

Higher Education Formulas

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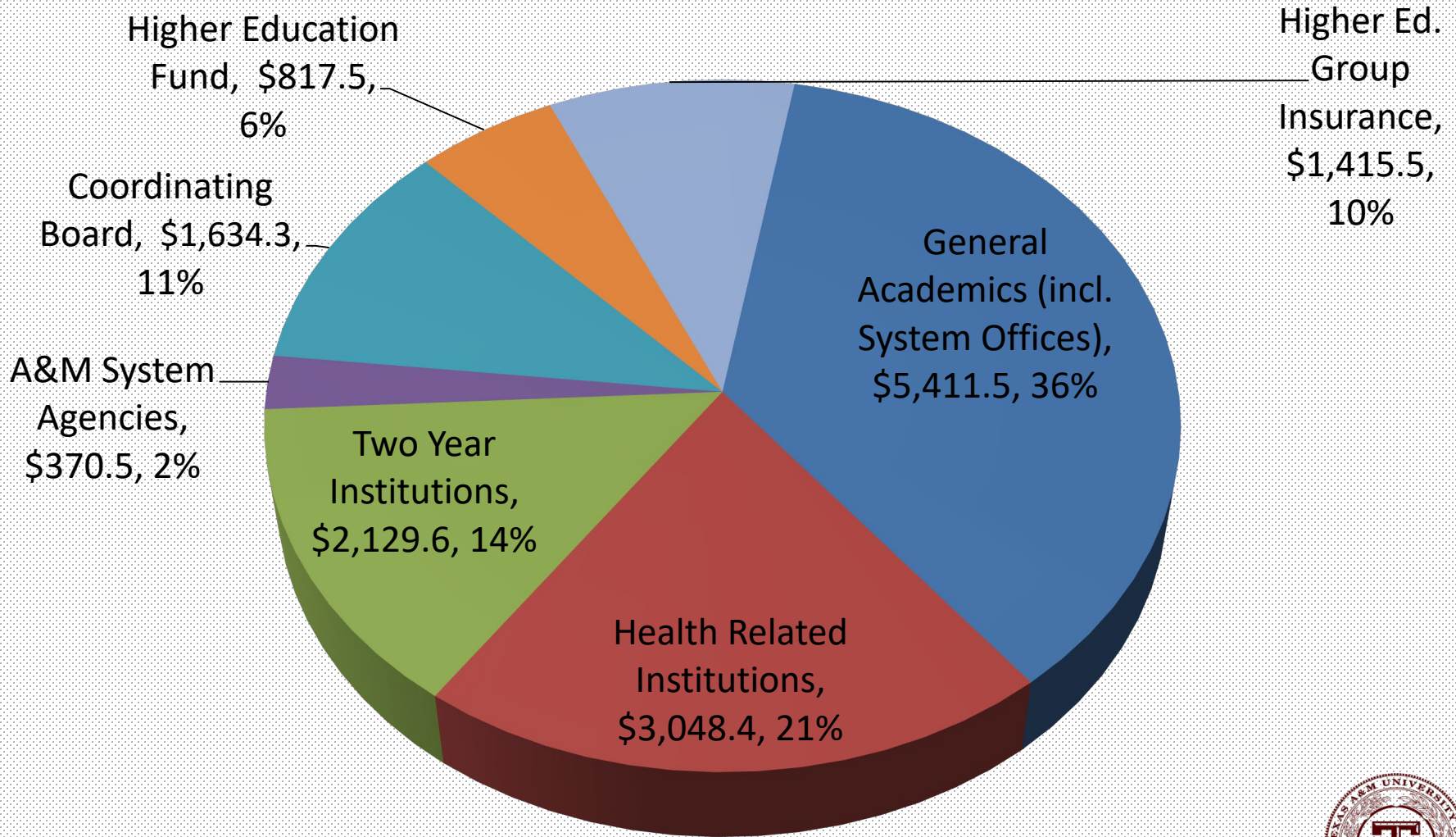




Higher Education Funding

General Revenue, 2020-21

\$14,827.5 m





Formula Basics

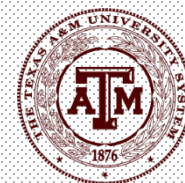
Formulas reflect how state funds are allocated, not how they must be budgeted or spent.

- Formulas are an allocation methodology used by the Legislature for state appropriations. The Legislature sets the rates based on available funding, including consideration of enrollment changes and other factors
- Each institution, subject to Board of Regents and system approval, makes decisions to budget appropriated funding to its departments and programs according to its own needs without regard to how the funding was generated in the appropriations process.



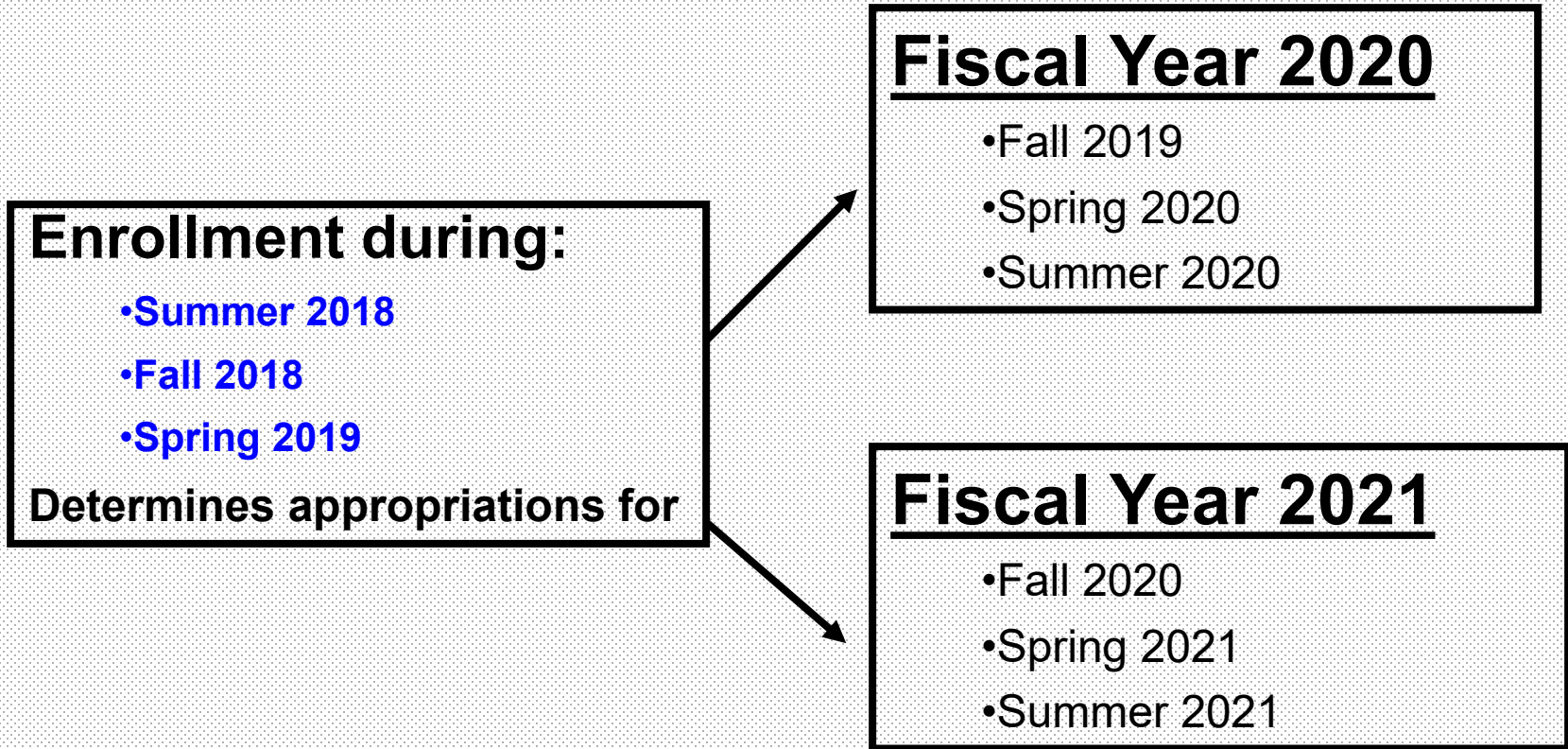
Formula Basics

- Formulas use Base Year data
- I & O Formulas are based on weighted semester credit hours (WSCH) for General Academic Institutions and Headcount or FTSE for Health Related Institutions.
- Infrastructure is based on CB's "predicted" needs, not actual space, to encourage efficiency
- Formula Method of Finance uses the "All Funds" methodology where the amount of formula GR is offset by the amount of Other Educational and General Income (E&G) available to each institution



