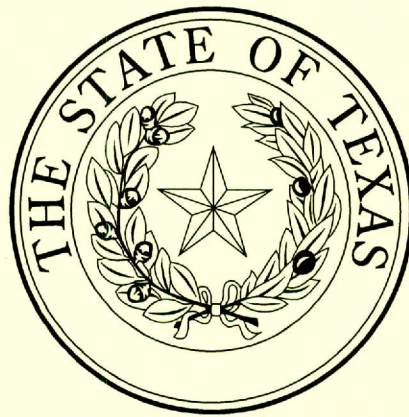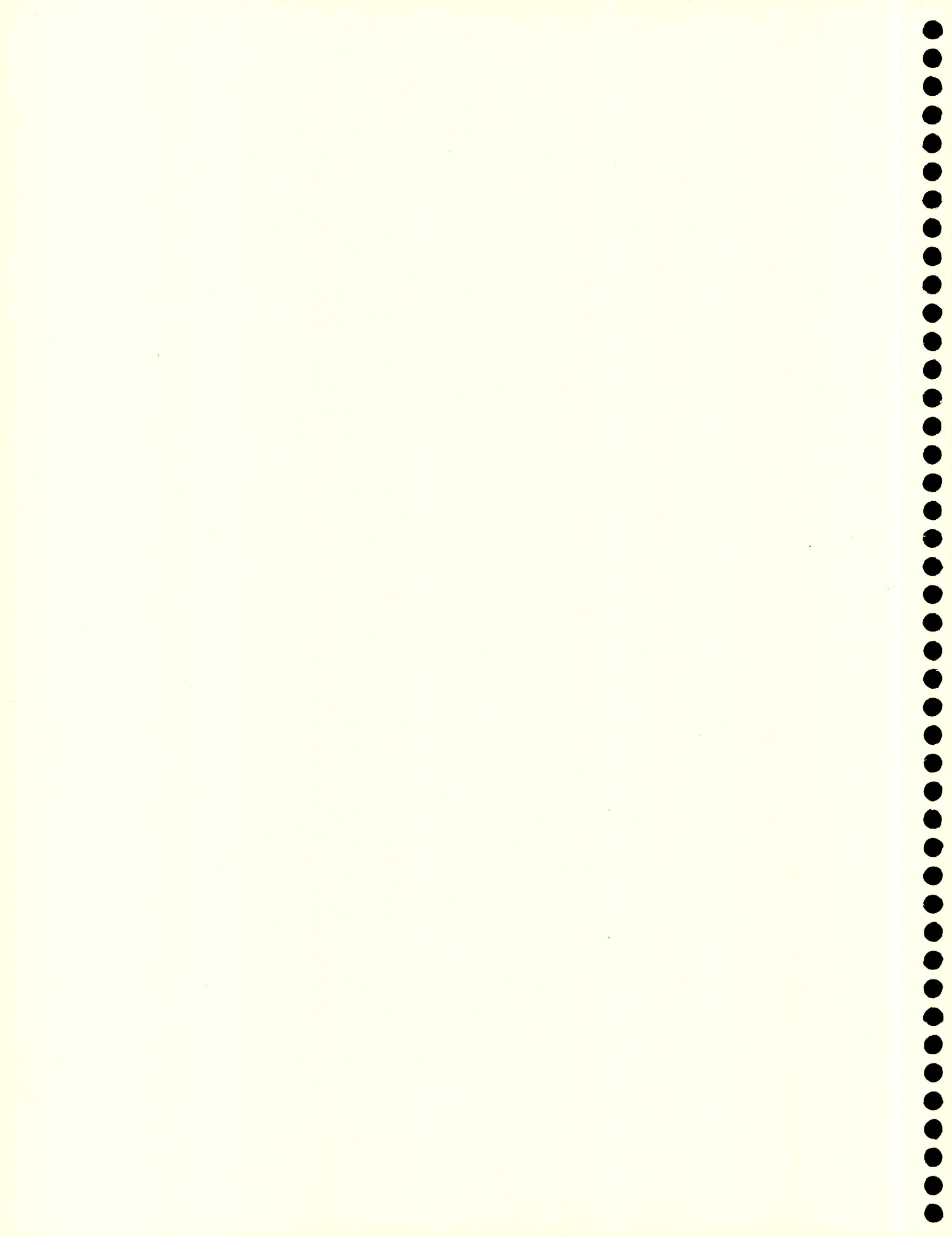# Interim Report

to the 84th Legislature

House Committee on
Higher Education

January 2015

HOUSE COMMITTEE ON HIGHER EDUCATION
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2014

A REPORT TO THE
HOUSE OF REPRESENTATIVES
84TH TEXAS LEGISLATURE

DAN BRANCH
CHAIRMAN

COMMITTEE CLERK
ROBERT THETFORD

Committee On
Higher Education

January 12, 2015

Dan Branch
Chairman

P.O. Box 2910
Austin, Texas 78768-2910

The Honorable Joe Straus
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on Higher Education of the Eighty-Third Legislature hereby submits its interim report including recommendations for consideration by the Eighty-Fourth Legislature.

Respectfully submitted,

Dan Branch

Diane Patrick

Roberto R. Alonzo

Travis Clardy

Drew Darby

Donna Howard

Armando "Mando" Martinez

Jim Murphy

John Raney

Diane Patrick
Vice-Chairwoman

Members: Roberto R. Alonzo, Travis Clardy, Drew Darby, Donna Howard, Armando "Mando" Martinez, Jim Murphy, John Raney

"The benefits of education and of useful knowledge, generally diffused through a community, are essential to the preservation of a free government."

Sam Houston

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INTRODUCTION

The Honorable Joe Straus, Speaker of the House of Representatives, appointed nine members of the 83rd Legislature to serve on the House Committee on Higher Education. The following members were named to the committee: Chairman Dan Branch, Vice-Chairwoman Diane Patrick, Rep. Roberto R. Alonzo, Rep. Travis Clardy, Rep. Drew Darby, Rep. Donna Howard, Rep. Armando "Mando" Martinez, Rep. Jim Murphy, and Rep. John Raney.

Pursuant to House Rule 3, Section 16 (83rd Legislature), the Committee has jurisdiction over all matters pertaining to:

(1) education beyond high school;
(2) the colleges and universities of the State of Texas; and
(3) the following state agencies: the Texas Engineering Experiment Station, the Texas Engineering Extension Service, the Texas Higher Education Coordinating Board, the Texas Guaranteed Student Loan Corporation, the State Medical Education Board, the Prepaid Higher Education Tuition Board, and the Texas Transportation Institute.

During the interim, Speaker Joe Straus issued five interim charges to the committee to study and report back with facts, findings, and recommendations. The House Committee on Higher Education has completed its hearings and investigations, and has adopted the following report.

HOUSE COMMITTEE ON HIGHER EDUCATION

INTERIM STUDY CHARGES

1. Study the potential of recent technology-enabled innovations for dramatically increasing the number and diversity of students who may access, participate and succeed in quality higher education, including Massive Open Online Courses (MOOCs), Synchronous Massive Online Courses (SMOCs), blended courses that combine online and classroom instruction, and other innovations with potential to personalize the learning experience, reduce costs, and transcend the physical limitations of traditional campuses. Consider challenges and opportunities for leveraging new technologies to increase the educational attainment of traditionally underserved populations including adult learners.

2. Study new strategies for funding General Academic institutions to accelerate educational innovation and increase focus on improving student learning and success rather than seat time. Consider approaches that encourage new and more productive business models that incorporate affordable, lower-cost academic delivery models and expand the state's capacity to deliver high-quality education.

