

Appropriations

HB 1 (Heflin/Bivins) Relating to the appropriations of money for the 2004-2005 Biennium.

Issue

State appropriations for the support of higher education.

Background

Texas is experiencing budget difficulties common to other states. In January, agencies and institutions of higher education were instructed to prepare budgets for the 2004-2005 biennium to incorporate 12.5% cuts in funding from 2002-2003 levels. However, the final general revenue appropriations for all of higher education are \$10.1 billion, a 1.7% decrease from the 2002-2003 biennial level.

For all of state government, the 78th Texas Legislature has appropriated \$58.2 billion in general revenue funds for the 2004-2005 biennium. This represents a \$2.6 billion or a 4.3% decrease from amounts previously appropriated for the 2002-2003 biennium.

U.T. institutions, like most other higher education institutions, project significant growth and will require additional funds to maintain current service levels.

Resolution

Table 1 (page 12) illustrates a summary of the general revenue appropriations *for general operating purposes* at the U.T. institutions. (For purposes of this table, tuition revenue bond debt service is excluded from the comparisons.)

Included in the 2004-2005 amounts for the general academic institutions is \$53.9 million in additional appropriations for indirect cost reimbursement on sponsored research.

As the table illustrates, the U.T. general academic institutions, including the indirect cost reimbursement appropriations and before consideration of potential reductions pursuant to provisions in Article IX of the Act, are appropriated on average 99.5% of the general revenue which had been appropriated for the 2002-2003 biennium. General revenue funding, therefore, will be less than previous estimates of amounts necessary to finance current services requirements.

In contrast to the 99.5% of 2002-2003 funding for the U.T. general academic institutions, the other public universities in Texas suffered greater funding reductions that resulted in an average funding level of 98.2% of the 2002-2003 biennial base.

Financing for the health-related institutions in the 2004-2005 biennium is to include funds from a rider appropriation in Section 56 of the Article III Special Provisions. This analysis includes those funds. Reductions to appropriations to the State Department of Health to reimburse the U.T. Medical Branch at Galveston for indigent care are also included in the table.

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The rider appropriations to the health-related institutions to be derived pursuant to Section 56 are to come, in part, from State Fiscal Relief Federal Funds. HB 1 stipulates that the Legislative Budget Board and the Governor are to develop a plan that outlines which agencies receive these funds. Section 56 sets targets for funding from this source and stipulates that the funding of the health-related institutions from this source is a "priority of the Legislature."

The average biennial reduction in general revenue for operating purposes for the health-related institutions is 5%. Following this summary is an analysis of the impact of FY 04-05 general revenue appropriations on indigent care and academic programs at U.T. health-related institutions.

Funding for tuition revenue bond debt service is included in the Act with the provision that previously authorized projects for which bonds had not been issued prior to March 31, 2003 would be eligible for interest payments only.

There is a significant new rider included in Article III (Section 55) which would appropriate \$26 million a year from the State Highway Fund to the Higher Education Coordinating Board for the benefit of the general academic institutions of higher education. The Coordinating Board has yet to determine the method by which it will distribute these funds once they are transferred to the Board.

Two riders contained in Article IX of the Act were included in the bill to enable appropriation reductions to help finance the Act. Section 11.15 enables the Comptroller, the Legislative Budget Board, and the Governor to allocate appropriation reductions as necessary to enable certification of HB 1. Reductions pursuant to this rider are contingent on the inability of the Comptroller to certify HB 1.

A separate rider, Section 12.04(d) of Article IX, provides for a \$97 million reduction of general revenue appropriations to agencies and institutions which "on August 31, 2003 own real property purchased with General Revenue or General Revenue-Dedicated Funds." Unlike Section 11.15, this is not a contingent rider. Other provisions of Section 12.04(d) purport to allow the Governor and Land Commissioner to "convey interests in real property totaling at least \$97 million" during the biennium. Preliminary analysis by the U.T. System Real Estate Office concludes that these provisions should not apply to the U.T. System. Further analysis of this question is being conducted by the U.T. System Office of General Counsel.

There were several other changes in appropriation bill riders that will enable the U.T. System to more effectively conduct its business. A current rider restricts the level of expenditures from general revenue for the Office of the Board of Regents. Changes in the rider will remove the restrictions on expenditures for the staff support of the Board.

Other changes were made to riders affecting reporting on certain endowments of institutions of higher education. The changes will lessen the reporting burden and focus any reports directly to the donors as directed by the donor agreements.