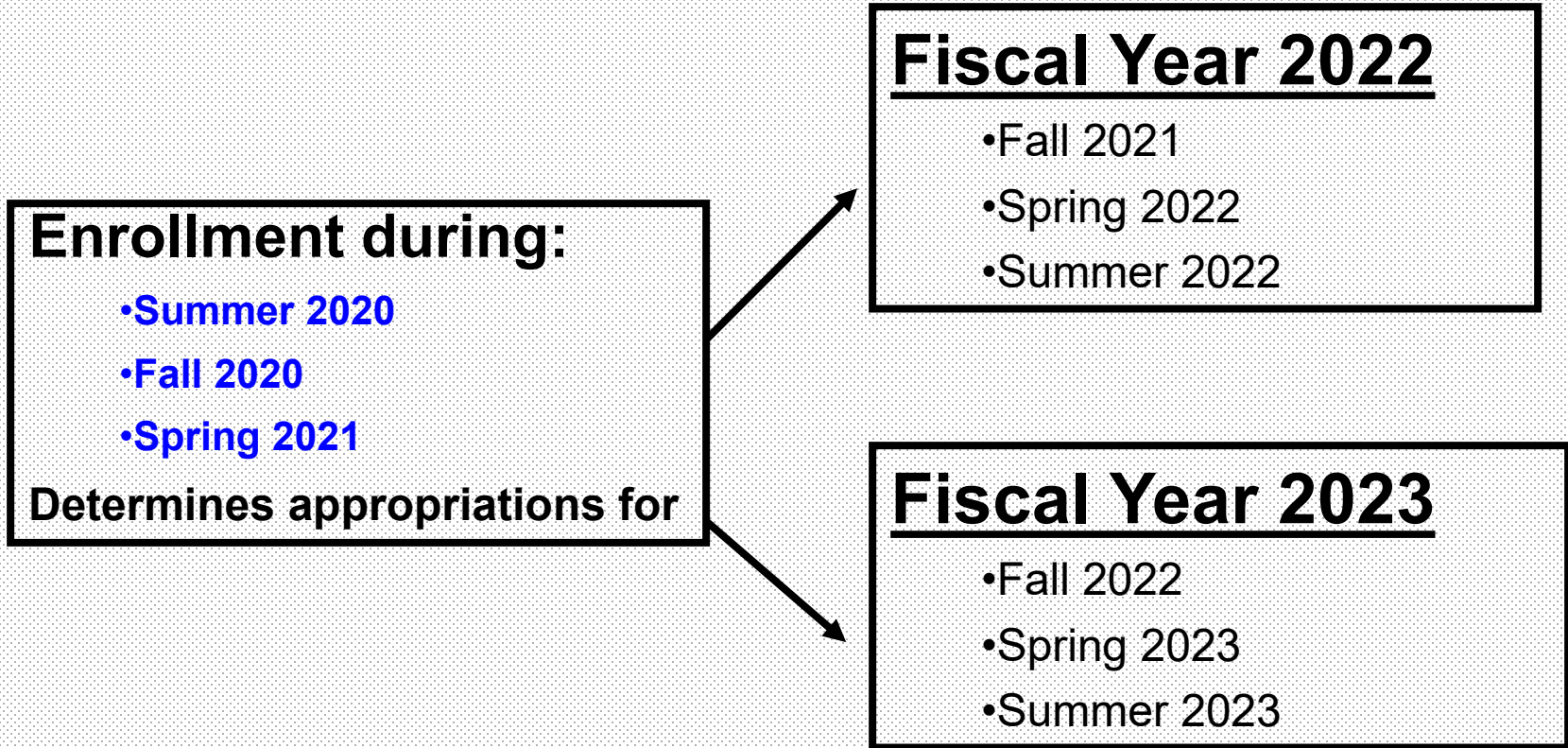
Formula Basics

Base Period for 2020/21 Biennium



Formula Basics

Base Period for 2022/23 Biennium



Types of Formulas

General Academic (GAI)

Base Formulas

- Instruction & Operations (I&O)
- Infrastructure

Supplemental Formulas

- Teaching Experience
- Small Institution Supplement

Health Related (HRI)

Base Formulas

- Instruction & Operations (I&O)
- Infrastructure
- Research Enhancement
- Graduate Medical Education
- Mission Specific

Supplemental Formulas

- Small Class Supplement (included in I&O appropriation)



General Academic Institutions

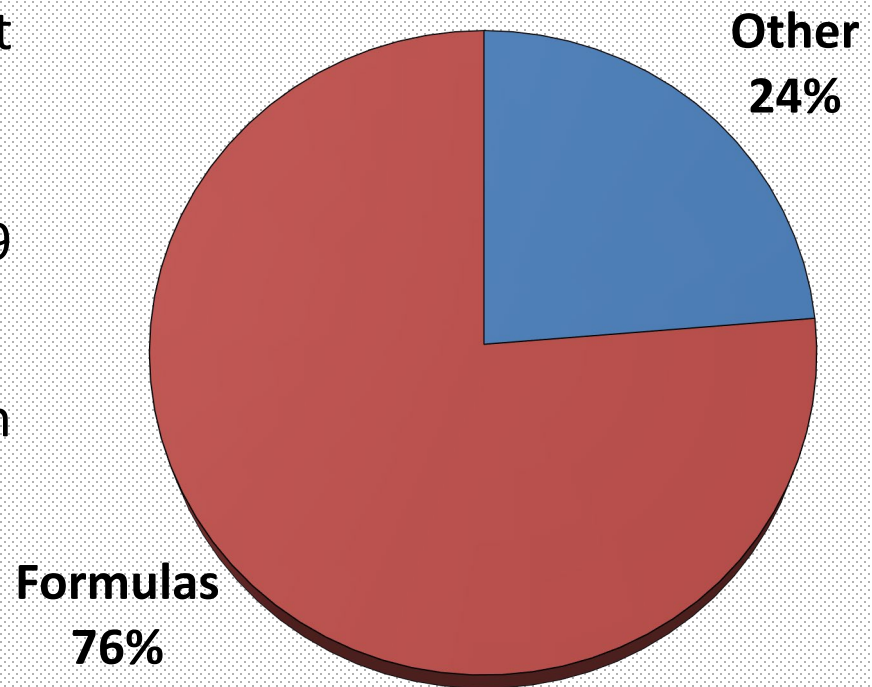


Formula Basics

State Funding

General Academics: \$4.72 b GR (less TRB debt service)*

- Formula GR as percent of Net GR (less TRB debt service) is 76 percent. No significant change since at least 2008-09 biennium.
- However, significant variation among institutions:
 - UT Arlington - 90%
 - TAMU Texarkana - 40%