3. Study how state resources might be better used to support the success of the rapidly growing numbers of state residents who need postsecondary degrees. Evaluate current programs and policies related to financial aid, tuition assistance, waivers, and work study, and evaluate their completion. Consider how state dollars might be better used in combination with federal financial aid to promote and accelerate student success. Explore strategies and best practices for reducing student loan default rates in Texas.

4. Former foster youth have the benefit of free tuition and fees if they enroll in higher education, yet very few take advantage of this opportunity. Consider new strategies to support these youth and make recommendations to enroll and retain more foster youth in higher education. (*Joint charge with the House Committee on Human Services*)

5. Review current capital needs in higher education. The committees shall examine past methods of financing higher education's capital needs, as well as approaches used in other states. The committees shall jointly make recommendations to address these costs in the future. In adopting recommendations, the committees should focus on methodologies that identify priority capital projects, treat institutions of higher education equitably, and uniformly share costs between the state and institutions. The committees should also examine the viability of alternatives to traditional models for funding capital projects. (*Joint charge with the House Committee on Appropriations*)

CHARGE 1

Study the potential of recent technology-enabled innovations for dramatically increasing the number and diversity of students who may access, participate and succeed in quality higher education, including Massive Open Online Courses (MOOCs), Synchronous Massive Online Courses (SMOCs), blended courses that combine online and classroom instruction, and other innovations with potential to personalize the learning experience, reduce costs, and transcend the physical limitations of traditional campuses. Consider challenges and opportunities for leveraging new technologies to increase the educational attainment of traditionally underserved populations including adult learners.

Background

According to the National Center for Education Statistics, 85 percent of today's undergraduate population is comprised of non-traditional and post-traditional learners.[1] Institutions that successfully educate this large and growing student population are those that embrace post-traditional learners and their circumstances, including the need for anytime, anywhere access to curricula and instruction, and recognize that for many students, online learning is a legitimate alternative or supplement to traditional, face-to-face instruction.[2]

In the last several years, the rate of enrollment in distance or online courses has continued to grow, driven by students' demands for greater flexibility and access. This online growth has occurred even as overall college enrollment has fallen to its lowest level in more than a decade.[3] In 2012, roughly 7 million students took at least one online course[4] and even more have enrolled in blended courses, which combine classroom and online instruction, reinforcing in-person instruction with online activities and vice versa.[5]

Proportion of Content Delivered Online	Type of Course	Typical Description
0%	Traditional	Course where no online technology used — content is delivered in writing or orally.
1 to 29%	Web Facilitated	Course that uses web-based technology to facilitate what is essentially a face-to-face course. May use a course management system (CMS) or web pages to post the syllabus and assignments.
30 to 79%	Blended/Hybrid	Course that blends online and face-to-face delivery. Substantial proportion of the content is delivered online, typically uses online discussions, and typically has a reduced number of face-to-face meetings.
80+%	Online	A course where most or all of the content is delivered online. Typically have no face-to-face meetings.

Massive Open Online Courses (MOOCs), the most widely adopted and respected approach to online and blended instruction, have grown in popularity and stature in recent years. These courses are typically offered at no cost to the online learner, are available to learners regardless of their enrollment status and are offered to an unlimited number of course-takers. One important limitation of MOOCs is that students are typically unable to receive academic credit.

Summary of Testimony

Online learning initiatives in higher education, such as MOOCs and other online and blended courses, offer advantages to both institutions and students.

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For students, MOOCs provide increased flexibility, both in course offerings and in access to course resources.[6] Anytime, anywhere access to course lectures and materials enables non-traditional, post-traditional, adult, working, continuing education and military students to personalize their learning experience and improve their time to degree completion. MOOCs can also expand access to developmental education by providing a no-risk, low-cost option for students who want to attend college but who are not prepared for traditional coursework.[7]

For institutions, MOOCs expand the number and diversity of courses at lower cost. For instance, institutions can direct remedial students to one of several out-of-state community colleges that offer developmental education MOOCs rather than bear the cost of providing those courses on-campus. These MOOCs save students and institutions time and money by setting learners on an accelerated path to credit-bearing courses and a more timely graduation.[8]

Of note, there appears to be a significant relationship between the size of an institution and the belief that technology will make online courses more valuable than traditional instruction. According to a BABSON research group survey, almost 70 percent of leaders at institutions with fewer than 1,500 students said it was "very likely" that "improvements in technology will make the costs of developing and delivering online courses considerably less expensive than face-to-face courses."[9] Only 44 percent of leaders at the nation's largest institutions agreed that technology could make online education better than face-to-face instruction.[10]

Personalize Learning

The integration of online, hybrid and collaborative learning in face-to-face instruction is already impacting the way higher education courses are structured. By leveraging a variety of online technologies, such as interactive polling, recording and a backchannel for synchronous communication during class time, students are enabled to engage with course material in ways that best suit how they learn.[11]

Hybrid-learning can address the learning path of each individual student. For example, one hybrid-learning model allows students to choose how they attend lectures—from the comfort of their home or face-to-face with instructors. In 2013, UT System launched a hybrid model that has increased persistence rates among freshmen and improved grades, attendance and passing rates.

An increasing number of institutions are incorporating online environments into a variety of courses, which has made content more dynamic, flexible and accessible. Hybrid-learning settings engage students in creative learning activities that often demand more peer-to-peer collaboration than traditional face-to-face courses.[12]

Analytics and data generated from online activities will help improve student choice and success through degree planning and advising systems as well as provide early alerts and trigger interventions for at-risk students.[13]

Some institutions are using MOOCs and online courses to improve retention rates by making courses available to students who would otherwise be "closed out" of traditional courses due to course size limitations or conflicts with other required subjects.

Challenges to Online Learning Initiatives

Although online learning provides a greater range of educational opportunities for students, these opportunities are not without risks, including:

- Students and faculty may bring insufficient skills to the online learning environment
- Faculty may provide low-quality pedagogy and instructional design
- Students accustomed to the classroom setting may perform differently online because of the changed relationship they perceive between themselves and instructors
- Students may find that instructors are not sufficiently responsive because of the instructor's workload or unfamiliarity with new technology
- The requirements of reading, following instructions, reducing distractions and exercising self-discipline are difficult to communicate to students, particularly those students who most need those disciplines
- Students who take online course are more likely to fall behind, widening the already existent achievement gap. (In 2013, 68.9 percent off chief academic officers agreed with the statement, "Students need more discipline to succeed in an online course than in a face-to-face course").[14]
- Students—particularly traditionally underserved populations—may not have equal access to online courses and programs as a result of poor Internet service, "bandwidth divides" and data caps
- Institutions may have to recalculate what tuition dollars buy for different online learning delivery models

Conclusions

When appropriately designed and implemented, MOOCs, SMOCs and other technology-enabled innovations have the ability to dramatically increase the number and diversity of students who may access, participate and succeed in quality higher education. The 84th Legislature should encourage Texas community colleges and universities to consider various ways to support high quality MOOCs, SMOCs, blended courses and other new approaches to instruction. (See related findings and conclusions under Charge 2.)

CHARGE 2

Study new strategies for funding General Academic institutions to accelerate educational innovation and increase focus on improving student learning and success rather than seat time. Consider approaches that encourage new and more productive business models that incorporate affordable, lower-cost academic delivery models and expand the state's capacity to deliver high-quality education.

Background

In 2011, the Texas Legislature passed HB 9, the Higher Education Outcomes-Based Funding Act. HB 9 requires the Texas Higher Education Coordinating Board (THECB), in devising and establishing base formula funding recommendations to public institutions of higher education, to incorporate the goals identified in the long-range statewide plan into the agency's funding recommendations.[15] Rather than reward enrollment, HB 9 works to incentivize the outcomes Texas students, parents, taxpayers and institutions really want: success.

