

Higher Education Fund Recommendations for Fiscal Years 2026-2035

October 2024

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Texas Higher Education Coordinating Board



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Agency Purpose

Our purpose is to strengthen Texas through higher education. By making higher education accessible to a wide range of people, we can ensure Texas remains one of the world's most innovative, valuable educational systems. By bringing together data, policymakers, and institutions, we can inform sensible policies that make a difference and make education beyond high school available to every person in our state. When we do that, we will improve lives, communities, and our shared economy.

Agency Vision

The THECB will be recognized as an international leader in developing and implementing innovative higher education policy to accomplish our mission.

Agency Philosophy

The THECB will promote access to and success in quality higher education across the state with the conviction that access and success without quality is mediocrity and that quality without access and success is unacceptable.

The THECB's core values are:

Accountability: We hold ourselves responsible for our actions and welcome every opportunity to educate stakeholders about our policies, decisions, and aspirations.

Efficiency: We accomplish our work using resources in the most effective manner.

Collaboration: We develop partnerships that result in student success and a highly qualified, globally competent workforce.

Excellence: We strive for excellence in all our endeavors.

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.

Please cite this report as follows: Texas Higher Education Coordinating Board. (2024). Higher Education Fund Recommendations for Fiscal Years 2026-35. Austin, TX.

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Table of Contents

Executive Summary	i
Statutory Authority	iii
Introduction.....	1
Recommendations	4
Deferred Maintenance Review	10

Tables

Table 1. History of HEF Review and Legislation	2
Table 2. Inflation Indices	5
Table 3. Projected Funding Level	6
Table 4. HEF and Total Expenditures for Deferred or Critical Deferred Maintenance	10
Table 5. HEF Revenues Pledged to Bond Debt Service.....	11

Charts

Chart 1. Annual HEF Appropriations by Fiscal Year	2
Chart 2. Fall Enrollment 2004-2023	4

Appendices

Appendix A: HEF-Eligible Institutions and Study Participants	12
Appendix B: Texas Constitution, Article VII, Section 17.....	13
Appendix C: Current Allocation.....	17
Appendix D: Proposed Allocation Methodology With Most Recent Data.....	19
Appendix E: Qualitative Survey Responses	20

Executive Summary

The Texas Higher Education Coordinating Board (THECB) is forwarding to the Legislative Budget Board and the standing committees of the Texas Legislature with jurisdiction over higher education the funding level and methodology recommendations of the Higher Education Fund (HEF) study for Fiscal Years 2026-2035. The 89th Texas Legislature, convening in January 2025, will have the opportunity to consider the funding level and final allocation methodology and set the amounts in statute in the decennial review as prescribed in the Texas Constitution.

To determine these recommendations, THECB convened representatives from each HEF-eligible institution in a study. Recommendations and alternatives for the methodology were developed by study participants, and the recommendations presented in this report represent those of the majority of HEF-eligible institutions.

Recommended Funding Level

The group recommends an increase in the annual HEF appropriation from \$393,750,000 to \$787,500,000 each fiscal year as outlined in [Table 3](#) of this report. This recommendation is based on the increase in inflation and students served by HEF-eligible institutions over the past 10 years (since the last increase in the HEF appropriation) and adjusted for projected increases in inflation and enrollment for the next five years (through the midpoint of the next 10-year HEF review cycle).

Recommended Allocation Methodology

The group recommends a four-factor approach after the 2.2% constitutionally mandated set-aside for Texas State Technical Colleges. This includes providing:

1. **Facilities Supplement**, pending an increase in appropriation level. The new recommended facilities supplement would provide a base supplement to support institutions based on economies of scale, using fall enrollment. Institutions with fewer than 5,000 students would receive a maximum supplement of \$2.0 million. This supplement would step down for institutions with up to 20,000 students, beyond which the supplement would phase out.
2. **Facilities Condition** - Allocate 25% of remaining funding based on Facilities Condition using actual educational and general (E&G) square footage, as reported by institutions on the THECB facilities inventory. This would replace the current use of the building replacement value.
3. **Space Deficit** - Allocate 25% of remaining funding based on Space Deficit using institutions' fall space needs, as determined by the Space Projection Model.
4. **Institutional Complexity** - Allocate 50% of remaining funding based on Institutional Complexity using all formula funding appropriations provided to the institutions. For general academic institutions, the Comprehensive Regional University Funding and Research Funds would be included in the calculation. For health-related institutions, the

calculation would include earned funding for the performance-based, mission-specific formulas.

Recommended Statute Change

The group recommends amending Texas Education Code, Section 62.021, to codify the long-standing and accepted practice that HEF appropriations can be expended on debt service for Revenue Financing System debt. The amendment would add a new subsection (c-1), to read:

(c-1) Each governing board participating in the distribution of funds as described in this section may in its sole discretion use the funds for the payment of bonds as defined in Section 55.01 of this code, the proceeds of which were expended for any and all purposes described in Section 17, Article VII, Texas Constitution.

Deferred Maintenance Study

Additionally, this report provides the required study on deferred maintenance per Texas Education Code, Section 62.022. The institutions were surveyed regarding their existing deferred maintenance needs, total expenditures on deferred maintenance, and total HEF expenditures on deferred maintenance. Deferred maintenance has increased rapidly, by 112%, over the past five years, while the HEF appropriation level has remained flat. Over the same time period, expenditures from the HEF on deferred maintenance have dropped from covering between 8-9% of the total deferred maintenance need across HEF institutions to only 4.3% in Fiscal Year 2023. The data collected shows that HEF expenditures represent half of the overall expenditures institutions are using to address deferred maintenance items, indicating the HEF is critical for institutions in addressing these challenges.

