

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 17, 2007

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

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB3828 by Morrison (Relating to performance incentive funding for institutions of higher education.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3828, As Engrossed: a negative impact of (\$350,314,721) through the biennium ending August 31, 2009.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	\$0
2009	(\$350,314,721)
2010	(\$350,290,969)
2011	(\$350,290,969)
2012	(\$350,290,969)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND</i> 1
2008	\$0
2009	(\$350,314,721)
2010	(\$350,290,969)
2011	(\$350,290,969)
2012	(\$350,290,969)

Fiscal Year	Change in Number of State Employees from FY 2007
2008	0.0
2009	2.0
2010	2.0
2011	2.0
2012	2.0

Fiscal Analysis

The bill would create a framework, based on the model presented in the Governor's Higher Education Reform Proposal to the 80th Legislature, for distributing performance incentive funding to institutions of higher education. The bill would create separate mechanisms for rewarding general academic teaching institutions, two-year institutions (community, state and technical colleges), and the health-related institutions. Funding would be distributed to institutions based on a matrix of weights that provides greater rewards for graduates who are designated as being "at risk" according to criteria included in the bill, and who receive a degree in a "critical field" as defined in the bill, or as designated by the Higher Education Coordinating Board. Based on the Governor's proposal the funding would be trusted to the Higher Education Coordinating Board. While the Governor's proposal included incentive funding for students who do well on either the major field assessment or the licensure exams, the bill as substituted does not include such a provision. The bill repeals section 61.0591 of the Education Code that deals with incentive and special initiative funding.

Methodology

Estimates in this fiscal note are based on the methodology used in the Governor's Higher Education Reform Proposal as it relates to incentive funding for the General Academic, Community Colleges and Health Related Institutions. It is assumed the proposal would be fully funded by State appropriations. The proposal allocates \$350.2 million (of which \$215.9 million is allocated to general academic institutions, \$86.1 million to community and technical colleges, and \$48.2 million to health related institutions) in fiscal year 2009 to encourage public universities and colleges to meet the statewide goal of increasing the number of students completing bachelor's degrees, associate degrees and certificates by 171,000 by 2010. Additional funds will be awarded to schools with graduates identified as at-risk and degrees earned in critical fields. This fiscal note assumes the funding will continue through fiscal year 2010 to fiscal year 2012.

The Governor's proposal also included incentive funding for licensure exams. Although the bill as substituted does not include this aspect of the Governor's proposal, it is assumed that funding for this incentive will be re-allocated to the remaining incentives, degrees awarded in critical fields and degrees awarded to at-risk students.

One possible offset to the cost of the proposal that is not included in the bill is to partially fund the incentives by eliminating funding for the Teaching Experience Supplement which, in the 2006-07 biennium, was funded at \$72 million.

Universities:

For universities, the incentive program will reward degrees awarded in critical fields and degrees awarded to at-risk students. Additional weight, and therefore more money, is given for students considered at-risk or majoring in the critical fields of engineering, math, physical science, nursing, computer science, allied health, and math and science teacher education. In an effort to increase the number of Texans with master's, doctoral and professional degrees, an award is given for each diploma in graduate fields as well. Average incentive funding is estimated to be \$2,229 per graduate.

Community, Technical, and the Lamar State colleges:

For community, technical and the Lamar State colleges, the proposed incentive program will reward two measures: certificates earned in approved programs and associate degrees completed; students completing at least 30 hours with a GPA of 2.5 or higher who transfer to a four-year state college. Additional weight will be given for students majoring in engineering technology, computer science, math, physical science, allied health and nursing. Average incentive funding is estimated to be \$1,216 per certificate, degree or transfer student.

Health-related Institutions:

For health-related institutions, the incentive program will reward degrees and residencies completed. Additional weight will be given for at-risk students and primary care residencies. Average annual incentive funding is about \$8,200 per degree or residency completed.

Factors that will determine funding for institutions include retention, time to complete degree, 4-, 5-,

and 6-year graduation rates, number of transfers accepted from community colleges, quality of education, space utilization, counseling to reduce credit hours not needed for graduation, course completion, and remedial education.

It is estimated that to accommodate the additional reporting requirements, work with institutions on necessary data, calculate the points associated with the funding system, distribute the funding, and to perform other stipulated responsibilities in this legislation, the Higher Education Coordinating Board will need to hire two additional staff positions, a program director and a data analyst (2 FTEs) at a cost of \$159,084 in fiscal year 2009, and \$135,332 for fiscal year 2010 through fiscal year 2012

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 781 Higher Education Coordinating Board, 301 Office of the Governor, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 768 Texas Tech University System Administration, 783 University of Houston System Administration

LBB Staff: JOB, JSp, MN, RT, GO