For public universities, HB 9 aims to define success in a holistic manner by incorporating a variety of success measures. These metrics include:

- Total number of bachelor's degrees awarded by the institution;
- Total number of bachelor's degrees in critical fields awarded by the institution;
- Total number of bachelor's degrees awarded by the institution to at-risk students;
- The six-year graduation rate of students of the institution who initially enrolled in the fall semester immediately following their graduation from public high school in Texas, as compared to the six-year graduation rate predicted for those students based on the composition of the institution's student body.

For colleges and technical schools, outcomes-based funding has advanced beyond the THECB recommendations HB 9 required. In 2013, SB 1 incorporated 100 percent outcomes-based funding for state technical schools and 10 percent outcomes-based funding for community colleges.[16] The technical school formula is based on the additional state tax revenues generated by former students and reflects the value TSTC added to the student's bottom line—and the state's. The outcomes funding formula for colleges is calculated from a broader range of factors, such as:

- Developmental education
- Gateway courses
- College credit attainment
- Credentials awarded
- Transfers to General Academic institutions
- Adult Basic Education and English as a Second Language

In discussing TSTC's support of outcomes-based funding, Chancellor Michael L. Reeser said, "Some sort of outcomes-based methodologies are inevitable for likely all of public higher ed. We thought we'd be the first."[17]

In its 2012 formula funding recommendations, the Texas Higher Education Coordinating Board (THECB) proposed that the Legislature "restructure the current funding model . . . to a model where funding will be determined by [a combination of] enrollments and how well institutions help their students complete their programs."[18] By incorporating outcomes into their funding

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model, General Academic institutions would be incentivized to prioritize such policy goals as expanded student access, greater student success and improved cost efficiency.

In previous budgets, the Legislature's general appropriation for General Academic institutions has been exclusively based on inputs, such as enrollment statistics. In an outcomes funding model, the Legislature would allocate a portion of state funding on the basis of a comprehensive set of performance metrics, including:

Outcome Metrics	Progress Metrics
• Degree and certificates awarded • Graduation rates • Transfer rates • Time and credits to degree	• Enrollment in remedial education • Success beyond remedial education • Success in first-year college courses • Credit accumulation • Retention rates • Course completion[19]

The Lumina Foundation for Education, Inc., which has argued in favor of an outcomes funding model, has cautioned that "most states draft higher education budgets without a clear statement of the public return they want for their investment" and that, as a result, universities increase enrollment with little regard for whether students can graduate. By adopting an appropriately designed outcomes-based funding model, "performance funding can serve as a catalyst for scaling efforts to promote greater student success."[20]

Student Financial Incentives

Financial incentives can improve student performance by rewarding successful outcomes and discouraging costly or inefficient ones.

One Lumina Foundation proposal is to use peak pricing to encourage students to take classes at lower-cost times, such as nights and weekends and, as a result, reduce costs and make better use of available building space.[21] Similarly, tuition or financial aid pricing policies that promote participation in online, blended and non-traditional forms of instruction may also accelerate learning, increase graduation rates and promote less expensive instruction.

Texas uses some student financial incentives already, such as the College for All Texans $1,000 Tuition Rebate[22] and the requirement that state universities charge out-of-state tuition to certain in-state undergraduates who have accumulated excess credit hours.[23] Nevertheless, the 84th Legislature may consider looking for additional opportunities to use student financial incentives to reward successful student outcomes and discourage inefficient student performance.

Online, Blended and Non-Traditional Forms of Instruction

In its *Cracking the Credit Hour*, the New American Foundation has noted that institutions and

programs are beginning to explore new standards for measuring learning outcomes and student success – beyond traditional time-based measures toward workforce readiness.[24] For example, online education programs emphasize merit-based module completion rather than credit hour requirements.[25] Online programs and innovations offer an alternative to the credit-hour system and allow General Academic institutions to provide high-quality, distance education for students who are in the workforce seeking to complete undergraduate or post-graduate degrees.

High-quality online, blended and non-traditional forms of instruction offer new ways to recognize a student's acquisition of knowledge and skills and are significantly less costly than traditional brick-and-mortar approaches. The scaleability and cost-effectiveness of online instruction are particularly important as the state's rapidly growing workforce needs and limited resources require institutes to significantly increase capacity at reasonable costs.

Summary of Testimony

Establishing a Statewide Advance Placement Credit Policy

The College Board's Advance Placement (AP) courses provide high school students with the opportunity to earn college credit in high school and to preview college-level coursework.

Current Texas law does not require colleges or universities to accept AP exams for course credit. This provides higher education institutions with the flexibility to set their own AP exam policies, but also allows institutions to deny course credit to high school students, despite their successful performance in college-level coursework.

The College Board has found that AP students who earn an exam score of 3 or higher perform comparably with students who complete a similar course at a college or university, and according to College Board's cost models, a statewide AP college credit policy that requires public universities to award at least 3 college credits for each AP Exam of 3 or higher would result in significant tuition savings for Texas students and families.

For example, in May 2013, Texas high school students received a 3 or higher on over 190,000 AP Exams. If all of these students had received 3 college credits per exam, they would have earned over 570,000 credit hours and saved roughly $162 million in tuition costs.[26]

In addition to cost savings, a statewide AP college credit policy would have a significant impact on enrollment diversity, access and affordability for low income and traditionally underserved students. From 2011-2013, the number of AP exams sent by low-income students to four-year institutions nearly doubled, and in 2013, 44 percent of test-takers who submitted AP scores to Texas universities were low-income students.

Thirteen states now award college credit to students who earn a 3 or higher on AP Exams.[27]

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Statewide Examples of Online, Blended & Non-Traditional Forms of Instruction

In August 2012, The University of Texas System established the Institute for Transformational Learning (ITL) and provided $50 million to support its efforts to make a University of Texas-quality education more accessible and affordable, improve learning outcomes and dramatically increase the number of Texans with advanced educational credentials.[28] To this end, ITL has joined other institutions in investing and participating in edX and has developed or is developing such programs as Project Gateway, UTxHealth and Middle School to Medical School.[29]

As Dr. Steven Mintz discussed in testimony during the September 9, 2014 hearing, in the two years since its launch, ITL had spent about $10 million of the $50 million allocated: roughly $5 million to The University of Texas at Austin (UT Austin) for MOOCs ($1.5 million) and Project Gateway ($3.5 million), $5 million to edX and $250,000 to The University of Texas at Arlington (UT Arlington) for online courses.[30]

edX

In 2012, ITL entered a partnership with edX to serve students across Texas and around the world. edX offers interactive online classes and MOOCs in diverse topics from professors at some of the world's best universities, such as MIT, Harvard, Berkeley and many others.[31] In the last two years, over 181,000 students have enrolled in MOOCs offered through ITL and new courses will soon be offered from UT Arlington and U.T. Health Science Center – Houston.[32]

Project Gateway

In an effort to increase student success and completion rates, ITL is working with UT Austin to develop 30 online gateway and less-commonly-taught courses. Online gateway courses are personal, despite large enrollment, and require no textbooks. After ITL completes Project Gateway, the UT Online Consortium will act as a clearinghouse for students to enroll in online courses and transfer credits between UT System institutions.

UTxHealth

In 2015, ITL expects to launch UTxHealth, a cross-institutional marketplace of stackable modules in such disciplines as Patient Safety and Quality Improvement, Health Administration, Biostatistics, and Biomedical Informatics. Initially partnering with UT Health Science Center – Houston, UT M.D. Anderson and UT Health Science Center – San Antonio, UTxHealth anticipates offering healthcare certificates and specializations to an estimated 70,000 annual learners by 2020.

Middle School to Medical School

In 2015, ITL, The University of Texas Rio Grande Valley and UT Health Science Center – San Antonio will launch Middle School to Medical School, a bilingual program that advances medical students based on their mastery of essential skills rather than the amount of time they

spent in the classroom. This competency-based pathway into the health professions, which students may start as early as middle school, incorporates recent advances in biomedical science and is designed to produce knowledgeable and well-skilled healthcare professionals.