Statutory Authority

Texas Education Code, Section 62.022

"(a) Prior to the convening of the regular session of the Texas Legislature immediately preceding each 10-year period for which Section [17](#)(d), Article VII, Texas Constitution, prescribes an allocation of the money appropriated by Section [17](#)(a), Article VII, Texas Constitution, the coordinating board shall conduct, with the full participation of the eligible institutions, a study and present recommendations to the Legislative Budget Board and the standing committees of the house of representatives and the senate having jurisdiction over legislation related to higher education as to the allocation of the money appropriated by Section 17(a) for the following 10-year allocation period established by Section 17(d).

...

(f) A review of the allocation formula conducted by the coordinating board under this section shall include:

- (1) a comparison of the deferred maintenance needs of an institution of higher education and the extent to which the constitutionally dedicated funds were used to meet those needs; and
- (2) an evaluation of the effectiveness of the allocation formula concerning deferred maintenance needs of those institutions."

Introduction

Authorization and Uses

The Higher Education Fund (HEF) is authorized by the Texas Constitution, Article VII, Section 17. The Texas Constitution provided for an annual appropriation of \$100 million to certain eligible institutions of higher education, beginning in September 1985, from the first money coming into the state treasury not otherwise appropriated by the constitution, for the following purposes:

- Acquiring land
- Constructing and equipping buildings and other permanent improvements
- Performing major repair and renovation of buildings or other permanent improvements
- Acquiring capital equipment, library books, and library materials

These funds may not be used to finance student housing, intercollegiate athletics, or auxiliary enterprises. Additionally, eligible institutions may issue bonds or notes pledging up to 50% of their individual annual allocations to secure the payment of the principal and interest of those bonds.

The Texas Constitution provides that the Legislature may increase the amount of the appropriation by a two-thirds vote of the membership of each house and requires an “equitable formula” to allocate the annual HEF appropriation. The Legislature is required to determine the allocation of the annual appropriation every 10 years and review the allocation at the end of the fifth year of each allocation period.

Eligible Institutions

The HEF provides support for those institutions of higher education that are ineligible for support from the Available University Fund. [Appendix A](#) provides a full list of the 31 institutions eligible to receive support from the HEF. Beginning with the new allocation in Fiscal Year (FY) 2026, two new institutions of higher education are eligible to receive the HEF, the University of Houston College of Medicine and the Sam Houston State University College of Osteopathic Medicine. These two institutions were created as institutions of higher education in 2019 with at least a two-thirds vote (as required by Texas Constitution, Article VII, Section 17(c)) by House Bill 826 and House Bill 2867, respectively, of the 86th Texas Legislature.

Current Funding Level

Texas Education Code (TEC), Section 62.002, prescribes that the equitable allocation of these funds is to provide “the means to create and maintain a degree of excellence at the respective institutions and agencies of higher education that is above and apart from the normal appropriative formulas...”

Per the requirements of the Texas Constitution, Table 1 details the legislation enacted during each review period for the HEF and the subsequent change to the appropriation level.

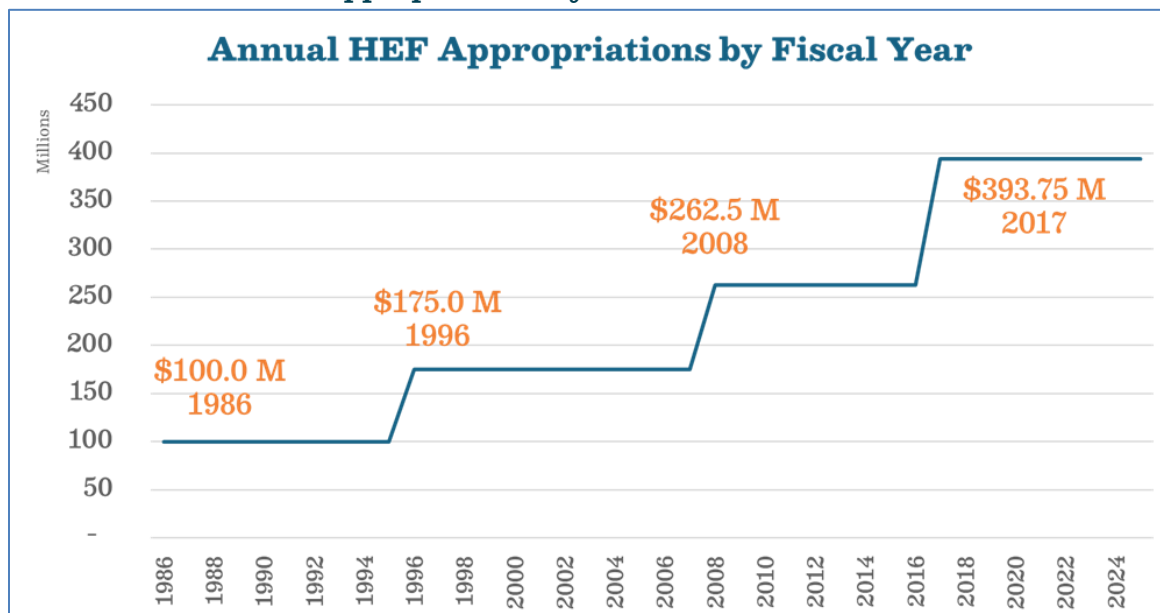
Table 1. History of HEF Review and Legislation

Legislative Session	Annual Appropriation	Action
69 th Legislative Session (1985)	\$100.0 million	Introduced
74 th Legislative Session (1995)	\$175.0 million	House Bill (HB) 2462 increased allocation and provided for a \$50 million annual
79 th Legislative Session (2005)	\$262.50 million (in 2008)	HB 3001 reallocated the formula and increased allocation starting in FY 2008
81 st Legislative Session (2009)	\$262.50 million	HB 51 reallocated the formula and eliminated the HEF Trust Fund
84 th Legislative Session (2015)	\$393.75 million (in 2017)	SB 1194 reallocated the formula and increased the allocation starting in FY 2017
86 th Legislative Session (2019)	\$393.75 million	SB 709 reallocated the formula starting in FY 2021
88 th Legislative Session (2023)	\$393.75 million	SB 1055 removed Stephen F. Austin State University from the HEF and reallocated funds among remaining eligible institutions

[Chart 1](#) displays the statewide total appropriation of the HEF since inception. The HEF is funded through an annual General Revenue appropriation in the General Appropriations Act. The 84th Texas Legislature reviewed the funding level of the HEF and allocated \$262,500,000 for FY 2016, and \$393,750,000 for FY 2017 through FY 2025.