Article III – Significant New or Amended Riders

Section 5.8 Administrative Accountability is a new rider and is a result of legislative interest also expressed in proposed legislation to review and examine university systems' administrative activities (HB 2/ SB 1952) and to examine salaries and duties of university systems' administrators (HB 2645/ SB 1162) – which did not pass.

Section 5.8, however, provides for an annual report outlining numbers of persons holding “high-ranking administrative positions” at higher education system offices and institutions, their names, salaries and the total value of non-salary benefits. A list of such positions is set out in the rider.

Sections 39, 42, and 43 represent revisions to current riders involving reporting and other requirements with respect to endowments and donations at “state universities”/ general academic institutions. The current language requires extensive reporting without regard to donor agreements that may be to the contrary. The amended language in HB 1 makes it clear that any required reports shall be in accord with donor agreements.

Section 41 Nursing School Enrollment is a new rider expressing legislative “encouragement” that institutions of higher education not reduce the number of full-time equivalents enrolled in programs preparing students for licensure as registered nurses in fiscal years 2004-2005. If enrollments fall below the FY 2003 enrollment level by more than 5%, the school “...shall report to the Legislative Budget Board and the Texas Higher Education Coordinating Board the reasons for failing to meet the required enrollment.”

Section 50 Limitation on Formula Funding Contact and Semester Credit Hours expresses “... the intent of the Legislature to control costs and limit General Revenue formula appropriations by excluding contact hours or semester credit hours related to a course for which a student is generating funding for the third time from being counted in the hours reported by the Higher Education Coordinating Board to the Legislative Budget Board for formula funding.”

Section 51 Debt Service Related to Tuition Revenue Bonds stipulates that TRB debt-related appropriations to institutions of higher education for the 2004-2005 biennium for bonds issued after March 31, 2003 shall only be used for payment of interest expense associated with those bonds.

Section 52 Report on Real Property provides that institutions of higher education shall submit to the General Land Office information concerning real property in the custody of the institutions, as may be required by that office, pursuant to their statutory authority.

Section 55 Maintenance, Construction and Policing of Campus Roads and Streets is a new rider which purports to provide \$26 million a year from the State Highway Fund to support the “... maintenance, construction, and policing of roads and streets...” on the campuses of general academic teaching institutions. The money is appropriated to the Texas Higher Education Coordinating Board to distribute to general academic institutions through the Instruction and Operations formula. The Coordinating Board and Comptroller of Public Accounts shall jointly implement the provision. [This rider is not clearly worded and may be subject to varying interpretations.]

Section 57 Additional Tuition Revenue Bonds expresses legislative intent that any institution that the 78th Legislature authorizes to issue new tuition revenue bonds, other than bonds authorized

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to respond to damages caused by Tropical Storm Allison, would not be eligible for any new tuition revenue bond authorization by the 79th Legislature.

Notes

Capital Equity

For the current 2002-2003 biennium, six U.T. universities (all but U.T. Austin, U.T. Brownsville, and U.T. Pan American) have received Capital Equity Hold-Harmless funding equivalent to \$22.2 million on a biennial basis. Capital Equity was first funded in FY 2000 in partial recognition of the inability of the Permanent University Fund (PUF) to generate funds for capital projects equivalent to the resources then available to institutions eligible for the Higher Education Fund (HEF). The expressed intent of the 77th Legislature (last session) was to “sunset” the “hold-harmless” funding, which was done under HB 1 this session. Had these funds remained available to the U.T. System institutions, the result would have been an overall increase in biennial appropriations for these schools.

Research Excellence Funding

The U.T. general academic institutions, excluding U.T. Austin, were appropriated funds for FY 2004 and FY 2005 for research and excellence initiatives, pursuant to HB 1839, enacted by the 78th Legislature. These appropriations, contained in HB 1, have been vetoed by the Governor.

The estimated amounts for each of the U.T. institutions that would have been eligible for the vetoed funds were to be derived from two funds.

	(millions)
<u>From the University Research Fund:</u>	<u>Estimated 2004-2005 Biennial Distribution</u>
U.T. Arlington	\$ 6.21
U.T. Dallas	6.88
U.T. El Paso	4.52
U.T. San Antonio	2.91
U.T. Permian Basin	0.50
U.T. Tyler	<u>0.50</u>
Subtotal	\$ 21.52
 <u>From the Texas Excellence Fund:</u>	
U.T. Brownsville	\$ 0.04
U.T. Pan American	<u>0.15</u>
Subtotal	\$ 0.19
Total, U.T. Institutions	<u>\$ 21.71</u>

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Aircraft Pooling Board

Appropriations for the operations of the Aircraft Pooling Board have been vetoed by the Governor. This action effectively abolishes the Board and will have direct implications for the operation and maintenance of the U.T. System plane. Arrangements must be made to house the plane with a fixed-base operator, for maintenance, and for back-up pilots.