The University of Texas at Arlington

UT Arlington is the largest producer of online credit hours among four-year public universities in Texas and the second largest enroller of online students, offering online courses in undergraduate and graduate programs such as nursing, education, urban and public affairs, science, liberal arts, social work and engineering.[33]

In 2013, roughly 3,000 UT Arlington students completed exclusively online degrees. In the Fall 2014 semester, over 11,000 exclusively online learners enrolled in UT Arlington courses and over 10,000 learners supplemented their on-campus education with at least one online course.[34]

Finish@UT, a program in which UT Arlington participates with three other UT System institutions, provides access to shared online courses in over 200 majors and, on UT Arlington's campus, has achieved a 77 percent graduation rate from 2012-2014. Finish@UT has been particularly beneficial for non-traditional learners, older students, women and diversity students.[35]

UT Arlington has also made significant strides toward identifying how higher education institutions may deliver high-quality online education. At UT Arlington's Learning Innovation and Networked Knowledge (LINK) Lab[36], faculty research such areas as MOOCs and learning at scale, learning analytics, personalization in online education, e-learning across cultures and borders, badging and micro-credentialing and competency-based modes of teaching and learning.

Conclusions

To succeed in the competitive, global economy, Texas students must have access to affordable workforce credentials from high-quality, public General Academic institutions.

Recommendations to the 84th Texas Legislature include:

- Modify how the state funds General Academic institutions by allocating a portion of funding based on outcomes rather than strictly enrollment; and

- Encourage General Academic institutions to expand their use of high quality, online, blended and non-traditional forms of instruction.

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CHARGE 3

Study how state resources might be better used to support the success of the rapidly growing numbers of state residents who need postsecondary degrees. Evaluate current programs and policies related to financial aid, tuition assistance, waivers, and work study, and evaluate their completion. Consider how state dollars might be better used in combination with federal financial aid to promote and accelerate student success. Explore strategies and best practices for reducing student loan default rates in Texas.

Background

Since 2003, the State of Texas has decreased its per-student expenditure in higher education, as enrollment increases have consistently outpaced increases in state budgetary outlays. As a result, students and their families have paid a larger portion of the total cost of higher education, primarily through increased tuition and fees. In 2012-2013 academic year, for example, public universities received, on average, roughly one-third of their operating income from the state. Texas community colleges received almost a quarter of their operating income from the state and about one-third through local taxes.[37]

In 2012-2013, 889,221 students who enrolled in Texas institutions of higher education and applied for need-based assistance received a total of $9.24 billion in the grant aid, work-study and loans.[38] These financial aid recipients represented 61 percent of all students enrolled public and private, non-profit colleges and universities and 88 percent of all students who applied for need-based aid.[39]

Current Programs and Policies

In 2012-2013, the TEXAS Grant program provided roughly $292 million to over 77,000 students enrolled in Texas public colleges and universities and the federal Pell Grant program provided an estimated $2 billion to more than 568,000 students enrolled in public institutions of higher education in Texas. Of TEXAS Grant recipients, approximately 79 percent were from families whose annual incomes was less than $40,000.

Federal Grants

Established in 1965, the federal Pell Grant program was the first federal need-based financial aid program. Pell Grant assistance, which is the primary source of aid for most students who establish financial need, is available for most low and middle-income students who seek an undergraduate degree. A student's individual grant amount is determined by:

- Expected Family Contribution (EFC)
- Cost of attendance
- Part-time or full-time status

Students with a "zero-ETC" automatically qualify for the maximum Pell Grant; smaller amounts are available to students with larger ETCs. A student may not qualify for a Pell Grant if his or her EFC exceeds 95 percent of the maximum Pell Grant amount of $5,500.

In 2010, 61 percent of Texas public college and university students, or roughly 450,000 students, received $1.7 billion in Pell Grants and 24 percent of students at private four-year institutions, or approximately 29,000 students, received $114 million.

In recent years, the federal government has reduced the scale of federal financial aid in various ways. In 2012, Congress eliminated summer Pell Grant awards for students who attended school

year-round as well as funding for the Academic Competitiveness Grant and National SMART Grant programs, grants which were available to Pell Grant recipients who demonstrated exceptional academic achievement. Other recent reductions in federal financial aid include limiting Pell Grant awards to 12 full-time semesters, down from 18 semesters, capping the Federal Supplemental Education Opportunity Grant program at $4,000 and eliminating the following federal programs that provided over $70 million in assistance annually:

- CACG Program
- Leveraging Educational Assistance Partnership Grant Program
- Special Leveraging Educational Assistance Partnership Grant Program
- Robert C. Byrd Honors Scholarship Program

Federal Work-Study

The federal work-study program accounts for a small share of federal financial aid but provides low-income students with the opportunity to work a flexible, part-time job while they are enrolled in school—and students who participate in on-campus work-study jobs have higher persistence rates compared to students who work comparable off-campus jobs. In 2010, federal work-study aid served over 31,000 Texas students at public, private and for-profit institutions.

State Grants

In Texas, state grants are funded by a combination of direct appropriations and tuition set-asides. The state's three principal grant programs – the Toward Excellence, Access and Success (TEXAS) Grant, Tuition Equalization Grant (TEG) and Texas Educational Opportunity Grant (TEOG) – are need-based and awards cannot exceed a student's need.

The table below summarizes Texas financial aid programs in 2014-2015.[40] The Texas Higher Education Coordinating Board (THECB) administers these programs; the financial aid office at each Texas college and university is responsible for distributing student financial aid.

Program	Type	Need Based	Merit Based	Funding	Disbursements
TEXAS Grant Program	Grant or Scholarship	Y	Y	General Revenue Appropriations	$724,600,000
Tuition Equalization Grant Program (TEG)	Grant or Scholarship	Y	N	General Revenue Appropriations	$108,100,000
Texas Educational Opportunity Grant (TEOG)	Grant or Scholarship	Y	N	General Revenue Appropriations	$27,800,000
Texas College Work-Study Program (TCWS)	Work-study	Y	N	General Revenue Appropriations; Matching	$18,800,000
Texas B-On-Time Loan Program	Loan assumption or forgiveness	N	Y	General Revenue Appropriations	$112,000,000
Top 10% Scholarship Program		N	Y	General Revenue Appropriations	$39,600,000

TEXAS Grant Program

The Texas Legislature established the TEXAS Grant program in 1999 to provide funds to high school graduates who demonstrated financial need and were pursuing a higher education. The TEXAS Grant program's initial award and continuing eligibility requirements aim to increase student participation and success.[41] The statewide average of a student's tuition and required fees establishes the maximum per student TEXAS Grant award. In general, TEXAS Grant recipients are non-traditional students. Most are first generation students, roughly 60 percent are female, between 70 and 80 percent are minorities, and roughly 80 percent are in the two lowest income quintiles (i.e., less than $45,000 family income).[42]

In recent budget cycles, the number of TEXAS Grant applicants has increased relatively faster than the state's per-student appropriation to the program. In response, higher education institutions have reduced the size of per-student grants, rather than decrease the overall number of students served.[43] Historically, the TEXAS Grant has been available for students to attend any public institution of higher education in Texas, however, beginning Fall 2014, community and technical colleges will no longer be able to offer Initial Year TEXAS Grant awards.[44]

Tuition Equalization Grant (TEG)

Enacted in 1973, the Tuition Equalization Grant (TEG) is funded through state appropriations and provides aid to students who demonstrate financial need and who attend private, non-profit colleges and universities in Texas. More students of middle-income families receive financial assistance from TEG than from TEXAS Grant or TEOG.[45]

TEG award amounts are based on the average state appropriation per student enrolled in a public institution. Awards may not exceed the student's financial need or the amount of tuition the student is paying in excess of what would be paid at a public institution. Unlike the TEXAS Grant or TEOG, private, non-profit institutions may award varying TEG amounts, not to exceed the maximum award per school year. This flexibility has resulted in an increase in the average TEG award amount and a decrease in the number of students served.[46]

Texas Educational Opportunity Grant (TEOG)

In 2001, the Texas Legislature created the Texas Educational Opportunity Grant (TEOG) in order to provide grant aid for tuition and required fees to financially needy students who enrolled in public two-year colleges. The vast majority of TEOG recipients are in lower income brackets and the award amount is equal to the statewide average of a student's tuition and required fees. In 2013, the TEOG program distributed over $11.5 million to roughly 6,500 college students.