Amounts by institution are listed in Texas Education Code 62.021 and displayed in [Appendix B](#). The Texas Constitution prescribes a maximum allocation of 2.2% for the Texas State Technical College System.

Chart 1. Annual HEF Appropriations by Fiscal Year



Current Formula Allocation

The current funding formula, outlined in Texas Education Code 62.021 (a), uses a three-factor approach, combined with the 2.2% constitutionally mandated set-aside for Texas State Technical Colleges. The following elements and associated data points are included in the current formula allocation.

1. **Institutional Complexity** - Reflects the expense of implementing the range and level of academic programs. An institution's mix of degree programs and levels and the extent of its research programs determine its complexity.

Data Point: 50% is allocated based on the institutions' FY 2018-2019 All Funds formula funding appropriations in the General Appropriations Act, 85th Texas Legislature. For general academic institutions and state colleges, this includes the instruction and operation and infrastructure formula funding amounts. For health-related institutions, this includes the instruction and operation, infrastructure, graduate medical education, and research enhancement formula funding amounts.

2. **Space Deficit** - Proportionally funds the cost to construct the space need (difference of needed educational and general net assignable space, estimated by the THECB space model, and reported values).

Data Point: 25% is allocated based on unadjusted Space Deficit using institutions' fall 2017 space need, as determined by the Space Projection Model. Institutions with a surplus receive zero.

3. **Facilities Condition** - Funds the renovation and maintenance of educational and general facilities by estimating a reasonable level of deferred maintenance. The Association of Physical Plant Administrators (APPA) advocates spending 1.5% to 3% of building values on major repair and rehabilitation annually.

Data Point: 25% is allocated using institutions' building replacement value for their fall 2017 reported building inventories.

The current funding formula allocation by institution was calculated in 2019 by the 86th Texas Legislature after the review of the existing methodology during the last five-year HEF review cycle. This allocation was updated by the 88th Texas Legislature to remove Stephen F. Austin State University from the HEF, due to the institution becoming eligible for support through the Available University Fund, and to proportionally distribute their funds among the remaining HEF-eligible institutions.

Study Committee

Texas Education Code, Section 62.022, requires the THECB to conduct a study and present recommendations to the Legislative Budget Board and standing committees of the House of Representatives and Senate with jurisdiction over higher education on the level and allocation of funding for the next 10 years. This report must be provided before the convening of the 89th Texas Legislature and include full participation of the eligible institutions.

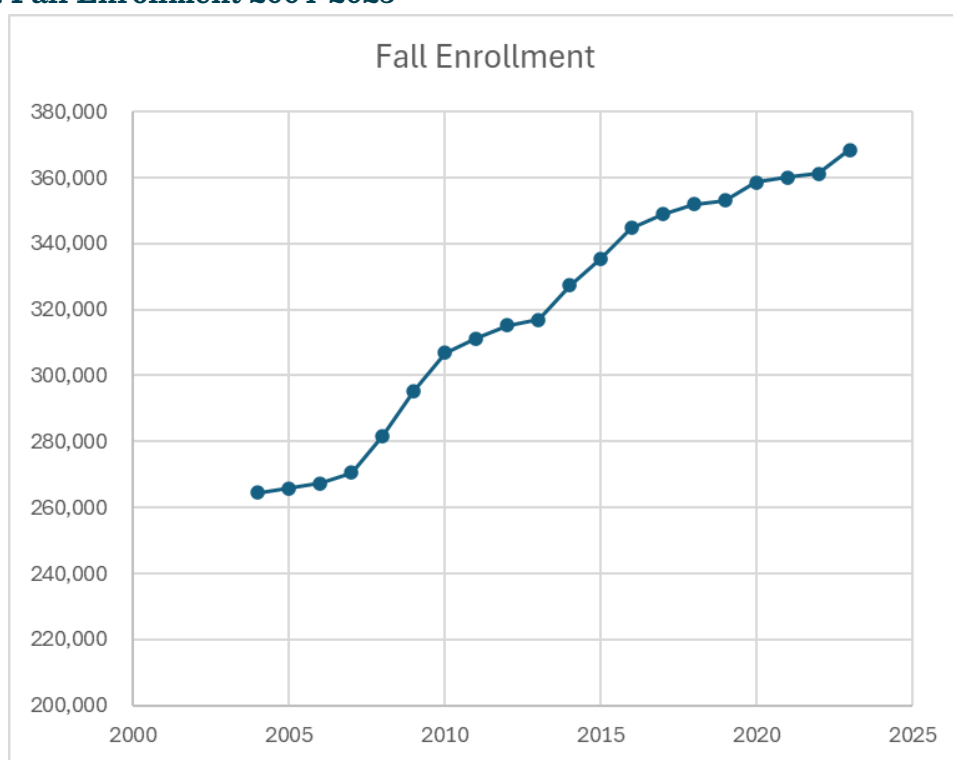
All eligible institutions participated in the workgroup in the summer of 2024 and a list of participants is available in [Appendix A](#).

