

The logo for the Texas Sunset Advisory Commission is a semi-circle with a thick black border. Inside the semi-circle, the words "Texas", "Sunset", "Advisory", and "Commission" are stacked vertically in a bold, white, sans-serif font.

**Texas
Sunset
Advisory
Commission**

STAFF EVALUATION

*Texas Higher Education
Coordinating Board*

A Staff Report
to the
Sunset Advisory Commission

1988

Higher Education Coordinating Board

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Background and Focus

Creation and Powers

The Coordinating Board, Texas College and University System was created in 1965 with the passage of the Higher Education Coordinating Act. The Act was passed as a result of a two year study by the "Committee on Education Beyond the High School". The mandate to the board was to provide leadership and coordination for the Texas higher education system, and its governing boards and institutions so that the state could achieve excellence and effective utilization of all available resources and eliminate costly duplication in program offerings, faculties and physical plants.

The state's population was growing rapidly in the 1960s and the Coordinating Board initially was seen as a means of bringing order to the corresponding growth occurring in higher education. New college campuses were needed to provide widespread access to higher education for the growing numbers of high school graduates. As a result, the board's early years were spent assisting the expansion of higher education, assuring diversity of degree programs, and keeping up with the increasing pressure for instructional, research, and administrative space on campuses. In contrast, today's main challenges center on ensuring quality and efficiency as the demands on the state's limited resources increase.

The legislature has assigned a broad range of responsibilities and authority to the Coordinating board to permit it to carry out its central mandate. From its inception, the board has had broad authority over each public institution's role and scope, expansion of degree and certificate programs, and creation or major changes in the organizational configuration of departments and schools. It has had similar approval authority over land purchases and the construction and rehabilitation of buildings at public institutions. The board's role in providing financial aid to students dates from 1965 and has expanded in a variety of ways since then. Through the budgetary funding formulas it recommends to the legislature, the board exerts a major influence on the manner in which state funds are distributed to public higher education institutions.

There have been several major modifications to the board's authority since its creation. In 1975 provisions were enacted to require board approval for construction and major repair and renovation projects that had previously been exempt. Subsequent modifications removed its approval authority from construction projects at community colleges and projects that were funded more than one half from the Permanent University Fund.

The board has been given responsibility and authority to administer a variety of student loan and grant programs. These range from low-interest loans made under the Hinson-Hazlewood Loan Program created in 1965, the Tuition Equalization Grant Program created in 1971 for students attending private colleges, to more than a half dozen new state and federal grant and loan programs created within the past decade.

In 1985 the 69th Legislature added three major new responsibilities to the board. It transferred authority over technical-vocational programs at community colleges and the Texas State Technical Institute (TSTI) from the Texas Education Agency to the Coordinating Board and gave it degree and facility approval authority over TSTI. The legislature also directed the board to administer the Texas Advanced

Technology Research Program, which provides funds to stimulate research at public universities to strengthen science and technology in Texas and contribute to the diversification of the state's economy. In 1985 the legislature appropriated \$35 million for this program and the 70th Legislature appropriated \$60 million.

The 70th Legislature further expanded the board's authorities. Among the responsibilities added were the charges to develop and administer a basic skills testing program for all entering college freshmen at public institutions, set enrollment limits for state colleges and universities, administer the funding allocations for four major research programs, develop a statewide higher education telecommunications network, conduct a sunset review of all doctoral programs, and review institutions core curriculum policies. The 70th Legislature also changed the name of the board and its agency from the Coordinating Board, Texas College and University System to the Texas Higher Education Coordinating Board.

Policy-making Body

The board is composed of 18 members appointed by the governor with the advice and consent of the senate for staggered six-year terms. No member may be employed professionally for remuneration in the field of higher education during his term of office. The governor appoints the chairman and vice chairman while the board appoints a secretary whose duties are prescribed by the board and law. The board is responsible for approving requests from public higher education institutions for creating new organizational units, degree programs, and for capital improvements projects, and for establishing the rules and guidelines under which its personnel and agency programs operate. The board is also involved in agency operations through the use of oversight committees that monitor and guide the agency's activities. The board holds quarterly meetings and as called by the chairman.

The board uses advisory committees extensively for input and assistance in issue review and program and policy development. During the review over 30 advisory committees were involved in a variety of issues and assignments. Five of these are specifically created in statute. The advisory committees have numerous subcommittees and task forces working under them.

Funding and Organization

The board maintains its headquarters in Austin. It has no field offices or staff assigned outside of its headquarters. The board had 214.5 employees in fiscal year 1988 and an operating budget of \$9,612,183. During 1988 the board was supported by \$7,784,570 from general revenue, \$1,156,621 from federal funds, \$530,992 from interagency contracts, \$10,000 from certificate of authority fees, and \$130,000 from private donations. The board is organized by functions into the commissioner's office and nine divisions that are staffed as follows: commissioner's office--2; Administration and Planning--64; Universities and Health Affairs--25; Financial Planning--8; Campus Planning--4; Community Colleges and Technical Institutes--21.5; Research Programs--6; Student Services--72; Educational Opportunity Planning--5; and Special Programs--7. Exhibit A shows the agency's sources of funds and the distribution of funds by division. The organization structure is provided in Exhibit B.