2020-21

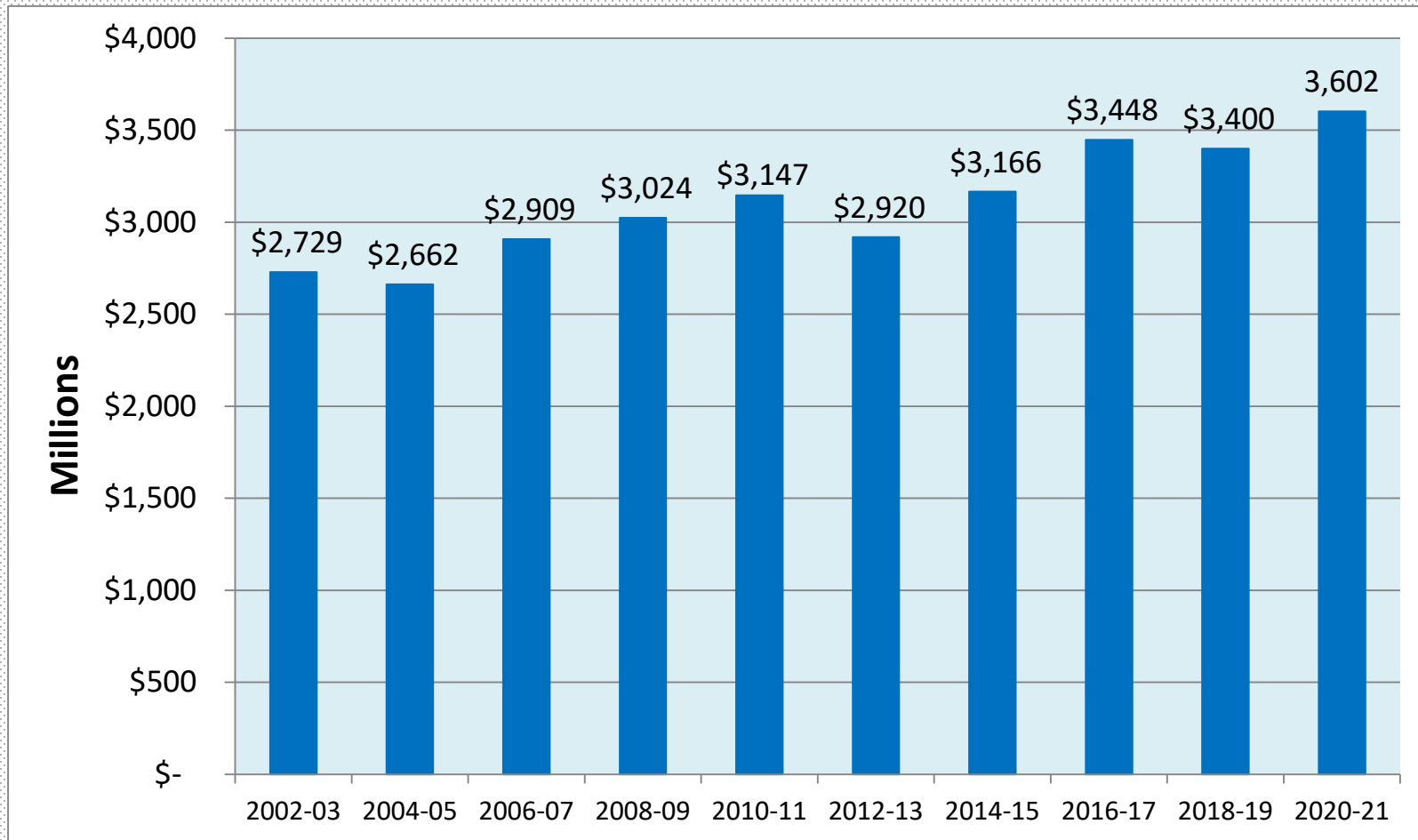
•GR direct appropriations. Net of TRB debt service. Also does not include HEF, health insurance, or retirement.



Formula Basics

General Academics Formula GR

in millions



Formula Basics

Two Formulas:

1. **Instruction and Operations:** Provides funding for faculty salaries, departmental operating expense, library, instructional administration, research enhancement, student services, and institutional support.
2. **Infrastructure:** Facility maintenance and operations, utilities.

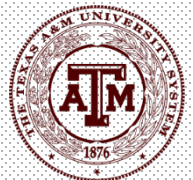
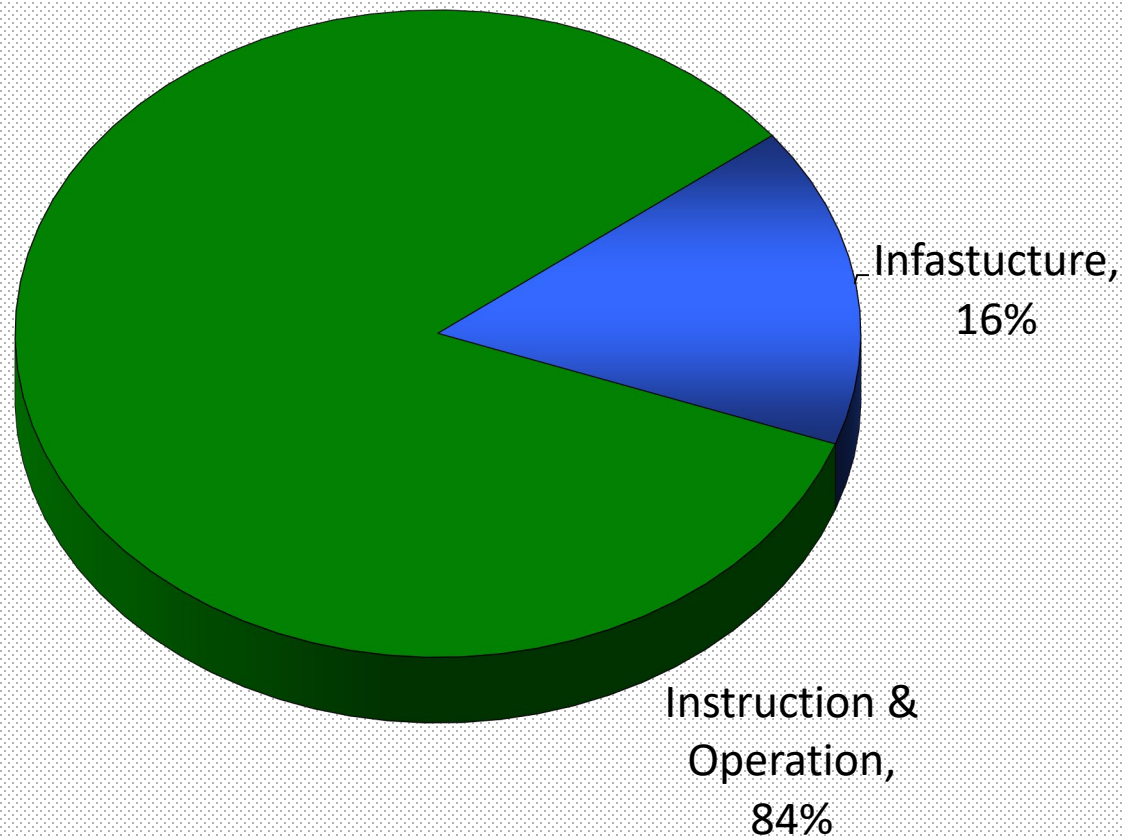
Two Supplements:

1. **Teaching Experience:** 10% premium for all undergrad SCHs taught by tenured or tenured track faculty.
2. **Small Institution:** for universities with fewer than 10,000 headcount.