Recommendations

Funding Level Recommendation

The study group considered institutional growth, emerging institutional trends, history of the HEF allocation, and current and future inflation when considering the appropriate overall funding level recommendation. The study group reviewed the increase in students served and semester credit hours delivered by the HEF-eligible institutions. There has been a 10% increase in fall enrollment across HEF-eligible institutions since 2015, the last time the funding level was considered for an increase by the Texas Legislature.

Chart 2. Fall Enrollment 2004-2023



The HEF Funds Construction, Facilities Maintenance, and Information Technology

Over the past decade, higher education institutions in the state have faced escalating financial challenges in the areas the HEF is primarily meant to fund: construction, maintenance, and information technology (IT). These challenges are driven by significant cost increases, placing a substantial burden on colleges and universities struggling to maintain aging or new and complex facilities, as well as information technology equipment and infrastructure.

Inflation has significantly diminished purchasing power over the past decade. Supply chain issues have been particularly acute for the past five years in the construction and technology sectors, which have disproportionately driven up prices. Institutions have also seen increased prices for goods and increased profit margins from service providers in the wake of many construction firms closing during COVID-19, thereby reducing the number of subcontractors

and competitors for state construction contracts. The cost of new construction, for example, has experienced double-digit inflation for at least the past five years, with increases as high as 20% in 2020.

Information technology costs have also created rising pressures on institutions. In addition to continuous increases in demand for software modernization, cloud adoption, and digitization to create efficiencies and improve services, personnel costs have increased to keep up with private-sector competition for talent and training of staff to maintain skill sets as technology rapidly evolves. Key drivers of these cost increases include cybersecurity demands, evolving digital learning platforms, Enterprise Resource Programs for running the business of the institution, and infrastructure renewal.

The rising costs of construction and IT are particularly concerning given the aging infrastructure of many of our higher education institutions, and the high degree of complexity in many newer buildings designed for research or medical uses, in particular. By investing in the maintenance, upkeep, and renewal of our higher education campuses through the HEF, the state can ensure that our higher education system remains strong and capable of meeting the needs of future generations.

Inflation

The group explored the use of several inflation indices to quantify the impact of increased costs over the past decade. These included the Bureau of Labor Statistics Consumer Price Index (CPI), Engineering News Record's (ENR) Building Cost Index, ENR's Construction Cost Index, and Ed Zarenski's construction inflation data (see Table 2). The group found that long-term construction cost inflation is normally almost double the CPI and agreed that ENR's Building Cost Index would be the most representative of the institution's current construction cost environment. ENR's Building Cost Index is based on skilled labor costs for three trades: bricklayers, carpenters, and ironworkers, which is more indicative of construction inflation realities for public institutional building. The indices reviewed showcase a drop in purchasing power of up to 56% due to inflation over the past nine years.

Table 2. Inflation Indices

Year	Consumer Price Index (CPI)	Annual Inflation	Inflation vs Base Year 2015	ENR Construction Cost Index	Annual Inflation	Inflation vs Base Year 2015	ENR Building Index	Annual Inflation	Inflation vs Base Year 2015	Inflation Data - Zarenski	Annual Inflation	Inflation vs Base Year 2015
2015	237.017			10,035			5,518			84.0		
2016	240.007	1.3%	1%	10,338	3.0%	3%	5,645	2.3%	2%	87.1	3.7%	4%
2017	245.120	2.1%	3%	10,737	3.9%	7%	5,831	3.3%	6%	90.6	4.0%	8%
2018	251.107	2.4%	6%	11,062	3.0%	10%	6,019	3.2%	9%	95.5	5.4%	14%
2019	255.657	1.8%	8%	11,281	2.0%	12%	6,136	1.9%	11%	100.0	4.7%	19%
2020	258.811	1.2%	9%	11,466	1.6%	14%	6,281	2.4%	14%	102.4	2.4%	22%
2021	270.970	4.7%	14%	12,133	5.8%	21%	6,912	10.0%	25%	110.8	8.2%	32%
2022	292.655	8.0%	23%	13,007	7.2%	30%	7,791	12.7%	41%	124.2	12.1%	48%
2023	304.702	4.1%	29%	13,358	2.7%	33%	8,130	4.4%	47%	130.9	5.4%	56%

While inflation has reduced the purchasing power of HEF to address critical infrastructure needs at institutions across the state, increasing enrollment also places additional strain on aging infrastructure, furthering the need for increased HEF funding. To determine the recommended funding request for HEF, the metrics for fall enrollment growth and the ENR building cost index were both forecasted to FY 2029, the midway point of the 10-year cycle during the review. However, it is recognized that this does not fully account for the full inflation and growth the institutions will likely see through the next decade that the HEF funding level is set.

Table 3. Projected Funding Level

Fully funding this methodology would result in an increase in the total HEF funding level of 127%. After considering all relevant data and taking a conservative approach to all the needs the state will face in the coming decade, the study group **recommends a 100% increase to HEF, from \$393,750,000 to \$787,500,000 each fiscal year.**

Allocation Methodology Recommendation

Analysis of Current Methodology

The study group considered many factors related to the current environment of deferred maintenance needs, facilities reporting, and formula funding trends when assessing the equitable allocation of the current HEF methodology. Namely, the group recognized the following:

- The use of building replacement value in the methodology is no longer an appropriate metric for facilities condition. First, the calculation methodology of replacement value differs widely between the general academic institutions and health-related institutions due to the exclusion of certain construction expenses for the top 10 projects in each sector. Second, due to changes in the way that the THECB now collects construction project data, there have been no changes in the top 10 projects, resulting in no changes to the replacement value other than inflation. Therefore, the year-to-year differences in values are not representative of facilities condition.
- The current methodology does not take into account the effective ages of buildings on campuses. While the original occupancy date of buildings is available in THECB data, there is no data collected on when or what type of renovations had been done to older facilities over their lifespan. The group discussed that building condition assessment is difficult and no single methodology exists that produces consistent data across institutions. The group considered adding a factor to weight facilities based on their effective age, but due to the lack of consistent data on renovations or condition of buildings, the group chose not to pursue this approach. However, the group does recommend considering how to collect data and reviewing this issue again for methodology discussions in the future.
- The Legislature has expanded and reformed the funding formulas across the different sectors of higher education in the state since the last review cycle.
 - For general academic institutions, the Legislature has begun providing Comprehensive Regional University Funding, a performance-based funding formula to support at-risk students at comprehensive regional universities. Additionally, the 88th Texas Legislature made significant reforms to research formula funding in the state. This includes the creation of the Texas University Fund and the change in performance metrics for the Comprehensive Research Fund to align with the state's higher education strategic plan, *Building a Talent Strong Texas*, along with significant increase in investment of funds for this purpose.
 - For health-related institutions, the Legislature has begun providing performance-based, mission-specific funding for research and clinical operations at certain institutions. While these formulas were seeded originally with non-formula support items, the 88th Texas Legislature provided performance-driven funding to the institutions in accordance with the institutions' mission-specific formula metrics.

Additionally, the group considered that if there are no changes to the HEF formula or amount, 20 of the 31 HEF institutions would lose funding compared to current levels. This is a result of certain institutions' increased enrollment driving increases in the metrics used for the allocations, coupled with declines seen at smaller, primarily rural institutions in the state, plus the addition of two new institutions of higher education becoming eligible for HEF appropriations, thereby splitting the funds across a larger base.

Methodology Recommendation

Based on the analysis conducted, and assuming an increase in the total annual HEF appropriation, the study group recommends a four-factor approach for allocating HEF, which continues the 2.2% constitutionally mandated set-aside for Texas State Technical Colleges. The following elements and associated data points are included in the recommended formula allocation, using the most current data available at the beginning of the 89th Legislative Session:

1. **Facilities Supplement** - Funds a base supplement to support institutions based on headcount enrollment.

Data Point: If additional funding is provided to fully fund the proposed methodology, institutions with a fall 2024 headcount of less than 5,000 receive an annual supplement of up to \$2,000,000. Institutions with a headcount of less than 20,000 and more than 5,000 receive a proportionate supplement. Institutions with more than 20,000 do not receive the supplement.

2. **Institutional Complexity** - Attempts to capture the range and level of academic programs and the extent of its research programs to determine its complexity.

Data Point: 50% of remaining funding is allocated based on the institutions' FY 2026-2027 All Funds formula funding appropriations, as introduced in Senate Bill 1, 89th Texas Legislature.

- For general academic institutions, this includes the instruction and operation (I&O) and infrastructure formula funding amounts and adds the Comprehensive Regional University Funding amounts, Texas University Fund distribution amounts, and Comprehensive Research Fund amounts.
- For state colleges, this includes the I&O and infrastructure formula funding amounts.
- For health-related institutions, this includes the I&O, infrastructure, graduate medical education, and research enhancement formula funding amounts, and adds the earned funding provided by the Legislature for performance-based, mission-specific formula funding.

3. **Space Deficit** - Captures the gap between the institution's actual space in reported values and the estimated space needed by institutions to serve their current enrollment as determined by the THECB space model.

Data Point: 25% of remaining funding is allocated based on unadjusted Space Deficit using institutions' fall 2024 space need, as determined by the Space Projection Model. Institutions with a surplus receive zero.

4. **Facilities Condition** - Estimates the funds needed for the renovation and maintenance of educational and general facilities to a reasonable level of deferred maintenance. The APPA advocates spending 3% of building values on major repair and rehabilitation annually.

Data Point: 25% of remaining funding is allocated using fall 2024 actual E&G square footage as reported in institutions' facilities inventory.

The resulting allocation of available funds under this methodology, using most recently available data, can be found in [Appendix D](#). The reallocation will not put the payment of HEF-pledged bonds in jeopardy.

Statute Change Recommendation

The study group recommends adding the following language to statute to codify the long-standing and accepted practice that HEF appropriations can be expended on debt service for Revenue Financing System debt:

Amend Section 62.021 by adding a new subsection (c-1), to read:

(c-1) Each governing board participating in the distribution of funds as described in this section may in its sole discretion use the funds for the payment of bonds as defined in Section 55.01 of this code, the proceeds of which were expended for any and all purposes described in Section 17, Article VII, Texas Constitution.

Deferred Maintenance Review

TEC 62.022 requires the THECB to include a comparison of deferred maintenance needs, the extent to which HEF funds were used to meet those needs, and an evaluation on the effectiveness of the allocation formula concerning deferred maintenance needs. THECB staff reviewed the available data in two different ways. First, a survey of institutions sought to determine the existing levels of deferred maintenance, the extent HEF revenues were directly used to mitigate these maintenance issues, and the debt service level of HEF-backed bonds. The results of that survey are in Table 4.

Additionally, a second survey captured an institution's total expenditures spent on deferred maintenance, rather than just HEF funding. Table 4 shows that HEF funding represents, on average, half the overall expenditures that institutions are spending to address deferred maintenance items, indicating that the HEF amounts are critical for institutions in addressing these challenges. The data also indicates the challenge of addressing deferred maintenance needs, which have shown a rapid increase of 112% from 2018 to 2023, while having a static appropriation amount from the HEF. Institutions have had to use other sources of funding to address deferred maintenance on campuses.