Public two-year colleges have experienced substantial growth in enrollment in recent years and now over half of public higher education enrollment.[47] Despite previous increases in funding for the TEOG, the rising tuition and required fees, coupled with unprecedented enrollment growth, have decreased the number of students who receive TEOG funds.[48]

Texas College Work-Study Program (TCWS)

In 1989, the Texas Legislature created the Texas College Work-Study Program (TCWS) for the purpose of providing financially needy students enrolled in public and private institutions with part-time jobs, funded in part by the State and by institutions.

On average, institutions provide $1.25 for each state work-study dollar. Because institutions may award work-study up to a student's cost of attendance, per student awards vary across institutions. Currently, most work-study jobs are on campus and not directly relevant to a student's career choice. In 2012-2013, almost $6 million in combined state and institution funds served roughly 4,000 students.

The Texas Higher Education Coordinating Board (THECB) supports an increase in TCWS funding as well as the development of work-study programs that incorporate private sector, off-campus, career-relevant jobs that have the potential to lead to future employment.

Tuition Set-Asides

In 2003, the 78th Texas Legislature amended Texas Education Code § 54.0513 to allow the governing boards of public universities to set designated tuition rates, which may vary by program, course level and academic period. Prior to 2003, the Texas Legislature had the regulatory authority to set tuition rates, generally mandating the same rate across all state institutions. Tuition deregulation became effective on September 1, 2003, and boards of regents began increasing designated tuition in spring 2004.

In addition to granting governing boards the authority to set tuition rates, the 78th Texas Legislature also required universities to set-aside a portion of tuition revenues generated from designated tuition charges over $46 per semester credit hour for financial aid targeted to financially needy students and to fund the B-On-Time (BOT) loan program. In 2012-2013, tuition set-asides contributed over $172 million to more than 90,000 Texas students.

Texas Public Education Grant (TPEG)

Enacted in 1975, the Texas Public Education Grant (TPEG) provides grant assistance to students who demonstrate financial need and whose educational costs are not met through other sources. In 2012-2013, more than 112,000 students received over $140 million in TPEG need-based aid. TPEG is funded from a 15 percent statutorily mandated tuition set-aside at public institutions.

Institutions Other Than Community Colleges	Community Colleges	
15% resident statutory tuition	6% resident statutory tuition	*Academic Courses*
3% nonresident statutory tuition	$1.50 per hour of nonresident statutory tuition	
6%	6%	*Vocational/Technical Courses*

Each institution may set its own maximum award amount and prioritize its recipients, such as full-time, part-time, undergraduate, or graduate students.[49]

Top 10 Percent Scholarship Program

In 2007, the Texas Legislature created the Top 10 Percent Scholarship to encourage students who graduate in the top echelon of their high school graduating class to attend a Texas public institution of higher education. To qualify, a student must demonstrate financial need and meet several initial eligibility requirements.

Federal Loan Programs: Perkins, Subsidized, Unsubsidized and Parent PLUS

Thousands of Texas college students receive insufficient grant aid to fully meet their financial need. To cover these costs, many students rely on federal and state loans; in fact, loans comprise two-thirds of Texas students' federal financial aid.

Students may receive three types of federal student loans: Perkins, subsidized and unsubsidized loans. To receive a 5 percent interest Perkins loan, a student must demonstrate a high level of financial need; students may also receive a 6.8 percent subsidized or unsubsidized loans, based on a smaller levels of demonstrated need. In general, federal student loans have a six-month repayment grace period following graduation; however, in 2012, Congress eliminated this interest subsidy for loans originating between July 1, 2012 and July 1, 2014.

The U.S. Department of Education also offers Parent PLUS loans to families of dependent students. While only 3.8 percent of all students are affected by these loans, with an average Parent Plus indebtedness of over $10,000 the typical loan amount is not insignificant.

Texas Loan Programs: Hinson-Hazlewood and B-On-Time

The State of Texas also provides low-interest loans for students: the Hinson-Hazlewood College Access (HHCA) and Texas B-On-Time (BOT) loan programs. Funded through general obligation bonds, HHCA is the state's largest student loan program, offering students at Texas public colleges and universities low-interest loans. Interest on HHCA loans is not capitalized upon graduation, making HHCA loans more affordable than many federal and private options.

The College Access Loan (CAL) is an important component of HHCA. Implemented in 1988 in an effort to provide additional financial aid to Texas undergraduate, graduate and professional students, the CAL provides alternative education loans to students who are unable to meet the full cost of attendance and is administered at no cost to the taxpayer.[50] CAL may be used to cover the student's Expected Family Contribution (EFC). Students are not required to demonstrate financial need; however, when determining the CAL amount, the amount of federal aid for which the student is eligible must be deducted from the cost of attendance.

In 2003, the Texas Legislature enacted BOT in an effort to provide eligible undergraduate students with an incentive to graduate college within four years and with at least a 3.0 grade point average. Funded through a combination of state appropriations and tuition set-asides, BOT loans are forgiven if the student meets these requirements. For students who do not meet the forgiveness requirements, BOT loans carry a 0 percent interest rate.[51] Since BOT's inception, over 35,000 students have received more than $400 million in loans and almost 10,000 students have earned over $142 million in loan forgiveness. The BOT cumulative forgiveness rate is roughly 38 percent; the cumulative default rate is roughly 17 percent.

Pursuant to Senate Bill 215 (83 R), in September 2015, the Texas Higher Education Coordinating Board (THECB) will release on its website each public university's 3-year cohort

BOT default and forgiveness rates and notify institutions with default rates above the statewide average and forgiveness rates below 50 percent of the statewide average that their BOT loan recipients must complete a loan repayment and default prevention counseling module. THECB will also notify participating independent institutions that they must encumber BOT funds by February 20, 2016, or THECB will reallocate those funds.

Of note, federal law prohibits higher education institutions from promoting non-federal loans. As a result, many Texas colleges and universities only make HHCA and BOT loans available if students specifically ask for them.

Texas Loan Repayment Programs

The Texas Legislature has authorized eight "payment-after-service" loan repayment programs in an effort to provide financial aid to students who enter critically needed professions. Payment-after-service programs are more efficient and effective and less expensive than "payment-before-service" programs. Repayment awards are paid annually upon completion of the required services. Only four loan repayment programs received funding in 2013.