Formula Basics

**Distribution of General Academic
Total Formula Funding 2020-21 Biennium**





Formula Funding

Instruction and Operations Funding Matrix

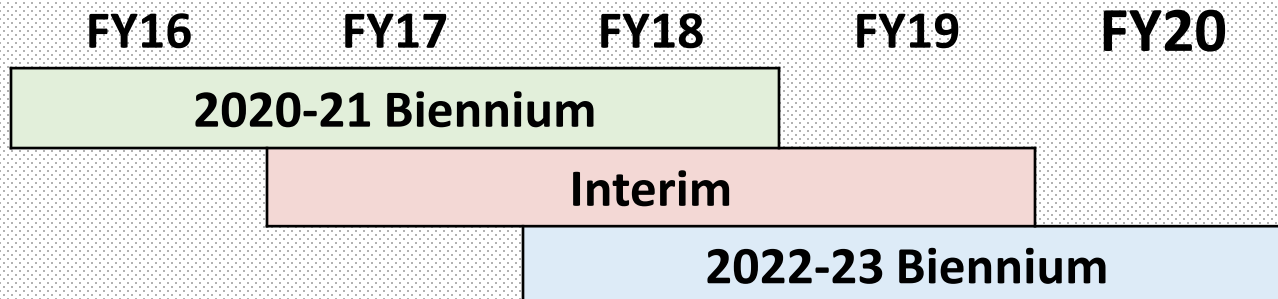
- **Based on all academic and student-related expenditures, including:**
 - Faculty Salaries, Department Operating Expenses, Library, Instructional Administration (e.g. Dean's offices), Research Enhancement, Student Services, and Institutional Support.
- **Each SCH is weighted based on:**
 - program area (liberal arts, science, nursing, etc) and
 - level (lower division, upper division, masters, etc.)



Formula Basics

Expenditure Study

- **Value of the weight for each program area and each level is based on an annual expenditure study and reflects the relative expenditures.**
 - Based on data in each institution's Annual Financial Report.
 - The relative weights contained in the matrix reflect an objective analysis of universities' actual expenditures.
 - Uses 3-year average for all academics.



2020-21 Funding Matrix

	Lower Division	Upper Division	Masters	Doctorate	Special Professional
Liberal Arts	1.00	1.75	4.30	12.38	
Science	1.51	2.76	7.33	21.87	
Fine Arts	1.45	2.61	6.69	8.47	
Teacher Ed	1.46	1.98	2.41	8.12	
Agriculture	1.87	2.38	7.43	13.58	
Engineering	1.96	2.99	6.00	18.47	
Home Economics	1.11	1.80	3.06	10.50	
Law					4.99
Social Services	1.55	1.85	2.31	23.84	
Library Science	2.19	1.75	3.02	15.16	
Voc. Training	1.22	2.93			
Physical Training	1.38	1.33			
Health Services	0.97	1.56	2.62	11.28	2.80
Pharmacy	7.37	4.13	34.67	39.21	4.47
Business Admin.	1.13	1.79	3.27	28.23	
Optometry					7.08
Teach Ed. Practice	2.00	2.19			
Technology	1.91	2.29	3.82	11.55	
Nursing	1.37	2.04	2.74	10.29	
Developmental Ed	1.00				
Veterinary Medicine					24.58





Formula Funding

Instruction and Operations Formula

Semester Credit Hours

SCH in base period (Summer, Fall, Spring)

X

Weight

Matrix of weights based on discipline and level of instruction

X

Rate

Funding rate set by the Legislature in the General Appropriations Act
\$55.85 for 2020-21





Formula Funding

Teaching Experience Supplement

- Lower and upper division SCH taught by tenure and tenure track faculty are given an additional 10 percent weight.
- Intended to provide an incentive for the institution to assign tenure/tenure track faculty to teach undergraduate students.



Formula Funding

Infrastructure Support Formula

- Infrastructure formula has 3 components:
 - Operations and Maintenance (O&M)
 - Utilities
 - Small School Supplement

- Infrastructure formula is driven by the predicted space (**Net Assignable Square Feet or **NASF**) derived from the Coordinating Board's Space Projection Model.**



Formula Funding

Infrastructure Support Formula

$$\text{Predicted Square Feet} \times \text{Operations \& Maintenance Rate}$$

$$+$$

$$\text{Predicted Square Feet} \times \text{Utilities Rate}$$

Operations and Maintenance(O&M) \$3.10 (56.7%)

- To provide for physical plant, grounds, maintenance, and custodial services.

Utilities (statewide rate) + \$2.37 (43.3%)

- Includes electricity, natural gas, water, wastewater, and thermal energy
- Rate is adjusted for each institution to reflect local utility rates, relative to other institutions.

Statewide Avg. Infrastructure Rate/Pred. SqFt **\$5.47**



Formula Funding

Small Institution Supplement

Small Institution Supplement:

Provides an additional \$1,316,566 / year to institutions with headcounts of fewer than 5,000. For institutions between 5,000 and 10,000 headcount, the small school supplement proportionally decreases down to zero when an institution reaches 10,000 headcount.



Research Formulas





Research Funding

General Academic Research Formulas

- Texas Research University Fund (UT/A&M)**
- CORE** (Emerging Research institutions)
 - UT Arlington
 - UT Dallas
 - UT El Paso
 - UT San Antonio
 - University of Houston
 - University of North Texas
 - Texas Tech University
 - Texas State University
- Comprehensive University Research Fund** (all others)





Research Funding

- These funds are performance based and driven by research expenditures.
 - Texas Research University Fund:
 - 3yr average of **total** research expenditures
 - CORE:
 - 50% based on 3yr average of **total** research expenditures and
 - 50% based on 3yr average of **restricted** research expenditures
 - Comprehensive University Research Fund:
 - 3yr average of **restricted** research expenditures
- Legislature added funding rates in GAA for the 2020-21 biennium.



Health Related Institutions



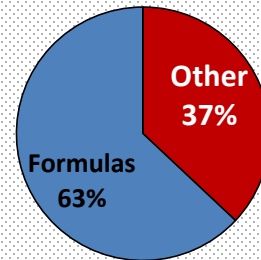
Formula Funding

State Funding

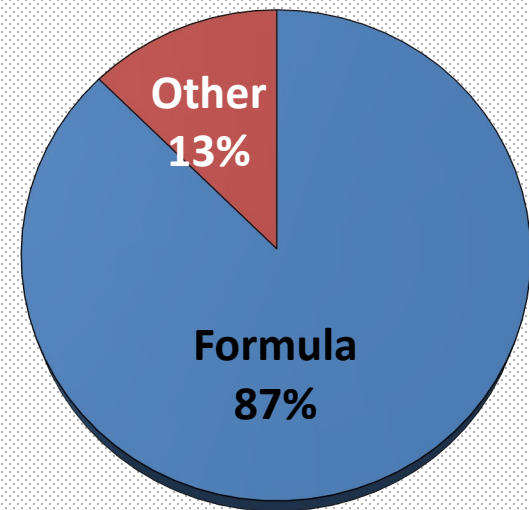
Health Related Institutions: \$2.8 B GR (excluding TRB debt service)*

Formula GR is \$2.4 billion which is 87% of Total GR (less TRB debt service) and includes the 4 new mission specific pilot programs adopted in the 86th Legislature

*GR direct appropriations, including Instruction and Operations, Infrastructure, Research, Graduate Medical Education and Mission Specific formulas. Net of TRB debt service. Does not include HEF, health insurance, or retirement.



