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## INTERIM CHARGE SIX

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In 2003, following the 78th Regular Legislative Session, the Joint Interim Committee on Higher Education was charged with identifying opportunities for legislative and administrative action relating to:

*Changes in the funding at institutions of higher education and university systems to maximize the state's limited resources to meet the higher education needs of the state, including incentives for sharing arrangements to improve productivity.*

### **Background:**

The State's mechanism of formula funding allocates funds based on the number of semester credit hours, a legislatively determined rate and modifying factor. The modifying factor or formula matrix is based on the program offered and the estimated costs associated with the program.

Over the years, this factor has been modified by the legislature to specifically target certain programs such as nursing. Proposals have been made to move to a matrix that reflects the actual costs to administer a program. Movement to an actual cost matrix though will drastically cut programs the legislature has created over the years.

### **Recommendation 1:**

In its biennial appropriation of formula funding for higher education, the legislature should adopt a matrix with a phase-in period that reflects a blend of the actual cost of the full funding formula with historical funding levels that retain legislative incentives.

### **Background:**

Community Colleges are experiencing dramatic growth in enrollment. They are an integral piece of the state's plan to fulfill the higher education needs of Texas.

**Recommendation 2:**

The legislature should give priority to the Coordinating Board's 2006-07 recommendation to increase state funding for community colleges by an additional \$279.9 million (from \$1.598 billion to \$1.878 billion), amounting to 60.3 percent of the cost of the full funding formula.

**Background:**

The Legislative Budget Board met in August 2004 for budget executions. The budget execution item relating to the Texas Excellence Fund and University Research Fund allocates \$23,266,588 to restore fiscal year 2005 funding.

The \$23.3 million represents the total of each fund's \$11,633,294 fiscal year 2005 appropriation.

Institutions still lack the \$10.8 million vetoed for each fund for FY 2004.

**Recommendation 3:**

The Legislature should restore the FY 2004 vetoed funding of \$10.8 million for both the Texas Excellence Fund and University Research Fund as an emergency appropriations item.

**Background:**

The authorization and issuance of Tuition Revenue Bonds is not contingent on an appropriation for related debt service, but legislative practice has been to use General Revenue to reimburse institutions for the cost related to debt service. The Tuition Revenue Bond debt service appropriation can only be used for paying related debt service, and lapses at the end of the biennium if not used for that purpose.

**Recommendation 4:**

The legislature should require that general revenue funding be used to reimburse higher education institutions for the cost related to debt service of all legislatively approved Tuition Revenue Bonds, and thereby honor the commitment made when these bonds were authorized.

**Background:**

The Legislative Budget Board staff produced a publication prior to the 78th Session of the Legislature that provided descriptive, detailed information on

financing higher education in Texas. This is a valuable tool to members of the legislature in understanding the complex subject of funding for these institutions.

**Recommendation 5:**

The 79th Legislature should direct the Legislative Budget Board to provide an update to the first edition on the report entitled *Financing Higher Education in Texas - Legislative Primer*, dated January 2003. The section entitled *State Funding for General Academic Institutions of Higher Education*, dated February 2002, should also be updated.

**Background:**

The tuition deregulation bill passed by the 78th Legislature did not apply to community colleges. These colleges already have complete flexibility regarding tuition and fees, however they do not have authority to set differential tuition, and the fee language authority requires clarification.

**Recommendation 6:**

The legislature should make changes to the tuition and fee flexibility granted to community college districts to set differential tuition, and should clarify their authority for assessing fees, similar to the authority granted to public universities.

**Background:**

Currently for dual credit programs, the state pays Average Daily Attendance (ADA) to the public schools and pays the formula rate to community colleges. Colleges can (and most do) charge for tuition, fees and books.<sup>181</sup>

**Recommendation 7:**

The legislature should provide funding to encourage dual credit programs that community colleges have with their service area high schools and reimburse the colleges for the cost of tuition, fees and textbooks of qualifying students. Such funding would make these programs more accessible and attractive to colleges and students, and reduce the time between a high school and college degree.

**Background:**

While most of the community colleges in the state are growing (i.e., they are generating more contact hours), there are some colleges that will experience a decline in contact hour growth.

During the 78th Legislature, 14 community colleges (out of 50) were held harmless at a 10 percent level. Only two of the 14 colleges had a decline in contact hour growth.

The other twelve colleges had contact hour growth. Due to a combination of the nearly 15 percent growth in overall contact hours and a reduction in the appropriation by the Legislature, these colleges were put in a position where even though they were growing and meeting the needs of more students, their state appropriation would have been even less if the hold harmless provision had not been instituted by the legislature.