Table 4. HEF and Total Expenditures for Deferred or Critical Deferred Maintenance

Statewide Total (in Millions)	2018	2019	2020	2021	2022	2023
Total E&G Deferred Maintenance Needs	\$980.8	\$1,151.4	\$1,057.1	\$1,147.8	\$1,836.1	\$2,077.1
HEF Expenditures on Deferred Maintenance	\$79.9	\$85.0	\$90.5	\$107.4	\$94.6	\$89.8
Total Expenditures on Deferred Maintenance	\$135.0	\$148.8	\$170.1	\$234.1	\$274.3	\$189.2
HEF Expenditures as a Percentage of Deferred Maintenance Needs	8%	7%	9%	9%	5%	4%
Total Expenditures as a Percentage of Deferred Maintenance Needs	14%	13%	16%	20%	15%	9%
HEF Expenditures as a Percentage of Deferred Maintenance Expenditures	59%	57%	53%	46%	34%	47%

The survey also collected data on HEF revenues that are pledged toward bond debt service over the next several years (see Table 5).

Table 5. HEF Revenues Pledged to Bond Debt Service

Statewide Total (in Millions)	2024	2025	2026	2027	2028	2029	2030
HEF Revenues Pledged to Bond Debt Service	\$63.1	\$73.1	\$75.2	\$82.8	\$82.5	\$79.9	\$79.4

Additional Survey Data Results

In addition to expenditure data, the survey gathered qualitative data on institutional practices around what metrics institutions use to evaluate facility needs, how institutions budget their HEF allocations, and how institutions consider the use of HEF versus other fund sources when addressing deferred maintenance.

Regarding metrics used to evaluate facilities needs, several systems reported that they conduct facilities condition assessment with a third-party firm annually, and some reported that they balance condition of the building with the demands of academic programs to identify current and future maintenance needs.

Most institutions report that their HEF budgets are prioritized to cover expenses in the following areas: capital projects to address facility needs, ongoing deferred maintenance, instructional classroom technology or other IT needs like equipment and cloud-based services, library materials/subscriptions, and annual debt service. Many institutions report that their HEF allocation process is part of their annual budget process, whereby campus/departmental HEF requests are made and prioritized by administration based on availability.

The majority of institutions report that HEF is the primary source of funding to address deferred maintenance until it is exhausted, at which point other sources of funding are allocated as needed to ensure continuity of operations. Many report that available HEF funding is allocated by priority and eligibility of the expenditure (E&G space), including the use of institutional policies to make these determinations.

Overall Impression

The data received via the surveys shows that, on the aggregate, deferred maintenance is rapidly increasing across campuses. It is important to underscore the role of inflation again in this calculation. While it is true that the increase is partly due to institutions' inability to financially meet the needs for a sustainable amount of investment in deferred maintenance annually, the increase is also due to the fact that even when institutions are able to keep up with the current amount of deferred maintenance needed, the cost of that unaddressed deferred maintenance continues to increase. Appropriations for the HEF remain a vital source of funding for this purpose.

Appendix A: HEF-Eligible Institutions and Study Participants

HEF-Eligible Institutions	Study Participant Name
Texas A&M International University	Juan Castillo
Texas A&M University-Commerce	Tina Livingston
Texas A&M University-Corpus Christi	Charles Ingram
Texas A&M University-Kingsville	Jacob W. Flournoy
Texas A&M University-Texarkana	Jeff Hinton
West Texas A&M University	Randy Rikel
University of Houston	Raymond Bartlett
University of Houston-Clear Lake	Dr. Chris Maynard
University of Houston-Downtown	Kimberly Thomas
University of Houston-Victoria	Beverly Shuford, Ph.D., C.P.A.
University of Houston College of Medicine*	Dr. Stephen Scott, M.D., M.P.H.
University of North Texas	Clayton Gibson
University of North Texas at Dallas	Emily Deardorff
University of North Texas Health Science Center	Kemp Louis
Angelo State University	Angie Wright
Midwestern State University	Chris Stovall
Texas Tech University	Noel Sloan
Texas Tech University Health Sciences Center	Penny Harkey
Texas Tech University Health Sciences Center-El Paso	Jessica Fisher
Texas Southern University	John Pittman
Texas Woman's University	Robert Ramirez
Lamar University	Spencer Sims
Lamar Institute of Technology	Joanna Sheppard
Lamar State College Orange	Leanna Odom
Lamar State College Port Arthur	Mary Wickland
Sam Houston State University	Amanda Withers
Sam Houston State University College of Osteopathic Medicine*	Kyley Houck
Sul Ross State University	Bonnie Albright
Sul Ross State University Rio Grande College	Daniel Harper
Texas State University	Eric Algoe
Texas State Technical College System	Chad Wooten

**These two institutions were created as institutions of higher education in 2019 with at least a two-thirds vote (as required by Texas Constitution Article VII, Section 17(c)) by House Bill 826 and House Bill 2867, respectively, by the 86th Texas Legislature.*

Appendix B: Texas Constitution, Article VII, Section 17

Section 17. Funding to Support Agencies and Institutions of Higher Education not supported by Available University Fund.

(a) In the fiscal year beginning September 1, 1985, and each fiscal year thereafter, there is hereby appropriated out of the first money coming into the state treasury not otherwise appropriated by the constitution \$100 million to be used by eligible agencies and institutions of higher education for the purpose of acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, major repair or rehabilitation of buildings or other permanent improvements, acquisition of capital equipment, library books and library materials, and paying for acquiring, constructing, or equipping or for major repair or rehabilitation of buildings, facilities, other permanent improvements, or capital equipment used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for educational and general activities. For the five-year period that begins on September 1, 2000, and for each five-year period that begins after that period, the legislature, during a regular session that is nearest, but preceding, a five-year period, may by two-thirds vote of the membership of each house increase the amount of the constitutional appropriation for the five-year period but may not adjust the appropriation in such a way as to impair any obligation created by the issuance of bonds or notes in accordance with this section.