2012-13

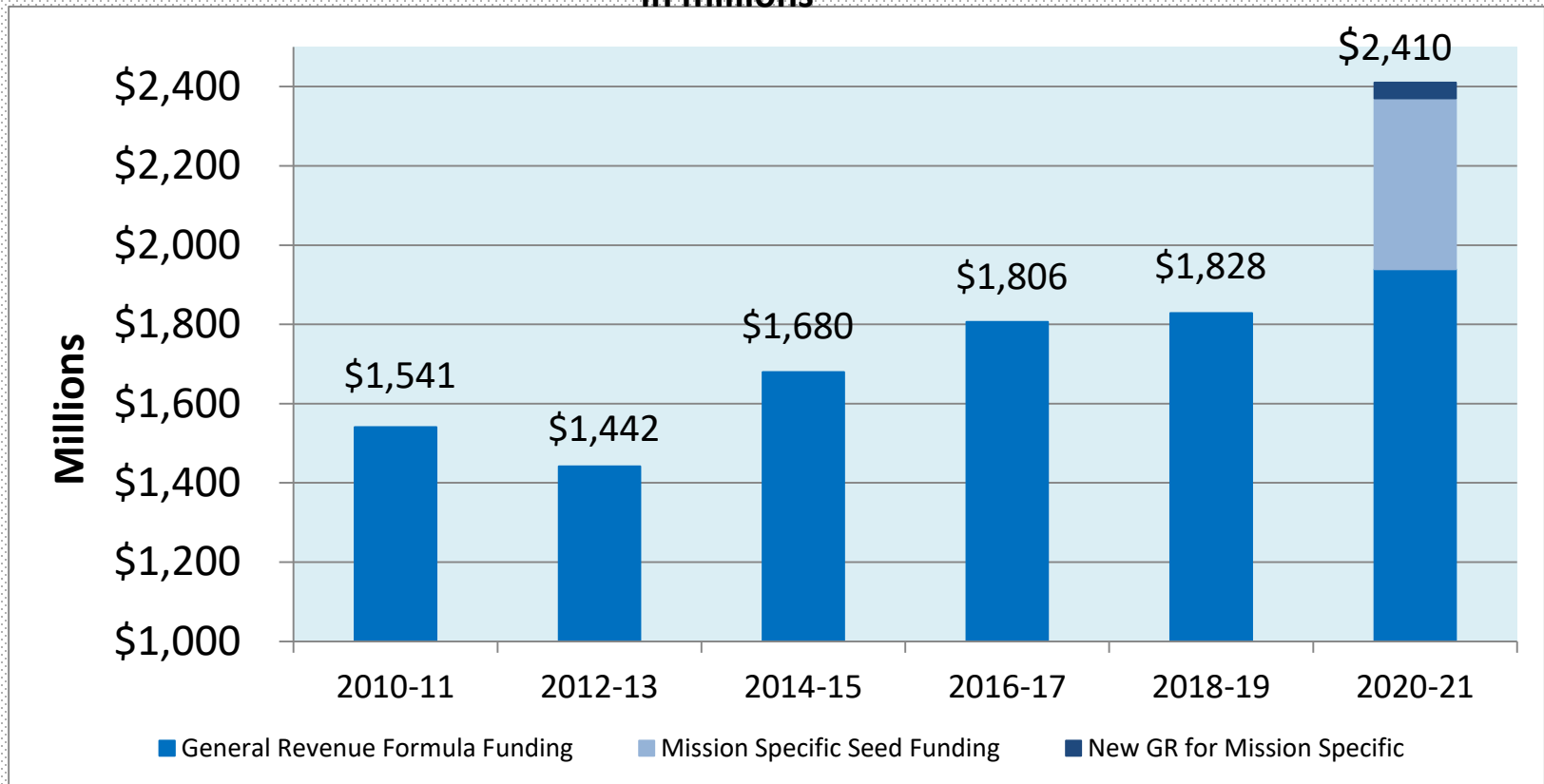


2020-21



Formula Funding

Health Related Institutions Formula GR in millions

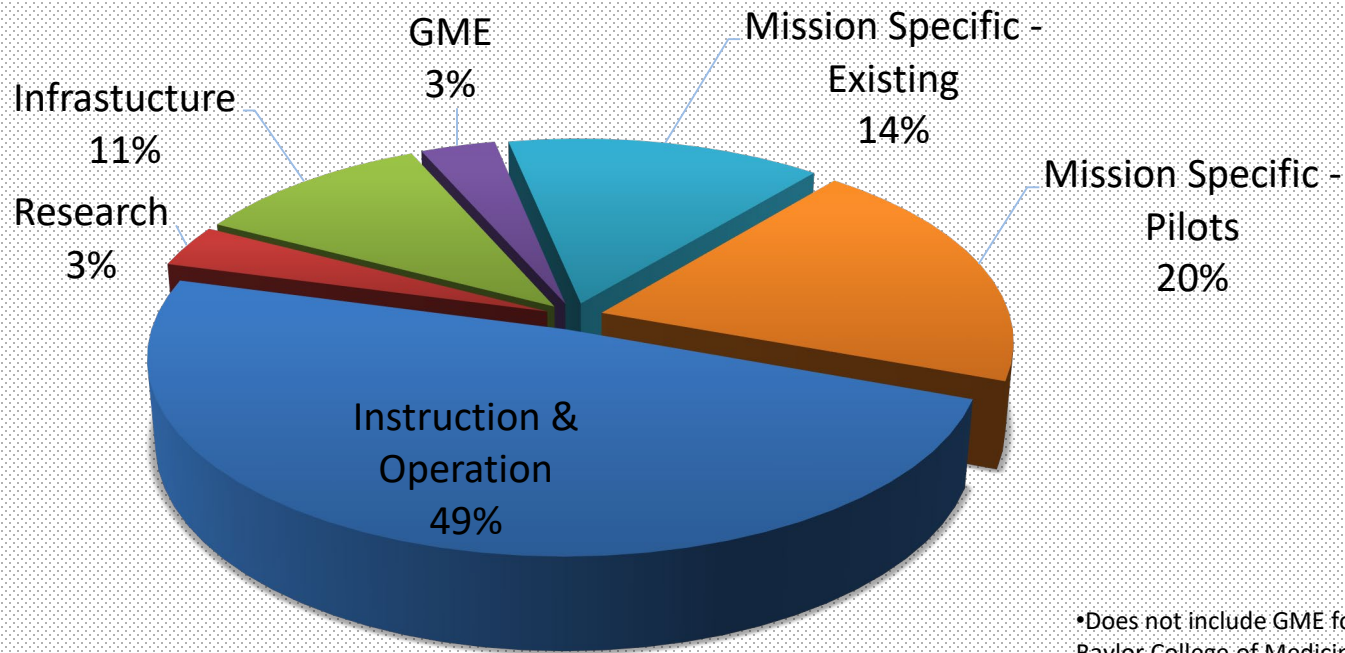


*Does not include appropriations for Baylor College of Medicine



Health Related Institutions

Distribution of Formula Funding GR 2020-21 Biennium



Health Related Institutions

Formula Types

- 1. Instruction and Operations:** Intended to fund items such as faculty salaries, departmental operating expense, instructional administration and libraries.
- 2. Infrastructure:** Facility maintenance and operations, utilities.
- 3. Research Enhancement:** Supports research activities.
- 4. Graduate Medical Education (GME):** Supports graduate medical education.
- 5. Mission Specific:** Mission specific formulas related to cancer at MD Anderson and chest diseases at UTHSC Tyler. Four new pilot formulas related to research (UT Southwestern, UTHSC Houston, UTHSC San Antonio) and patient care (UTMB).



Health Related Institutions Instruction and Operations Formula

$\$ = \text{Student FTE's} \times \text{program weight} \times \text{base value of } \$9,622$

<u>Program</u>	<u>Weight</u>
Allied Health	1.000
Biomedical Science	1.018
Nursing	1.138
Pharmacy	1.670
Public Health	1.721
Biomedical Informatics	1.750
Dental	4.601
Medical	4.753

+ **Small Class Supplement:** for instructional programs at remote locations and the main campus at UTHSC Tyler with enrollments of less than 200 students at individual campuses to compensate for the diseconomies of scale.

Small Class Supplement Formula: $(1 - (\text{FTE}/200)) * \text{Rate} * \text{FTE}$. The rate for Medical and Dental is \$30,000; the rate for all other programs is \$20,000.



Health Related Institutions

Other Formulas

Research Enhancement Formula: Key driver is research expenditures

$\$ = \$1,412,500 \text{ base} + 1.18\% \text{ of research expenditures}$

Research conducted by faculty under a contract with a clinical partner shall be considered in the formula calculations (Research & Infrastructure)

Graduate Medical Education (GME): Provides funding on a per medical resident basis

$\$ = \$5,970 / \text{year} / \text{resident in an accredited program}$



Health Related Institutions

Mission Specific Formulas

Mission Specific: Supports Cancer and Chest Disease research and treatment at MD Anderson and UTHSC Tyler. Formula based on # of patients served and # of disease diagnoses and may not exceed the average growth in funding for HRI in the I&O formula.

