the recommended dollar value when growth is considered.

Infrastructure Formula

Funding for the Health-Related Institutions for plant support and utilities is calculated using the Infrastructure Support Formula, which is driven by the predicted square feet[7] for the Health-Related Institutions produced by the Space Projection Model. Currently in the Space Projection Model, all Health-Related Institutions are functioning with a deficit in predicted square feet versus actual square feet. Because the Space Projection Model does not account for hospital space, separate infrastructure funding for hospital space at The University of Texas Medical Branch at Galveston, UTMDACC, and UTHSC-Tyler are included in the total funding for hospital and patient care activities.

The Infrastructure Formula rates recommended for the *Closing the Formula Funding Gap* for FYs 2014 & 2015 are recommended to be $7.73 for UTMDACC/UTHSCT and $8.10 for all other Health-Related Institutions. The following table provides a historical comparison with planned rates for FYs 2014 & 2015:

	FY 2000-01 Rates	FY 2012-13 Rates	FY 2014-15 Rates
All Other HRIs	$ 11.18	$ 6.55	**$ 8.10**
UTMDACC & UTHSCT	$ 10.68	$ 6.26	**$ 7.73**

Research Enhancement Formula

Under the current Research Enhancement Formula, each Health-Related Institution annually receives research enhancement funding in the base amount of $1,412,500 and an amount equal to 1.10 percent of each institution's research expenditures as reported to the Texas Higher Education Coordinating Board. While the base amount of this formula had not changed since its inception, the rate has decreased from 2.85 percent to the current level of 1.10 percent.

The Committee believes that this generates a relatively small amount of research funding when considering the positive impact research outcomes have on the state and the ability of the Health-Related Institutions to leverage state dollars. Consistent with the formula recommendations above, the Committee recommends that additional funds be made available to raise the research factor percentage from 1.10 percent to 1.68 percent for FYs 2014 & 2015.

[7] "Clinical Space" included in the Space Projection Model, is the actual educational and general (E&G) clinical space devoted to the diagnosis and care of patients in the instruction of health professions and allied health professions.

	FY 2000-01	FY 2012-13	FY 2014-15
Research Enhancement Rate	2.85%	1.10%	**1.68%**

This recommendation is intended to enhance the institutions' research capabilities. Health-Related Institutions conduct significant levels of research, which drive new and innovative approaches in medicine and clinical care benefiting the citizens of Texas.

Mission Specific Support

Since UTMDACC and UTHSC-Tyler do not provide formal medical education, which qualifies for instruction support under the Instruction and Operations Support Formula, funding for Instruction and Operations Support is allocated to these institutions based on separate criteria. Mission Specific Support recognizes the patient care, research, and training programs that take place at these institutions. These formulas were established by the 77th Legislature.

The 80th Legislature refined the "Cancer Center Operations Formula" for UTMDACC to provide funding for its patient care mission based on the total number of Texas cancer patients served. The funding requirement placed on this formula by Article III, Section 29, Special Provisions, Paragraph 8, Mission Specific states, "For formula funding purposes, the amount of growth in total funding from one biennium to another may not exceed the average growth in funding for Health Related Institutions in the Instruction and Operations formula for the current biennium."

In accordance with the above requirement, the Committee recommends that UTMDACC's funding be increased by the "average growth in funding" recommended for the I&O Formula of 9.07 percent. The recommended amount is shown in the following table:

	FY 2012-13	FY 2014-15	9.07% Increase
UT MD Anderson Cancer Center - Cancer Center Operations			
	Actual	Request	
Mission Specific Funding	$ 212,448,233	$ 231,723,457	**$ 19,275,224**

The Mission-Specific Formula for UTHSC-Tyler has remained a separate formula. The Committee recommends that the funding be increased by the "average growth in funding" recommended for the I&O Formula of 9.07 percent. The recommended amount is shown in the following table:

	FY 2012-13	FY 2014-15	9.07% Increase
UT Health Center Tyler	Actual	Request	
Mission Specific Funding	$ 47,176,340	$ 51,456,604	**$ 4,280,264**

Graduate Medical Education

The Committee is grateful for the increased funding that was provided for the GME formula, which supports the time spent by faculty in educating residents. However, the Committee recognizes that the current level of funding for the GME Formula of $4,682 per year per resident only covers 31 percent of the full GME faculty costs that were estimated by the Coordinating Board in 2004. This represents another aspect of the *Closing the Formula Funding*

Gap, which could put at risk the ability of Health-Related Institutions to maintain and increase the number of accredited residency positions in Texas. Given the importance of residency positions to keep graduating Texas medical school students in the state, the Committee recommends that the GME formula funding rate be increased for the FYs 2014 & 2015 biennium to the level of $5,292 per resident per year, an increase of 13.03 percent. However, this increase must not be at the expense of other existing formula funding.

