

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 2, 2003

TO: Honorable Royce West, Chair, Senate Committee on Subcommittee on Higher Education

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB1718 by Williams (Relating to adjusting formula funding for institutions of higher education to account for differences between estimated and actual receipts of educational and general funds.), **As Introduced**

No fiscal implication to the State is anticipated.

The bill would implement recommendation ED-16 from the current, Comptroller's E-Texas report. The bill would establish a "settle-up" for funding formulas for general academic, Lamar two-year campuses, Texas State Technical College components, and health-related institutions. The bill requires an adjustment for each institution based on whether the institution generated more or less tuition, fee, or indirect cost recovery revenue than was included in the formula appropriation for the prior biennium. The Texas Higher Education Coordinating Board would be required 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.

Currently, higher education formula funding is applied to a base period of enrollment (semester credit hours/full time student equivalents--SCH/FTSE) 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 Reveune-Dedicated) is combined. This combined revenue is applied to the base period weighted SCH/FTSE 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/FTSE. (The estimate does include increases related to statutory tuition increases that these students would pay during the next two years.)

It is assumed that the bill would require the negative or positive number be based solely on the indirect cost recovery and the tuition and fee revenue collected related to the semester credit hours that were the basis for the institution's formula funding. It is assumed that the negative or positive number would be applied to the General Revenue that the institution should receive after the formula allocation for the next biennium has been made.

Based on past experience, the Comptroller's Office projects net general revenue savings of \$3.5 million per year, starting in fiscal year 2006. The actual savings in the 2006-2007 biennium will depend upon the extent to which tuition revenue amounts for the appropriate base period are higher than LBB estimates.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 781 Higher Education Coordinating Board

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