New Mission Specific Pilot Formulas:

- **UT Southwestern** – formula based on total non-state research expenditures and may not exceed 5% of institution's GR appropriated in the prior biennium.
- **UTMB** – formula based on # of certain patient encounters and may not exceed average growth in funding for HRIs in the I&O formula.
- **UTHSC Houston and UTHSC SA** – separate formulas based on federally sponsored research and may not exceed 5% of each institution's GR appropriated in the prior biennium.



A&M System Agencies



A&M System Agencies Principles

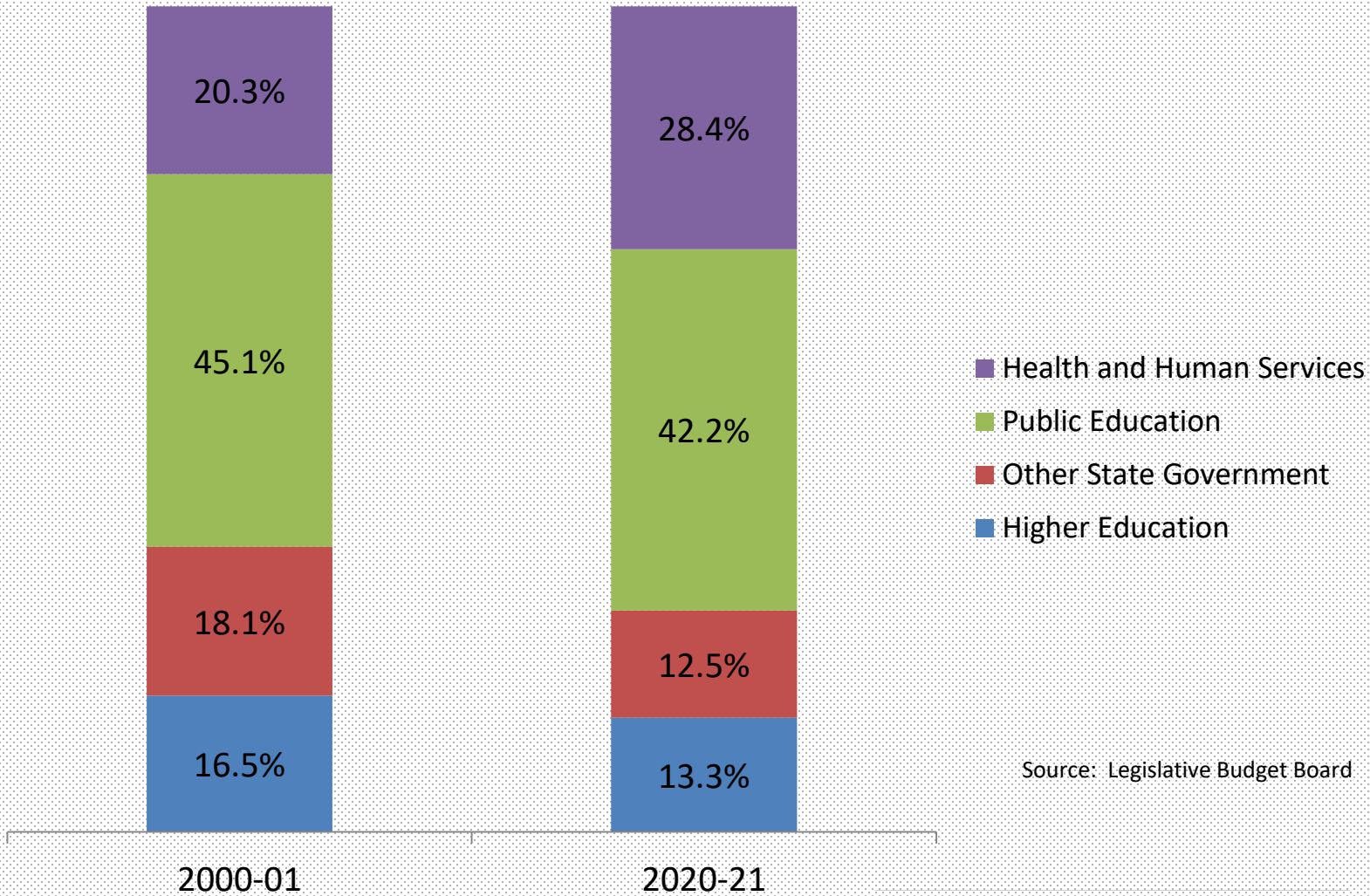
- Most of funding is program based and not driven by formula
- Only receive formula funding for Infrastructure
 - For facilities in Brazos County to provide for facility maintenance and operations, and utilities
 - Based on the CB space model. Agencies submit data to CB
 - Calculated using the same rate as A&M



Appropriations Policy



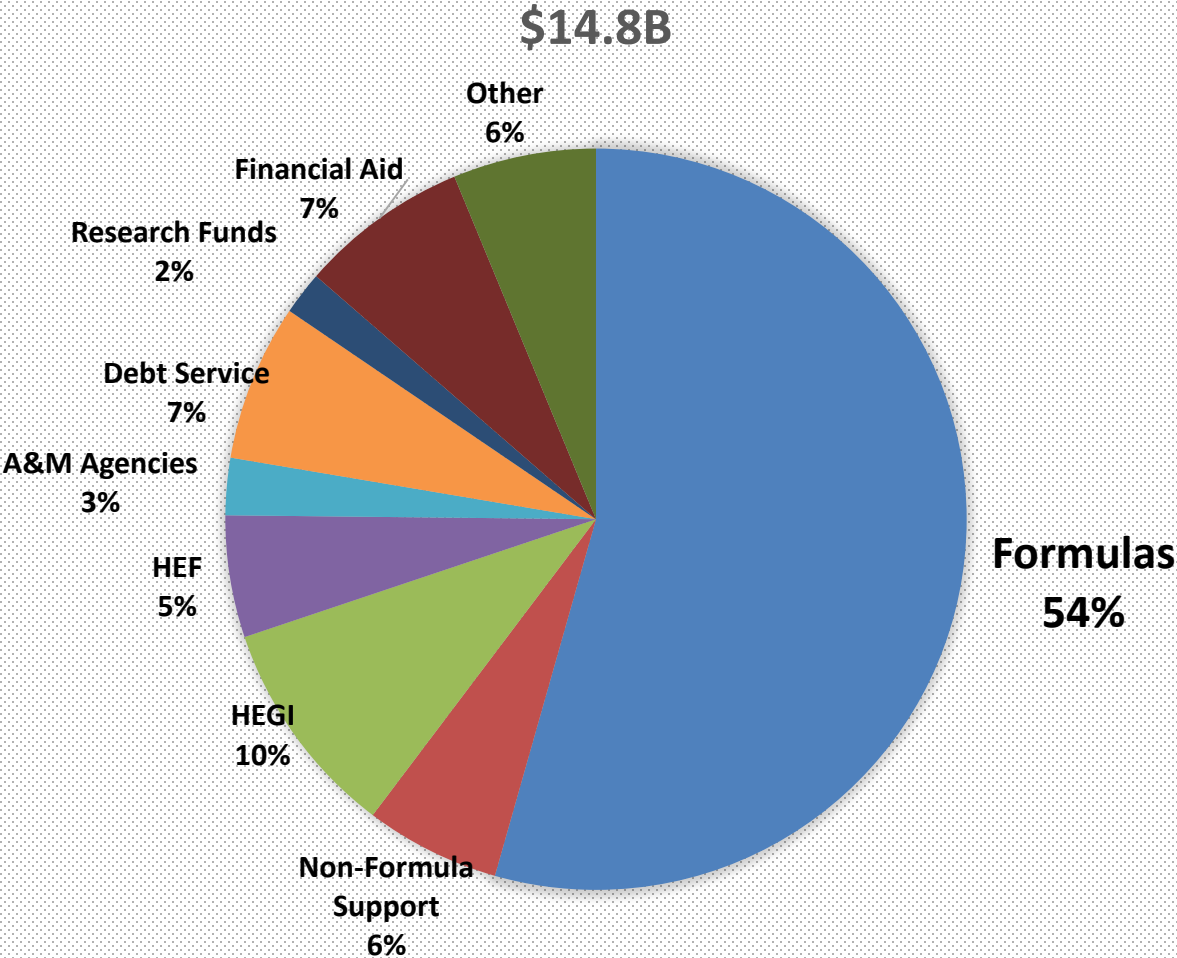
Distribution of General Revenue Funds by State Government Function