Table 1

**State of Texas Higher Education Institutions
2004-05 General Revenue Appropriations
Conference Committee Report on CSHB 1**

(Does Not Include Texas Excellence or University Research Funds, or Group Insurance Funds)

Institution	2002-03 Biennium GR Appropriations (less TRB)	2004-05 Biennium				Est. Section 56(Biennial Amt.)	GR Appropriations (less TRB & Sec. 56)	Biennial Change	
		FY 2004	FY 2005	Less: 2004 TRB	Less: 2005 TRB			\$ Increase (Decrease)	% Increase (Decrease)
The University of Texas at Arlington	157,483,150	79,827,603	80,015,927	(3,463,825)	(3,463,825)	(415,593)	152,500,287	(4,982,863)	-3.16%
The University of Texas at Austin	468,984,533	241,957,725	242,693,303	(5,978,492)	(5,978,492)	(1,260,093)	471,433,951	2,449,418	0.52%
The University of Texas at Dallas	102,061,752	54,978,173	54,994,434	(2,041,841)	(2,041,841)	(285,929)	105,602,996	3,541,244	3.47%
The University of Texas at El Paso	114,002,696	57,522,984	58,206,037	(2,651,214)	(2,651,214)	(300,896)	110,125,697	(3,876,999)	-3.40%
The University of Texas - Pan American	89,455,743	49,576,027	49,726,789	(4,262,518)	(4,262,518)	(258,188)	90,519,592	1,063,849	1.19%
The University of Texas at Brownsville	30,670,559	18,694,298	18,913,210	(3,511,911)	(3,511,911)	(97,779)	30,485,907	(184,652)	-0.60%
The University of Texas of the Permian Basin	23,959,507	13,275,735	13,300,212	(1,694,203)	(1,694,203)	(69,098)	23,118,443	(841,064)	-3.51%
The University of Texas at San Antonio	123,316,042	66,888,362	67,216,343	(6,616,458)	(6,616,458)	(348,672)	120,523,117	(2,792,925)	-2.26%
The University of Texas at Tyler	40,883,137	22,127,593	21,543,801	(1,500,578)	(1,500,578)	(113,546)	40,556,692	(326,445)	-0.80%
Total - General Academics	1,150,817,119	604,848,500	606,610,056	(31,721,040)	(31,721,040)	(3,149,794)	1,144,866,682	(5,950,437)	-0.52%
UT Southwestern Medical Center at Dallas	186,606,636	91,973,839	94,180,111	(3,130,603)	(5,358,102)	15,785,230	193,450,475	6,843,839	3.67%
UT Medical Branch at Galveston <u>1</u>	488,062,868	197,213,542	196,983,690	(1,147,971)	(1,147,971)	33,955,230	445,856,520	(42,206,348)	-8.65%
UT Health Science Center at Houston <u>2</u>	247,317,579	115,528,490	115,580,794	(4,909,505)	(4,909,388)	11,202,667	232,493,058	(14,824,521)	-5.99%
UT Health Science Center at San Antonio <u>2</u>	241,903,489	111,562,036	110,896,326	(5,446,140)	(5,445,703)	15,005,416	226,571,935	(15,331,554)	-6.34%
UT M.D. Anderson Cancer Center	276,612,464	124,581,655	125,379,935	(651,279)	(1,567,946)	18,322,113	266,064,478	(10,547,986)	-3.81%
UT Health Center at Tyler	65,825,012	29,226,124	29,207,669	(374,917)	(374,917)	6,160,513	63,844,472	(1,980,540)	-3.01%
Total - Healths	1,506,328,048	670,085,686	672,228,525	(15,660,415)	(18,804,027)	100,431,169	1,428,280,938	(78,047,110)	-5.18%
UT System Administration <u>2</u>	1,918,119	838,902	838,901	-	-	(4,362)	1,673,441	(244,678)	-12.76%
GRAND TOTAL	2,659,063,286	1,275,773,088	1,279,677,482	(47,381,455)	(50,525,067)	97,277,013	2,574,821,061	(84,242,225)	-3.17%

Notes:

- Reductions to the General Academic Institutions, Pursuant to Section 56 of Article III Special Provisions, are estimates subject to revision.
 - A portion of the amounts for the Health-Related Institutions, Pursuant to Section 56, are dependent on subsequent allocations of State Fiscal Relief Funds. These numbers are :