**Recommendation 8:**

The legislature should adjust state funding formulas for the 2006-07 biennium so that any public community college that experiences a decrease of more than 10 percent in contact hour funding from one biennium to the next shall be held harmless from the actual dollar loss in excess of 10 percent. The legislature may discontinue such hold-harmless funding to colleges that experience declines in enrollment growth.

**Background:**

The purpose of the dramatic enrollment growth fund is to provide general revenue funds for institutions of higher education that experience dramatic enrollment growth during the biennium.

Separate appropriations are made to general academic institutions and two-year institutions and different thresholds for dramatic enrollment growth are applied to each sector. General academic institutions receive dramatic enrollment growth funds if enrollment increases 3 percent in the first year of the biennium or 6 percent in the second year of the biennium. The enrollment growth fund for general academic institutions was instituted by the 77<sup>th</sup> Legislature (2001). Prior to that time, general academics were appropriated an estimated growth amount for each year of the biennium.<sup>182</sup>

**Recommendation 9:**

The Legislature should take appropriate action to ensure that the Dramatic Enrollment Growth Fund trustee with the Coordinating Board is restored to historic thresholds of appropriations for dramatic enrollment growth.

**Background:**

The state's appropriation to community colleges is based on the number of contact hours each institution produces during the base year (for the upcoming session: Summer 2004, Fall 2004, and Spring 2005). The small college funding floor provides a minimum state appropriation for the two or three small, rural colleges in the state that do not generate enough contact hours to provide basic instructional support (see chart below). Removal of this floor would likely result in the closure of these institutions that serve students who would otherwise not have access to the opportunity for a higher education.<sup>183</sup>

Summary of Community College Funding Floor<sup>184</sup>

Legislature/Biennium	Biennial Amount	Colleges Receiving Floor Appropriation
78th: FY 2004, FY 2005	4,184,374	Clarendon, Ranger
77th: FY 2002, FY 2003	4,636,750	Clarendon, Ranger
76th: FY 2000, FY 2001	4,250,000	Clarendon, Ranger
75th: FY 1998, FY 1999	4,050,000	Clarendon, Frank Phillips, Ranger
74th: FY 1996, FY 1997	4,000,000	Clarendon, Frank Phillips, Ranger
73rd: FY 1994, FY 1995	4,000,000	Clarendon, Frank Phillips, Ranger
72nd: FY 1992, FY 1993	3,252,638	Clarendon, Ranger

**Recommendation 10:**

The legislature should continue the funding floor for small colleges.

**Background:**

The Skills Development Fund assists local businesses by designing, financing, and implementing customized job training programs in partnership with the public and community colleges for new or existing jobs. The programs fit the express needs of our Texas businesses. During FY 2003, the Texas Workforce Commission, which administers this fund, awarded 32 grants totaling \$12 million. 164 businesses and 20 business consortiums were served and a commitment was made to create and train 4,214 jobs and retrain just over 8,626 jobs, with an average hourly wage of \$17.16 per hour. The 78th Legislature has appropriated \$25 million to be used during the 2004-05 biennium.<sup>185</sup>

**Recommendation 11:**

The legislature should increase the appropriation (\$25 million for 2004-05 biennium) of the Skills Development Fund for the 2006-2007 biennium.

**Background:**

STARLINK connects all of the community and technical colleges in the state through its statewide satellite and internet based network.<sup>186</sup>

The Virtual College of Texas (VCT) is a consortium of accredited, public Texas community and technical colleges. The mission of VCT is to provide distance learning access to all Texans wherever they may live, regardless of geographic, distance, or time constraints.<sup>187</sup>

These programs are currently trusted to the Texas Higher Education Coordinating Board and are combined in a single strategy in the bill pattern.<sup>188</sup>

**Recommendation 12:**

The legislature should continue the funding of STARLINK and the VCT, and appropriate funding directly to the host community college district. This would allow each program a separate-strategy identity and facilitate the pass-through of funds directly to the fiscal agents. The state appropriation request for STARLINK is \$500,000 for the 2006-07 biennium; for VCT, the appropriation request for the 2006-07 biennium is \$1,000,000.

**Background:**

Texas Grant II provides grants to students attending public two-year institutions and is funded at \$9.7 million for the 2004-05 biennium. Eligibility requirements are a better fit for community colleges than Texas Grant. Additional funding is recommended because the majority of the state's targeted 500,000 additional students in *Closing the Gaps* are expected to begin their college work at community colleges and many will meet eligibility requirements of TG II.<sup>189</sup>

**Recommendation 13:**

The Legislature should increase funding for TEXAS Grant II to meet student financial needs at community colleges.