Source: Legislative Budget Board



Estimated Distribution of All Higher Ed GR Funding, 2020-21 Biennium



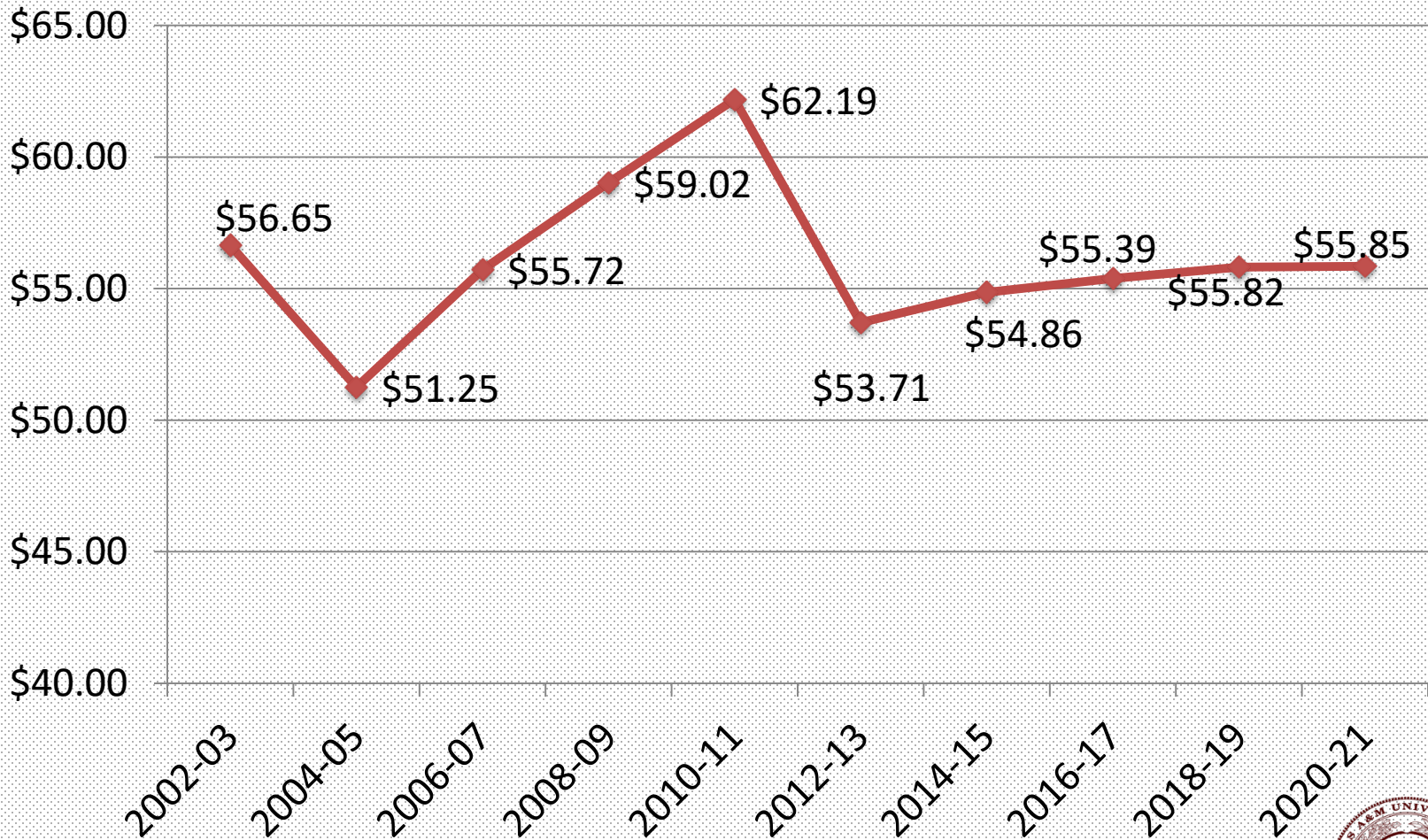
Formula Policy

- Formulas are an allocation methodology for state appropriations. The Legislature sets the rates based on available funding, including consideration of enrollment changes and other factors.
- Formula method of finance uses the All Funds Methodology where the amount of formula General Revenue is offset by the amount of Other Educational and General Income (E&G) available to each institution
 - Increases in Other E&G income reduces amount of GR needed.
 - Decreases in Other E&G income increases amount of GR needed.
- Historically Legislature has provided funding for enrollment increases, but it is not guaranteed. Enhancement to formulas is becoming more difficult.
 - 86th Legislature added \$0.5B to formulas with only modest increases in funding rates.

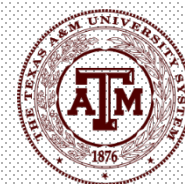


General Academics Instruction and Operations Rates

(per WSCH)