State Loan Repayment Programs, FY 2013

Program	Type	Need Based	Merit Based	Funding	Disbursements	Number of Recipients
Physician Education Repayment Program	Loan assumption or forgiveness	N	N	Gen	$3,972,246	124
OAG Attorneys Repayment Program	Loan assumption or forgiveness	N	N	N/A	$414,673	74
Teach for Texas Loan Repayment Assistance	Loan assumption or forgiveness	N	N	Gen	$187,813	38
Border County Doc Repayment Program	Loan assumption or forgiveness	N	N	Gen	$187,813	38

The following programs, which provided nearly 12,000 awards totaling almost $20 million in 2011, were discontinued for the 2012-2013 and 2014-2015 biennium due to fiscal constraints, although the legislation authorizing these programs has not been repealed:[52]
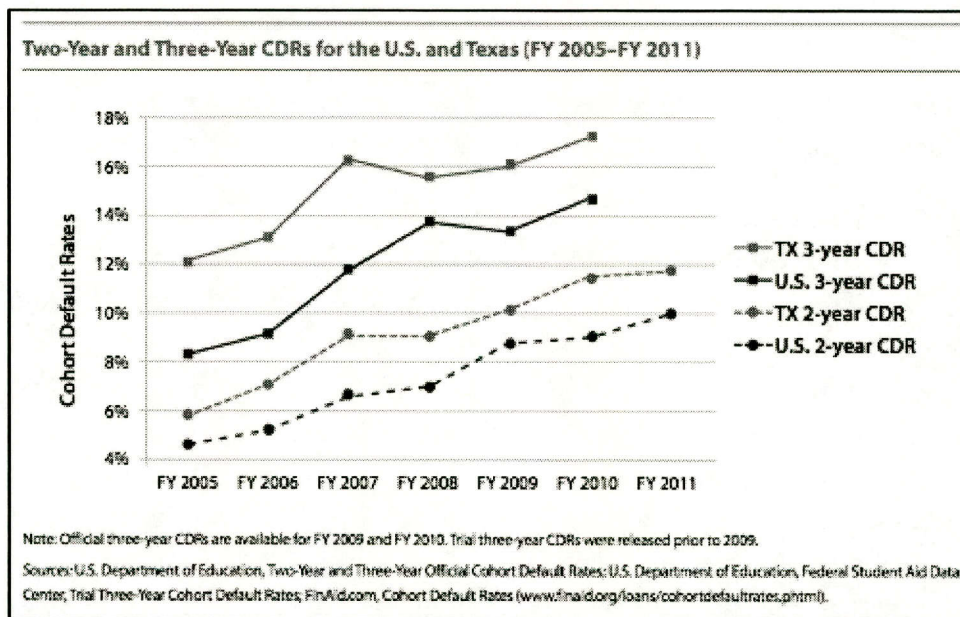
- Education Aid Exemption Program
- Temporary Assistance to Needy Family Exemption Program

- Early High School Graduation Scholarship
- Professional Nursing Scholarship
- Vocational Nursing Scholarship
- Engineering Scholarship Program
- Combat Exemption Program

In addition, the Doctoral Incentive Loan Repayment Program, Dental Education Loan Repayment Program, Children's Medicaid Loan Repayment Program and John R. Justice Student Loan Repayment Program also did not receive funds for the 2012-2013 biennium.

Strategies and Best Practices for Reducing Student Loan Default Rates

The 2009 national cohort default rate (CDR) was just under 9 percent, up from 7 percent in 2008. In Texas, the 2009 CDR was 10 percent and more than one-sixth of Texas borrowers will default within three years of entering repayment. Of the over 235,000 borrowers who entered repayment in FY 2009, nearly 41,000 of them defaulted within three years. Texas has the nation's sixth highest three-year CDR, 2.6 percent above the national average.[53]

Two-Year and Three-Year CDRs for the U.S. and Texas (FY 2005–FY 2011)

Note: Official three-year CDRs are available for FY 2009 and FY 2010. Trial three-year CDRs were released prior to 2009.

Sources: U.S. Department of Education, Two-Year and Three-Year Official Cohort Default Rates; U.S. Department of Education, Federal Student Aid Data Center, Trial Three-Year Cohort Default Rates; FinAid.com, Cohort Default Rates (www.finaid.org/loans/cohortdefaultrates.phtml).

Just as default rates vary between states, CDRs are higher among students from East Texas, West Texas and the Rio Grande Valley, three regions that also tend to have higher levels of poverty and unemployment. Similarly, compared to students at four-year institutions, community college students tend to have higher CDRs and lower graduation rates.[54]

Institutional Strategies

University and college graduates are notably less likely to default on their student loans. In an effort to encourage graduation and improve the likelihood of repayment, many institutions have adopted strategies that emphasize student retention and success, including:

- Create and implement a default management plan similar to the one recommended by the U.S. Department of Education[55]
- Appoint a default prevention manager who is responsible for coordinating and implementing an institution's default management plan
- Incorporate entrance and exit loan counseling into each borrower's financial education
- Encourage professors, administrators and staff from across the institution to participate in a default management team
- Identify students who are at a higher risk of dropping out—such as those who withdraw from multiple classes or accumulate a high number of credit hours—and providing them with the support necessary to decrease the likelihood of default
- Partner with lenders and other related third parties to communicate with, monitor and support former students
- Utilize improved technology to track student borrowers and accumulate real-time information regarding a student's repayment status
- Redesign student financial aid packages to encourage work-study and grants over loans and to limit the size of loans to necessary expenditures, such as tuition and fees

State Strategies

The State of Texas can help reduce the state's CDR and decrease the number of students who are adversely affected by student debt. The state may consider the following strategies:

- Direct more state resources toward need-based grant aid—and poorer students who have evidenced college readiness and are at greater risk of defaulting
- Increase funding for work-study programs that have shown evidence of retaining students
- Require loan servicers to incorporate default aversion efforts into their review of loan servicing contracts and to collaborate with higher education institutions to develop institution-specific default prevention and aversion plans
- Encourage institutions to provide students relativley more aid in their first and second years (i.e., front-loading grants) and, as a result, reducing the amount of student debt that non-graduating borrowers must repay
- Promote Income-Based Repayment (IBR) programs, which set repayment amounts to a percentage of a graduate's salary, such as no more than 10 percent of annual income
- Assist institutions with a state-wide, cross-institutional repayment monitoring system that includes status information for current college and university students as well as recent graduates

CHARGE 4

Former foster youth have the benefit of free tuition and fees if they enroll in higher education, yet very few take advantage of this opportunity. Consider new strategies to support these youth and make recommendations to enroll and retain more foster youth in higher education.

Background

In virtually every category, Texas foster youth struggle relative to their peers. Texas foster youth are more likely to have lower high school achievement and less likely to graduate high school.[56] They are roughly three times more likely to receive special education services or receive an out-of-school suspension. Outside of the classroom, foster youth also experience less stability at home, less academic or professional guidance, greater housing costs, greater difficulty navigating the higher education system and more enrollment interruptions.[57]

Since 2003, Texas law has provided a tuition and fee waiver[58] to Texans who were formally in foster care, were adopted or were placed in the permanent managing conservatorship of a non-parent. This law allows certain former foster youth to enroll in state supported institutions of higher education without paying tuition and fees.[59]

Unfortunately, most former foster youth in Texas do not take advantage of the tuition and fee waiver or complete a post-secondary education. While participation rates remain low, the number of former foster youth participating in the tuition and fee waiver exemption has increased 60.8 percent since 2009.[60]

	Students	Cost
2009	2,293	$4.95M
2010	2,815	$6.37M
2011	3,608	$7.60M
2012	3,704	$9.10M
2013	3,688	$9.70M

The Tuition and Fee Waiver

To receive the tuition and fee waiver, a former foster youth must enroll before his or her 25th birthday in a course offered by a public college or university in Texas or in a course for which a high school student may earn joint high school and college credit, such as a dual credit course. For a qualifying foster youth who enrolls timely, there is no time limit on the student's use of the tuition and fee waiver.[61]

In 2013, the Legislature added a new section to the Texas Education Code making continued receipt of exemptions by some students conditional upon academic measures, such as maintaining a satisfactory grade point average. Former foster youth qualifying under Texas Education Code §54.367 for the tuition and fee waiver are included under this statute but former foster youth qualifying under §54.366 are not. As a result, a foster youth who was adopted on or before September 1, 2009 and prior to the age of 14 must meet certain academic measures to continue qualifying for the tuition and fee waiver.[62]

In addition to the tuition and fee waiver, a $5,000 per year federal Education and Training Voucher (ETV) is available to youth who were formerly in foster care but have not turned 21, who were adopted after the age of 16, or who exited foster care and entered the Permanency Care Assistance program after age 16.[63] ETV funds may be used toward the costs of room and board, tuition and fees, books and supplies, transportation, computer and software, certain medical insurance, child care, and tutoring.