	FY 2006-07	FY 2012-13	FY 2014-15
Graduate Medical Education	$ 2,340	$ 4,682	**$ 5,292**

Attachment 3

Texas Higher Education Coordinating Board
Commissioner's Charge to the
Health-Related Institutions Formula Advisory Committee (HRIFAC)
For the FYs 2014-2015 Biennium

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

The HRIFAC will meet during the summer and fall of 2011 to discuss formula elements and make a formal recommendation in regard to funding amounts for FY 2014 and FY 2015 to the Commissioner of Higher Education in February of 2012.

The current formulas for determining funding levels at health-related institutions were developed for the 2000 - 2001 biennium. Starting in the 2006-2007 biennium, the formula for Graduate Medical Education was added to fund medical residents. For the 2008 – 2009 biennium, two pieces of the mission specific formula for The University of Texas M. D. Anderson Cancer Center were consolidated into one new formula, Cancer Center Operations. For 2010-2011, the mission specific formula for The University of Texas Health Science Center at Tyler was changed to Chest Disease Center Operations and the revised formula includes appropriations previously made outside the formula for patient care activities.

The formula recommendations under discussion relate to appropriations in the bill patterns of the health-related institutions, and in the case of Graduate Medical Education for Baylor College of Medicine, funding which is appropriated to the Coordinating Board.

The key elements of each of the health-related institution formulas are summarized below.

Instruction & Operations (I&O)

The Instruction and Operations (I&O) formula is allocated on a full-time student equivalent (FTSE) basis with a funding weight predicated on the instructional program of the student. This formula applies to all health-related institutions except The University of Texas Health Science Center at Tyler, which does not currently grant degrees.

Programs with enrollments of less than 200 receive a small class size supplement of either $20,000 or $30,000 per FTSE depending upon the program. The small class size supplement addresses the small classes offered at the main campus and at remote satellite sites. The supplement is calculated based on a sliding scale that decreases as the enrollment approaches the 200 limit and is in addition to the base I&O formula amount.

Through HB1 and HB4, the Legislature appropriated a base value rate of $8,874 per FTSE for the FYs 2012-2013 biennium. Formula weights for each discipline, the related amount per FTSE for the small class size supplement, and the calculated funding amount for one student are provided in the following table:

Program	Formula Weight	Small Class Size Supp.	Funding Amt. for One Student
Allied Health	1.000	$ 20,000	$ 8,874
Health Informatics (Allied Health)	1.000	$ 20,000	$ 8,874
Biomedical Science	1.018	$ 20,000	$ 9,034
Nursing - Undergraduate	1.138	$ 20,000	$ 10,099
Nursing - Graduate	1.138	$ 20,000	$ 10,099
Pharmacy	1.670	$ 20,000	$ 14,820
Public Health	1.721	$ 20,000	$ 15,273
Dental Education	4.601	$ 30,000	$ 40,831
Medical Education	4.753	$ 30,000	$ 42,180

The I&O formula represents 75 percent of total I&O, Infrastructure, and Research Enhancement funding to the health-related institutions. The All Funds I&O formula funding appropriation of $928.2 million represents a 4.7 percent decrease in funding over the reduced amount for the 2010-11 biennium, compared to a 16.8 percent increase in FTSE. Compared to the original 2010-11 biennium amounts, the decrease in funding is 10.2 percent.