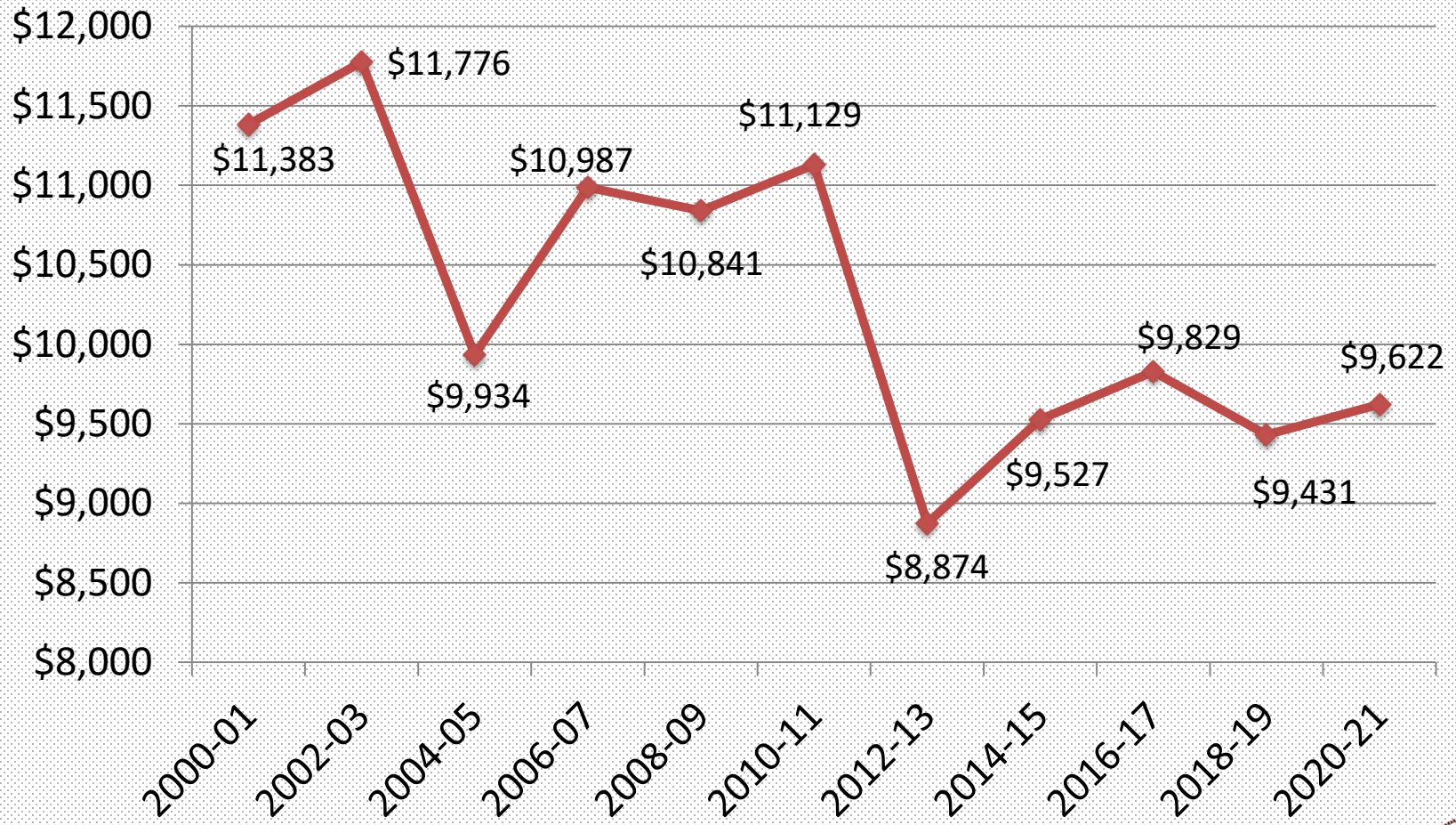


General Academics Infrastructure Formula Rates (per NASF)



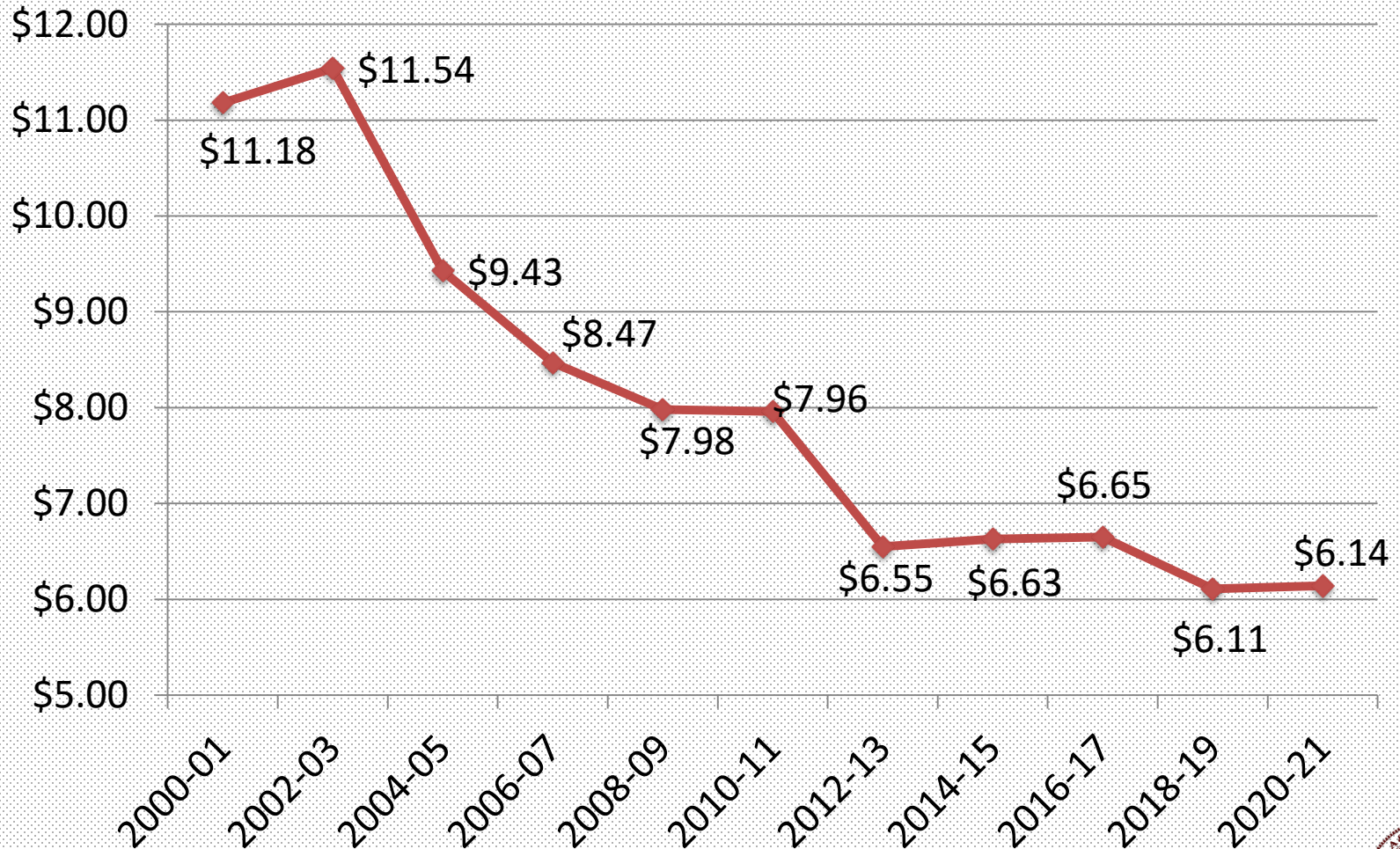
Health Related Institutions

Instruction and Operations Rates (per WFTE)



Health Related Institutions

Infrastructure Formula Rates (per NASF)



Interim Charges

Senate Higher Education Committee

- **Formula Funding Review:** Review funding formulas for general academic institutions to ensure formulas support the individual mission of institutions and their students. Consider and make recommendations on potential improvements to the formulas to better meet the needs of students and institutions.
- **Health Institution Formula Funding Review:** Review the mission-specific formulas created by the 86th Legislature for The University of Texas Southwestern Medical Center, The University of Texas Health Science Center at Houston, The University of Texas Health Science Center at San Antonio, and The University of Texas Medical Branch at Galveston, and make recommendations on whether the mission-specific formulas should be expanded.

House Appropriations Committee – Art. III Subcommittee

- **Review formula funding for higher education institutions in Texas.** Examine the general efficiency and equity of formula funding for these higher education institutions. Monitor the implementation of mission-specific pilot formulas at the state's health-related institutions



Bottomline



Bottomline

- The formulas and the tuition income estimates are the mechanics of how GR formula appropriations are determined.
 - LBB takes all the inputs (SCH, space model data, actual expenditures) and uses same methodology for all institutions to determine appropriations.
 - We have very limited ability to change how the inputs are mechanically used but work with LBB to improve the methodologies.
- Biggest impact on funding is each institution's SCH production.



Bottomline

- LAR preparation is important to ensure fair and valid allocation of formula funding and to provide key info to legislative staff.
 - Base Reconciliation
 - Schedule 1A
 - Schedule 9s, Non-formula Strategy Requests
- Coordinate across your institution to ensure the best possible information is included.
- Look at your SCH production to prepare your leadership for likely formula changes.



Timeline

Jan. 2020	LBB/Governor's Office begin work on budget request instructions
Spring 2020	Admissions offers for Fall 2020. Non-semester length courses that count in summer may have begun as early as Feb.
June 2020	LAR instructions issued. Start of Base Period w/ Summer 2020
Aug. 2020	LARs due. Fall 2020 Semester
Sept. 2020	Initial Budget Hearings
Oct. 2020	LAR 2 nd submission due
Nov. 2020	THECB provides initial formula run to LBB
Jan. 2021	Base bills filed. Session begins. Spring 2021 Semester
March 2021	THECB provides spring updated formula runs to LBB



Questions?