Recent Legislative Changes Related to Foster Youth and Education

During the 83rd Session, the Legislature expanded several provisions of the Education Code to apply to open-enrollment charter schools, in addition to public school districts.

As a result, both public school districts and open-enrollment charter schools are now required to appoint at least one employee to facilitate the transfer and enrollment of a foster youth and to submit that employee's name and contact information to the Texas Education Agency (TEA).[64]

The Legislature also amended the Family Code to require a person or entity who holds education decision-making authority on behalf of a foster youth to provide notice to the presiding court and other interested persons. As a result, DFPS adapted its medical consenter and placement authorization forms and created a special document solely addressing education decision-making responsibilities. In addition, DFPS is now required to make a foster youth's education passport available to the entity or person holding this authorization.[65]

Several other changes were made to the Texas Family and Education Codes relating to the education of foster youth during the previous legislative session, including:

- New education-related requirements for foster youth attorney and guardian ad litems
- A provision allowing primary or secondary school-aged students entering foster care to remain at their school of origin until completing the highest grade level offered at that school, even if placed at a residence outside the attendance area for that school or school district
- A requirement that DFPS develop a plan to ensure the educational stability of a foster youth in accordance with the federal Fostering Connections Act
- New directives broadening the responsibilities of the TEA such as the requirement that school records for a student in substitute care be transferred to the student's new school no later than the 10th working day after the date of enrollment[66]

Summary of Testimony

The Children's Commission

In 2007, the Supreme Court of Texas created the permanent Judicial Commission for Children, Youth and Families (the Children's Commission) to develop and improve court performance in child abuse and neglect cases.

Funded through a U.S. Administration of Children & Families, Court Improvement Program grant, the Children's Commission is a multidisciplinary entity focused on coordinating and implementing comprehensive efforts to improve Texas child protection courts. These efforts include increasing communication and collaboration between the judiciary, agencies and stakeholders in the child-protection system, providing specialized, multidisciplinary training for judges handling Child Protective Services (CPS) cases and supporting attorney training designed to improve legal representation in CPS cases.[67]

The Children's Commission is chaired by Texas Supreme Court Justice Eva Guzman and includes 25 Commissioners who comprise a diverse group of stakeholders, including leaders at the Texas Department of Family Protective Services (DFPS), CPS, judges, lawyers and legislators.

One of the top priorities of the Children's Commission is to increase communication and collaboration among the judiciary, CPS and other stakeholders to improve the education outcomes of foster youth.[68] By having an understanding of the various people and systems that may work with a foster care student, service providers and education professionals are better able to effectively serve that student.[69]

Over the past two years, the Children's Commission has taken great strides to implement the recommendations contained in the *Texas Blueprint: Transforming Education Outcomes for Children and Youth in Foster Care* and to further collaboration.[70] Implementation highlights since the *Texas Blueprint's* release include:

- First Texas Foster Care and Education Summit held
- Key legislation passed for foster students

- New Texas-specific websites about education of foster students
- Texas Foster Care and Student Success Resource Guide produced by Texas Trio Partners
- Enhanced awareness of importance of education of foster students within DFPS and with stakeholders
- Foster Care Education and Policy Coordinator hired by TEA
- The Children's Commission developed and disseminated several new resources for judges regarding foster care and education[71]

K-12 Education

There are approximately 16,000 K-12 youth living under DFPS conservatorship.[72] Teenagers (14-17) make up the largest percentage of children in the Texas child welfare system.[73]

CPS, an agency within DPS, promotes and targets post-secondary educational opportunities through the development of the student's Personal Graduation Plan. In an effort to educate eligible youth and increase enrollment in the tuition and fee waiver exemption, CPS collaborates with other state agencies to provide advocacy training, support services and targeted educational materials. CPS collaborates with:

- TEA and the Children's Commission to develop a Resource Guide for schools to better meet the needs of children in care
- Court Appointed Special Advocates (CASA), TEA and the Children's Commission to develop a toolkit for CASA staff and volunteers for education advocacy
- CPS Regional Education Specialists to provide training and work with schools to help address the needs of students in CPS care and to work with school counselors on fee waivers for the PSAT, SAT and ACT and on post-secondary applications for foster youth

In addition to multiagency collaboration, DFPS provides support and training for schools to understand and respond to the unique needs of foster youth. To emphasize school stability and success, DFPS has specific policies and initiatives for foster youth in grades K-12, including:

- Enroll young children in early childhood programs
- Allow youth to continue at same school even if he or she changes placement, unless it is not in his or her best interest
- Maintain an education portfolio for every school-aged child
- Require that a youth changing schools is enrolled immediately
- Require that a youth's academic records are transferred promptly if a child changes schools
- Require that a youth regularly attend school
- Promote the graduation track for youth

Post-Secondary Education – Enrollment

According to DFPS testimony, youth learn about the tuition and fee waiver and ETV in a number of ways, including:

- Transition Plan meetings beginning at age 16
- Youth-driven Circles of Support
- Preparation for Adult Living (PAL) program
- Seminars for youth that are aging out of foster care
- Transition Centers in Texas that host PAL classes and college recruiting events
- DFPS website
- Presentations or individual outreach by Regional Youth Specialists
- Experiential Life Skills training conducted by foster care providers

Post-Secondary Education – Retention and Completion

Every year, child welfare advocates, higher education decision makers and program developers convene at the Education Reach for Texans Conference to share information and best practices in higher education for students who were formerly in foster care. Focused on increasing college access and retention for these students, Texas Reach has helped expand assistance for enrolled former foster youth through campus-based specific support programs and dedicated staff.

Institutions with Specific Support Programs:	Institutions with Dedicated Staff:
• Austin Community College • Texas Tech University • University of Texas-San Antonio • Dallas Community Colleges • Texas Women's University • University of Texas-El Paso • Sam Houston State • University of Houston • University of Texas-Austin • Texas State University • University of North Texas • Lone Star Colleges	• Alamo Community College • Texas State Technical Colleges • University of Texas-Pan American • Amarillo College • Texas A&M-San Antonio • University of Texas-Permian Basin • University of Houston • Prairie View A&M • West Texas A&M • Midland College

Recommendations

Recommendations to the 84th Legislature include:

- Encourage colleges and universities to:

    - Report to CPS the number of former foster youth in their institution who use the tuition and fee waiver as well as specific data about foster youth performance,

including: graduation rates, grade point average, grade classification, average credit hours and degree programs.

- Identify a point of contact to serve as the foster care liaison and direct these students to appropriate student support services.

- Implement a mechanism for students to self-identify as former foster care youth so institutions of higher education may inform students of the exemption.

• Encourage the Texas Education Agency to directly communicate with foster youth about the tuition and fee waiver during 9th Grade/New Student Orientation.

• Provide efficient ways for public school districts to educate high school counselors regarding the tuition and fee waiver and require them to discuss and develop a Personal Graduation Plan for enrolling foster students.

CHARGE 5

Review current capital needs in higher education. The committees shall examine past methods of financing higher education's capital needs, as well as approaches used in other states. The committees shall jointly make recommendations to address these costs in the future. In adopting recommendations, the committees should focus on methodologies that identify priority capital projects, treat institutions of higher education equitably, and uniformly share costs between the state and institutions. The committees should also examine the viability of alternatives to traditional models for funding capital projects.