Infrastructure

The Infrastructure formula provides for utilities and physical plant support. The formula is based upon the predicted square footage of the HRI space model. The space model projection is based on the following elements:

- Research - research expenditures or reported faculty FTE
- Office - faculty, staff and net E&G expenditures
- Support - % of total prediction of other factors
- Teaching - level/programs areas of credit hours
- Clinical - actual clinical space used for instruction

The FYs 2008-09 HRIFAC outlined and approved the application and approval process for the inclusion of any additional sites to qualify for the multi-campus adjustment to the space projection model for health-related institutions. The Committee recommended the following criteria for qualification for a Multi-Campus Adjustment site:

- The site must be specifically authorized by Legislative actions (such as a rider or change to the statute to establish the separate site of the campus).
- The site shall not be in the same county as the parent campus.
- There may be more than one site (a recognized campus entity or branch location) in the separate location if the separate site meets all of the criteria for eligibility.
- The facilities must be in the facilities inventory report certified by the institution at the time the space projection model is calculated.
- The parent campus must demonstrate responsibility for site support and operations.
- Only the E&G square feet of the facilities are included in the calculation of the space projection model.

The Infrastructure rate per predicted square foot appropriated in HB1 and HB4 combined for FYs 2012-2013 is as follows:

HRIs except UT M. D. Anderson Cancer Center & UT Health Science Center at Tyler	$	6.55
UT M. D. Anderson Cancer Center & UT Health Science Center at Tyler	$	6.26

The Infrastructure formula represents about 19 percent of total I&O, Infrastructure, and Research Enhancement funding to the health-related institutions. The 2012-13 total formula funding appropriation of $238.3 million represents a 4.1 percent decrease from the reduced amounts for the 2010-11 biennium, compared to a 8.3 percent increase in predicted square feet. Compared to the original 2010-11 biennium amounts, the decrease in funding is 9.8 percent.

Research Enhancement

Health-related institutions generate state appropriations to support research from the Research Enhancement formula. The Research Enhancement formula provides a base amount of $1,412,500 for all institutions regardless of research volume. To the base amount each institution receives an additional 1.10 percent of its research expenditures as reported to the Coordinating Board.

The Research Enhancement formula represents five percent of total I&O, Infrastructure, and Research Enhancement funding to HRIs. The 2012-13 total formula funding appropriation of $62.9 million represents a 5.8 percent decrease over the reduced amounts for the 2010-11 biennium, compared to a 10.5 percent increase in research expenditures. Compared to the original 2010-11 biennium amounts, the decrease in funding is 11.7 percent.

Mission Specific

Mission specific formulas provide instruction and operations support funding for The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Science Center at Tyler. Total funding from HB1 and HB4 for 2012-13 biennium is as follows:

- The Cancer Center's total formula funding appropriations are $212.4 million, a decrease of 3.7 percent for 2012-13 biennium.
- The Health Science Center's total formula funding appropriations are $47.2 million, a decrease of 3.7 percent for 2012-13 biennium.

Compared to the original 2010-11 biennium amounts, the decrease in funding is 9.8 percent.

Graduate Medical Education

The formula for bill pattern Graduate Medical Education began with the 2006-07 biennium. Graduate Medical Education formula funds provide support for qualified Accreditation Council for Graduate Medical Education (ACGME) and American Osteopathic Association (AOA) medical residents trained by state HRIs in Texas. Residents at the Baylor College of Medicine are funded at the same rate as other institutions through an appropriation to the Coordinating Board to be distributed to Baylor.

For the 2012-13 biennium, a total of $56.3 million was appropriated for Graduate Medical Education, a decrease of 24.2 percent over the reduced amounts for 2010-11, compared to a 2.3 percent increase in residents. Appropriations provide $4,682 per resident per year. Compared to the original 2010-11 biennium amounts, the decrease in funding is 28.8 percent.

Commissioner's Charges

Similar to the other formula advisory committees, the HRI FAC is asked to conduct an open, public process, providing opportunities for all interested persons, institutions, or organizations that desire to provide input on formula funding issues to do so. At the end of this process, the HRI FAC should make appropriate recommendations on the following specific charges:

1. Propose a set of formulas with appropriate levels of funding and financial incentives necessary to best achieve the four major goals included in ***Closing the Gaps***. Formula rates, weights, and categories, as appropriate, should be recommended for each of the following formulas:
    a. Instruction & Operations
    b. Infrastructure
    c. Research Enhancement
    d. Mission Specific
    e. Graduate Medical Education
2. Review the current I&O formula weights and determine if new weights should be requested.
3. Review the current I&O programs and determine if any specialties need to be assigned separate weights. If so, recommend requested weight(s) as appropriate.
4. Provide the Commissioner with a preliminary written report of the Committee's recommendations by December 15, 2011, and a final written report by February 1, 2012.



This document is available on the Texas Higher Education Coordinating Board Website: **http://www.thecb.state.tx.us**

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