

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**May 8, 2003**

**TO:** Honorable Florence Shapiro, Chair, Senate Committee on Education

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB1824** by Hamric (Relating to adjusting formula funding for certain institutions of higher education to account for differences between estimated and actual receipts of educational and general funds.), **As Engrossed**

**No significant fiscal implication to the State is anticipated.**

The committee substitute would implement *recommendation ED-16 from the Comptroller's "Limited Government, Unlimited Opportunity."* It would establish a "settle-up" for funding formulas for general academic, Lamar two-year campuses, and Texas State Technical College components. It would require the Texas Higher Education Coordinating Board to adopt a uniform system of financial accounting of all educational and general funds and require each institution to reconcile the estimated amount used to the determine state appropriations for the previous biennium.

The committee substitute clarifies that the adjustment made for each institution is based on whether the "estimated amount of educational and general funds to be received by an institution for the biennium for which the formulas are established." The substitute states that the adjustment not be based on revenue generated by the institution from "unanticipated enrollment growth."

Currently, higher education formula funding is applied to a base period of enrollment (semester credit hours--SCH) and institutions are funded for the next two years based on the "base period." An "All Funds" methodology is used to allocate formula funding, meaning General Revenue and certain tuition and fee and indirect cost recovery revenue (classified as General Revenue-Dedicated) is combined. This combined revenue is applied to the base period weighted SCH to determine a funding rate to allocate the formula. Because the General Revenue appropriation is based solely on the base period, the Legislative Budget Board estimate of tuition and fee revenue is projected solely on the tuition and fee revenue that would be generated by the base period SCH. (The LBB estimate does include increases related to statutory tuition increases that these students would pay during the next two years.)

For purposes of this fiscal note, we assume that the adjustment would be made based solely on the estimate of educational and general funds that are used as part of the formula funding allocation. This fiscal note also assumes that "unanticipated enrollment growth" means any enrollment growth beyond the enrollment base period that is used to determine formula funding appropriations.

Based on past experience, the Comptroller's Office projects net general revenue savings of \$3.5 million per year, starting in fiscal year 2006. An LBB attempt to apply the settle-up to date for fiscal year 2002 would have resulted in a indicated a \$650,000 General Revenue cost for that fiscal year. The actual savings in the 2006-2007 biennium would depend upon the extent to which tuition revenue amounts for the appropriate base period are higher than the LBB estimates.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:**

**LBB Staff:** JK, JO, CT, PF