(b) The funds appropriated under Subsection (a) of this section shall be for the use of the following eligible agencies and institutions of higher education (even though their names may be changed):

- (1) East Texas State University including East Texas State University at Texarkana;
- (2) Lamar University including Lamar University at Orange and Lamar University at Port Arthur;
- (3) Midwestern State University;
- (4) University of North Texas;
- (5) The University of Texas--Pan American including The University of Texas at Brownsville;
- (6) Stephen F. Austin State University;
- (7) Texas College of Osteopathic Medicine;
- (8) Texas State University System Administration and the following component institutions:
- (9) Sam Houston State University;
- (10) Southwest Texas State University;
- (11) Sul Ross State University including Uvalde Study Center;
- (12) Texas Southern University;
- (13) Texas Tech University;
- (14) Texas Tech University Health Sciences Center;

- (15) Angelo State University;
- (16) Texas Woman's University;
- (17) University of Houston System Administration and the following component institutions:
- (18) University of Houston;
- (19) University of Houston--Victoria;
- (20) University of Houston--Clear Lake;
- (21) University of Houston--Downtown;
- (22) Texas A&M University--Corpus Christi;
- (23) Texas A&M International University;
- (24) Texas A&M University--Kingsville;
- (25) West Texas A&M University; and
- (26) Texas State Technical College System and its campuses, but not its extension centers or programs.

(c) Pursuant to a two-thirds vote of the membership of each house of the legislature, institutions of higher education may be created at a later date by general law, and, when created, such an institution shall be entitled to participate in the funding provided by this section if it is not created as a part of The University of Texas System or The Texas A&M University System. An institution that is entitled to participate in dedicated funding provided by Article VII, Section 18, of this constitution may not be entitled to participate in the funding provided by this section.

(d) In the year 1985 and every 10 years thereafter, the legislature or an agency designated by the legislature no later than August 31 of such year shall allocate by equitable formula the annual appropriations made under Subsection (a) of this section to the governing boards of eligible agencies and institutions of higher education. The legislature shall review, or provide for a review, of the allocation formula at the end of the fifth year of each 10-year allocation period. At that time adjustments may be made in the allocation formula, but no adjustment that will prevent the payment of outstanding bonds and notes, both principal and interest, may be made.

(d-1) Notwithstanding Subsection (d) of this section, the allocation of the annual appropriation to Texas State Technical College System and its campuses may not exceed 2.2 percent of the total appropriation each fiscal year.

(e) Each governing board authorized to participate in the distribution of money under this section is authorized to expend all money distributed to it for any of the purposes enumerated in Subsection (a). In addition, such governing board may issue bonds and notes for the purposes of refunding bonds or notes issued under this section or prior law, acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, acquiring capital equipment, library books, and library materials, paying for acquiring, constructing, or equipping or for major repair or rehabilitation of buildings, facilities, other permanent improvements, or capital equipment used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for

educational and general activities, and for major repair and rehabilitation of buildings or other permanent improvements, and may pledge up to 50 percent of the money allocated to such governing board pursuant to this section to secure the payment of the principal and interest of such bonds or notes. Proceeds from the issuance of bonds or notes under this subsection shall be maintained in a local depository selected by the governing board issuing the bonds or notes. The bonds and notes issued under this subsection shall be payable solely out of the money appropriated by this section and shall mature serially or otherwise in not more than 10 years from their respective dates. All bonds issued under this section shall be sold only through competitive bidding and are subject to approval by the attorney general. Bonds approved by the attorney general shall be incontestable. The permanent university fund may be invested in the bonds and notes issued under this section.

(f) The funds appropriated by this section may not be used for the purpose of constructing, equipping, repairing, or rehabilitating buildings or other permanent improvements that are to be used only for student housing, intercollegiate athletics, or auxiliary enterprises.

(g) The comptroller of public accounts shall make annual transfers of the funds allocated pursuant to Subsection (d) directly to the governing boards of the eligible institutions.

(h) To assure efficient use of construction funds and the orderly development of physical plants to accommodate the state's real need, the legislature may provide for the approval or disapproval of all new construction projects at the eligible agencies and institutions entitled to participate in the funding provided by this section.

(i) (Repealed.)

(j) The state systems and institutions of higher education designated in this section may not receive any additional funds from the general revenue of the state for acquiring land with or without permanent improvements, for constructing or equipping buildings or other permanent improvements, or for major repair and rehabilitation of buildings or other permanent improvements except that:

(1) in the case of fire or natural disaster the legislature may appropriate from the general revenue an amount sufficient to replace the uninsured loss of any building or other permanent improvement; and

(2) the legislature, by two-thirds vote of each house, may, in cases of demonstrated need, which need must be clearly expressed in the body of the act, appropriate additional general revenue funds for acquiring land with or without permanent improvements, for constructing or equipping buildings or other permanent improvements, or for major repair and rehabilitation of buildings or other permanent improvements.

This subsection does not apply to legislative appropriations made prior to the adoption of this amendment.

(k) Without the prior approval of the legislature, appropriations under this section may not be expended for acquiring land with or without permanent improvements, or for constructing and equipping buildings or other permanent improvements, for a branch campus or educational center that is not a separate degree-granting institution created by general law.

(l) This section is self-enacting upon the issuance of the governor's proclamation declaring the adoption of the amendment, and the state comptroller of public accounts shall do all things

necessary to effectuate this section. This section does not impair any obligation created by the issuance of any bonds and notes in accordance with prior law, and all outstanding bonds and notes shall be paid in full, both principal and interest, in accordance with their terms. If the provisions of this section conflict with any other provisions of this constitution, then the provisions of this section shall prevail, notwithstanding all such conflicting provisions.

Appendix C: Current Allocation

TEC, Sec. 62.021. ALLOCATIONS.