Background

Tuition revenue bonds (TRBs) are financial instruments used to finance capital needs at institutions of higher education.[74]

TRBs service their debt through the revenue generated by the project for which the TRB was issued, typically tuition charges levied against students or institutions. TRBs may be used as specified in the statute. Generally, TRBs are used to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure on or for the campus. [75]

In 1971, the Texas Legislature first authorized TRBs and, between 1971 and 1974, $241 million was issued.[76] During subsequent legislative sessions, the Legislature has authorized additional TRBs, totaling over $2.4 billion since 1991.[77] In 2006, the most recent TRB issuance for institutions throughout the state, the Legislature issued $1.86 billion in TRB authority for 41 projects.[78] Following the devastation of Hurricane Ike, the Legislature authorized 2 projects in 2009 for institutions in the affected area at a cost of $155 million.[79]

The Texas Education Code defines the responsibility of THECB with respect to TRBs, instructing THECB's to evaluate and review projects in comparison to THECB standards.[80] At the direction of the Legislature, THECB evaluates the TRB requests that General Academic institutions submit in their Legislative Appropriations Request. In the event that the Legislature authorizes the issuance of TRBs in legislation, the TRB process continues as follows:

- Each institution requests project and financing approval from its system or institution board of regents
- The board of regents grants approval for the project
- The institution submits the project to THECB for evaluation
- The evaluation is approved by THECB and a copy is provided to the Governor, Lieutenant Governor and the Legislative Budget Board
- The requesting institution or system completes an application for the Board Review Board
- The Bond Review Board verifies that the institution has approval for the issuance of the bonds, analyzes the project request to determine that funds are available to service the debt, and that the financing system is appropriate
- The Bond Review Board authorizes the issuance of the bonds
- The Attorney General reviews and approves the issuance of the bonds
- The institution or system sells the bonds and services the debt
- Upon completion of the project, the institution includes the facility (if appropriate) in its facilities inventory

During the 83rd Session, the Legislature considered TRB legislation that would have authorized $3.8 billion for 77 projects.[81] The Legislature did not pass TRBs during the regular session

despite broad, bipartisan support, and Governor Rick Perry did not add TRBs to the agenda during three subsequent special sessions. As a result, many universities delayed their projects, particularly smaller, regional campuses.

Texas A&M University System Chancellor John Sharp explained the impact of the absence of TRB's in 2013, saying, "It's tougher on regional campuses. They don't have the leverage that we do at our flagship, which is big enough where we can go in the private sector and see if someone will partner with us."[82]

Managing a regional campus in the University of Houston System, UH-Clear Lake President William A. Staples echoed Sharp's point in a 2013 statement: "The challenge will come in about three years. If [the Legislature does not pass TRBs], then we will really have to limit the number of freshmen and sophomores we can take on a yearly basis due to the lack of new facilities."[83]

Methodologies for TRB Criteria

In 2006, the Legislature established new criteria for TRBs and directed the THECB to provide a preliminary evaluation of institutions' TRB requests. Former THECB special projects director Ray Grasshoff explained this new approach:

> "During the special session, the Legislature wanted THECB to get more involved. We developed an evaluation system that had a point system to assign points based on various factors. That's what we gave to the Legislature. The Legislature in turn took that and made their own decision as to which projects they should authorize TRBs for or not. They looked at our evaluation as a starting point."[84]

In preparation for the 83rd Legislative Session, the THECB evaluated institutional TRB proposals on the basis of criteria that included "Closing the Gaps" goals and utilization and ranked proposals based on 17 evaluation criteria:

1. Extraordinary circumstances
2. Efficiency
3. Space Need
4. Planned Projects
5. Cost Standard
6. Matching Funds
7. Deferred Maintenance
8. Space Usage Efficiency (SUE)
9. *Closing the Gaps*-Participation
10. *Closing the Gaps* Indices-Participation 1
11. *Closing the Gaps* Indices-Participation 2
12. *Closing the Gaps*-Success
13. *Closing the Gaps*-Success 1
14. *Closing the Gaps* Indices-Success 2

15. *Closing the Gaps*-Excellence
16. *Closing the Gaps*-Research
17. *Closing the Gaps* Indices-Research

Prior to the 83rd Legislature, THECB Chairman Fred Heldenfels IV explained the use of these criteria during testimony before the House Appropriations Committee hearing:

> "These measures . . . were each assigned a maximum number of points that the project could earn. Using these measures, Coordinating Board staff scored each project and then ranked them from the highest score to the lowest. Based on the clustering among the scores, Coordinating Board staff further grouped the TRB requests into three categories – highly recommended, recommended, and lesser priority."[85]

One criticism of THECB's methodology of TRBs is that a comprehensive evaluation of all institutions relies on accurate and complete information about each institution. Previous THECB facilities audits have revealed institutional reporting discrepancies. These discrepancies threaten to bias THECB's TRB evaluation and, ultimately, the Legislature's appropriations efforts.

Conclusions and Alternatives to TRBs

As a mechanism for financing higher education, TRBs have been both important and imperfect. On one hand, TRBs have successfully financed roughly $2.6 billion in capital construction at universities and health-related institutions. On the other, TRBs have been an uncertain foundation for long-term capital planning, as institutions are unable to predict whether the Legislature will authorize their TRB request.

As an alternative to TRBs, the Legislature could directly appropriate funds from the general budget, the supplemental budget or the Economic Stabilization Fund (ESF), also known as the Rainy Day Fund. A direct appropriation would avoid additional debt and provide institutions with certainty about the availability of funds for construction.

Another imperfection associated with TRBs is that institutions tend to request and the Legislature often authorizes new construction rather than deferred maintenance at existing structures. In higher education institutions across the state, deferred maintenance continues to restrict enrollment growth and student success. As of 2011, Texas universities and health-related institutions reported roughly $740 million in unfunded building maintenance costs.[86]

The Legislature may also consider closely evaluating whether TRB-requesting institutions are efficiently using existing classroom, laboratory and office capacity. THECB's space utilization efficiency (SUE) metric, which focuses on classroom and lab utilization, average fill and overall demand, is intended to assist in this evaluation. In some cases, the TRB authorization process may focus less on space utilization than on other more immediate considerations.[87]

Other states finance higher education capital projects in ways other than TRBs, including:

- Issuing statewide bonds to support capital projects
- Funding capital projects from general revenue
- Allocating dedicated tax revenue to specific capital projects

Additionally, for some states and institutions, public-private partnerships have raised needed capital in a predictable and reliable manner. The University of California, for example, recently financed construction of medical office buildings, research facilities and student housing through public-private partnerships.[88] These partnerships, which function similarly to matching funds, not only raise institution and private contributions by leveraging public funds, they also spread risk across multiple stakeholders and attract private financial management experience and expertise.

The Legislature may also consider such alternatives to TRBs as creating higher education funding districts, requiring institutions to fund research buildings through indirect cost recovery, such as grants, and allowing institutions to use general revenue for capital development and bond debt service, thus relieving some of the demand for TRBs.

In considering alternatives to TRBs, the Legislature should attempt to identify approaches for higher education capital funding that balance effective accountability—through a systematic process driven by objective standards—for the State of Texas, with the flexibility and predictability that supports our public universities and colleges, which in turn will provide essential infrastructure investments in our public universities to help meet our state's growing need for an educated workforce—to serve our economy and preserve our "free government."[89]

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[59] Texas Education Code, TITLE 3: HIGHER EDUCATION, SUPTITLE A. HIGHER EDUCATION IN GENERAL, CHAPTER 54 TUITION AND FEES, SUPCHAPTER B, §§54.366-67.

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