UT Southwestern Medical Center at Dallas	\$ 4,503,301
UT Medical Branch at Galveston	13,220,618
UT Health Science Center at Houston	6,252,893
UT Health Science Center at San Antonio	7,241,724
UT M.D. Anderson Cancer Center	5,644,983
UT Health Center at Tyler	1,582,183
	<u>\$ 38,445,702</u>
 - There are two general appropriation reduction riders in Article IX which may result in general revenue reductions, Section 11.15 and Section 12.04.
 - Tuition Revenue Bond debt service shown above for the 2004-05 biennium includes debt service related to the TRB's authorized by House Bill 1941.
 - These estimates do not include potential funding from the Texas Enterprise Funds. Sec. 11.33, Article IX of HB 1 states legislative intent that \$9 million of this fund should be considered for the Regional Academic Health Center and \$1 million for the Laredo Extension campus of UT HSC - San Antonio.
 - This table also does not include any potential transfers of State Highway Funds to the general academic institutions, pursuant to Sec. 55 of the Special Provisions of Article III.
- 1 For the fiscal biennium 2002-03 \$40 million has been included from the State-Owned Multi-Categorical Teaching Hospital Account appropriated to the Department of Health to reimburse UT MB Galveston and \$20 million in the 2004-05 biennium.
- 2 Funding appropriated to UT System Administration for the Lower Rio Grande Valley - Regional Academic Health Center and the Healthcare Partnerships - Laredo has been reflected with the applicable component institution.

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Impact of FY 04-05 General Revenue Appropriations on Indigent Care and Academic Programs at U.T. System Health Components

These data are preliminary and are subject to change.

UTMB Galveston will receive substantially less in state appropriations for its indigent care and academic programs. This includes annual reductions of \$20 million in general revenue, \$10 million in the indigent care fund, and \$9 million in Medicaid GME payments. Given this, UTMB Galveston will provide less indigent care in FY 04 and FY 05. UTMB Galveston is taking steps to make sure these reductions do not have an adverse affect on its educational programs.

U.T. Southwestern will receive a direct 3.67% increase in GR appropriations, but will receive no general revenue for indigent care. The direct increase will be partially offset by a \$5 million decrease in educational and research general revenue funding received through the Coordinating Board and the Texas Department of Mental Health and Mental Retardation. Nevertheless, U.T. Southwestern's research programs will be enhanced in FY 2004-2005. Its major affiliated hospitals will experience major reductions in reimbursement from State programs, which could result in a decrease in reimbursement to U.T. Southwestern faculty physicians for indigent care provided in these institutions.

UTHSC-Houston will receive \$7.6 million in general revenue to support care of the Harris County Hospital District's indigent patients, down from \$8.7 million. The level of indigent care will not be greatly impacted by this reduction, although certain programs and coverages within some hospitals will inevitably be reduced. What is needed, however, are improved contracts with Harris County Hospital District and Memorial Hermann Hospital to compensate for indigent care provided by the faculty physicians. Greater reimbursement is unlikely to occur for the reason noted above related to the loss of revenue in these hospitals from State programs. UTHSC-Houston's reduction in general revenue will negatively impact academic programs.

UTHSC-San Antonio receives no general revenue for indigent care. Like U.T. Southwestern and UTHSC-Houston, payment to the faculty practice plan by University Hospital System for provision of indigent care could be reduced. The \$14.4 million (6.13%) reduction in general revenue does not reflect the potential \$9 million additional funds for the RAHC and \$1 million for the Laredo Campus in Article IX or the \$8.36 million (Permanent Endowment Fund and GR) for the Regional Academic Health Center (RAHC) and \$1.2 million for Laredo in the U.T. System Administration budget.

U.T. M. D. Anderson Cancer Center receives no general revenue designated for indigent care, but is projected to absorb almost \$400 million in unbilled charges for care to indigent Texans in FY 04-05. UTMDACC will receive \$266 million in general revenue for operation of the institution. Some of these funds can be used for indigent care, but this imbalance may reduce UTMDACC's ability to care for uninsured Texans. The 3.81% reduction in general revenue for UTMDACC will minimally impact academic programs since the \$10.5 million reduction is about 0.46% of the total E&G budget.

UTHC-Tyler will receive \$2.62 million of indigent care in FY 2004-2005, down from \$3 million. Its general revenue for institutional operations will decrease by \$2 million (3.0%). These reductions will impact its indigent care mission by reducing its capacity to care for indigent patients with tuberculosis, but will minimally impact its academic programs.