(a) In each state fiscal year beginning with the state fiscal year ending August 31, 2021, an eligible institution is entitled to receive an amount allocated in accordance with this section from the funds appropriated for that year by Section 17(a), Article VII, Texas Constitution. The comptroller shall distribute funds allocated under this subsection only on presentation of a claim and issuance of a warrant in accordance with Section 403.071, Government Code. An eligible institution may not present a claim to be paid from any funds allocated under this subsection before the delivery of goods or services described in Section 17, Article VII, Texas Constitution, except for the payment of principal or interest on bonds or notes or for a payment for a book or other published library material as authorized by Section 2155.386, Government Code. The allocation of funds under this subsection is made in accordance with an equitable formula consisting of the following elements: space deficit, facilities condition, institutional complexity, and a separate allocation for the Texas State Technical College System. The annual amounts allocated by the formula are as follows:

(1) to the following component institutions of the University of North Texas System:

- (A) \$38,473,304 to the University of North Texas;
- (B) \$15,581,837 to the University of North Texas Health Science Center at Fort Worth;
and
- (C) \$3,455,644 to the University of North Texas at Dallas;

(2) to the following component institutions of the Texas State University System:

- (A) \$13,537,649 to Lamar University;
- (B) \$2,630,158 to the Lamar Institute of Technology;
- (C) \$1,533,301 to Lamar State College--Orange;
- (D) \$2,283,992 to Lamar State College--Port Arthur;
- (E) \$18,787,013 to Sam Houston State University;
- (F) \$38,741,061 to Texas State University;
- (G) \$2,216,640 to Sul Ross State University; and
- (H) \$487,157 to Sul Ross State University Rio Grande College;

(3) \$12,072,906 to Texas Southern University;

(4) to the following component institutions of the Texas Tech University System:

- (A) \$51,379,461 to Texas Tech University;
- (B) \$22,305,642 to Texas Tech University Health Sciences Center;
- (C) \$6,997,943 to Angelo State University;
- (D) \$5,725,243 to Texas Tech University Health Sciences Center--El Paso; and

- (E) \$5,082,034 to Midwestern State University;
- (5) \$14,993,229 to the component institutions of the Texas Woman's University System, allocated as determined by the board of regents of the system;
- (6) to the following component institutions of the University of Houston System:
 - (A) \$56,158,685 to the University of Houston;
 - (B) \$3,649,703 to the University of Houston--Victoria;
 - (C) \$7,959,137 to the University of Houston--Clear Lake; and
 - (D) \$11,155,034 to the University of Houston--Downtown;
- (7) to the following component institutions of The Texas A&M University System:
 - (A) \$11,825,139 to Texas A&M University--Corpus Christi;
 - (B) \$7,687,534 to Texas A&M International University;
 - (C) \$9,125,307 to Texas A&M University--Kingsville;
 - (D) \$7,671,155 to West Texas A&M University;
 - (E) \$11,459,464 to Texas A&M University--Commerce; and
 - (F) \$2,112,129 to Texas A&M University--Texarkana; and
- (8) \$8,662,500 to the Texas State Technical College System Administration and the following component campuses, but not its extension centers or programs:
 - (A) Texas State Technical College-Harlingen;
 - (B) Texas State Technical College--Marshall;
 - (C) Texas State Technical College--West Texas;
 - (D) Texas State Technical College--Waco;
 - (E) Texas State Technical College--Fort Bend; and
 - (F) Texas State Technical College--North Texas.

Appendix D: Proposed Allocation Methodology With Most Recent Data

FY 2026-2035 HEF Methodology																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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Appendix E: Qualitative Survey Responses

QUESTION 1:

Are there sources, other than THECB's Building Replacement Estimate, that your institution uses to determine the value of its buildings?

- 12 respondents solely utilize THECB's Building Replacement Value
- 11 respondents use valuations provided by the institution's property insurance carrier.
- Independent third-party firms to prove building values for property insurance coverage
- Cyclical condition assessments by an outside consultant
- Combination of insurance carrier data in coordination with the institution's accounting and facilities teams' assessments
- For new facilities, some use the actual construction cost

QUESTION 2:

What metrics does your institution use to evaluate your facility needs?

- Several systems conduct facilities condition assessment with a third-party firm annually
- One system's deferred maintenance needs are evaluated through annual interviews with facilities staff, Gordian, SSC, and various departments. Deferred maintenance needs are strategically selected based on customized project scoring which includes project category, investment criteria, time frame, and system
- One system uses internal facility audits, analysis of annual work orders per facility, and average annual maintenance costs per facility
- A few use Sightlines or Gordian for space analysis
- Use of a scoring system
- Some balance condition of the building and demand of the academic program to identify current and future maintenance needs

QUESTION 3:

How do institutions budget their HEF allocation?

- Most institutions report that their budgets are prioritized to cover expenses in the following areas:
 - 1) capital projects to address facility needs
 - 2) ongoing deferred maintenance
 - 3) instructional classroom technology or other IT needs like equipment and cloud-based services
 - 4) library materials/subscriptions
 - 5) annual debt service
- Many institutions report that their HEF allocation process is part of their annual budget process, whereby campus/departmental HEF requests are made and prioritized by administration based on availability
- Some institutions report that any unused funds are purposefully carried forward to fund emergency repairs resulting from deferred maintenance or to supplement existing or future CCAPs.

QUESTION 4:

How do institutions consider the use of HEF versus other fund sources when addressing deferred maintenance?

- The majority of institutions report that HEF is the primary source of funding to address deferred maintenance until exhausted, at which point other sources of funding are allocated as needed to ensure continuity of operations.
- Many report that available HEF funding is allocated by priority and eligibility of the expenditure (E&G space), including the use of institutional policies and administration used to make these determinations.
- Several institutions use alternative funding sources when HEF funds are not allowable, such as for auxiliary functions, for projects that exceed the availability of HEF, or for long term deferred maintenance due to the flexibility/ease of use of those funds compared to HEF.

Texas Higher Education

COORDINATING BOARD

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