Exhibit A
HECB Sources of Revenues
(FY 1988)

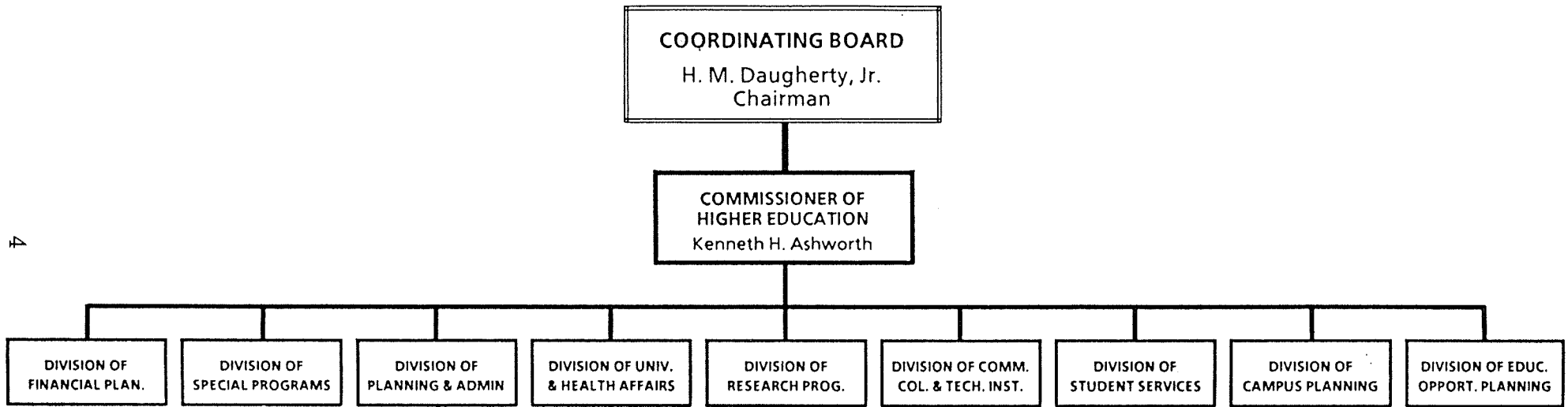
<u>Source</u>	<u>Amount</u>	<u>Percent</u>
General Revenue	\$ 7,784,570	81.0
Federal Funds	1,156,621	12.0
Interagency Contracts	530,992	5.5
Fees	10,000	.1
Private Donations	<u>130,000</u>	<u>1.4</u>
	\$ 9,612,183	100.0%

HECB Expenditures
(FY 1988)

<u>Expenditure</u>	<u>Amount</u>	<u>Percent</u>
Commissioner's Office	\$ 176,314	1.8
Planning and Administration	3,532,884	36.8
Special Programs	243,104	2.5
Universities and Health Affairs	1,106,521	11.5
Community Colleges and Technical Institutes	1,004,890	10.4
Research Program	411,000	4.3
Financial Planning	334,931	3.5
Campus Planning	169,552	1.8
Student Services	2,295,013	23.9
Educational Opportunity Planning	<u>337,974</u>	<u>3.5</u>
	\$ 9,612,183	100.0%

Exhibit B

TEXAS HIGHER EDUCATION COORDINATING BOARD
Organizational Chart



Programs and Functions

The agency's programs and functions are organized into ten divisions. Those divisions and their major responsibilities are outlined as follows:

Commissioner's Office

Planning and Administration

- Agency support
- Higher education employees uniform insurance benefits program
- Higher education master planning

Special Programs

- Public Information
- Legislative liaison
- Special projects

Universities and Health Affairs

- University coordination
- Health affairs
- Private schools
- Texas Academic skills program
- Education for Economic Security Act (EESA)

Community Colleges and Technical Institutes

- Program and course approval and monitoring
- Administration of postsecondary vocational education funds

Research Programs

- Research program administration
- Research program evaluation

Financial Planning

- Formula development and appropriations review
- Uniform reporting system for public higher education institutions

Campus Planning

- Higher education facilities planning
- Facility construction, repairs and renovation

Student Services

- Loan program
- Grants and Scholarships
- Tuition, fees, and residency determination policies

Educational Opportunity Planning

- State educational opportunities plan
- Youth Opportunities Unlimited Program

Commissioner's Office

The commissioner is responsible to the board for carrying out its policies and administering the agency's programs. He is responsible to the board for assuring the efficiency and effectiveness of agency operations and in its interactions with representatives of the universities and colleges, other state agencies, the legislature, and the public. The office had two employees in fiscal year 1988.

Planning and Administration Division

The three major functions within the division are agency support, administration of the Texas State College and University Employees Uniform Insurance Benefits Program, and higher education master planning.

Agency support duties include personnel, accounting, budgeting, purchasing, data processing, management information system, educational data center, supply and printing activities. The basic group life, accident, and health insurance coverage programs for employees in the state's public institutions of higher education are authorized by the Texas College and University Employees Uniform Insurance Benefits Act. A statutorily created nine member Administrative Council oversees the program. The division, through its personnel office, provides staff support to the Administrative Council. Its staff reviews and analyzes each institution's insurance plan to ensure that the plan meets the standards established by the Administrative Council. If staff identifies any exceptions to the plan's compliance, they report them to the Administrative Council. The Council then formulates plans with the institution president to resolve the deficiency.

The 70th Legislature amended the agency's statute and charged it to develop a five year master plan for higher education in the state and update the plan annually. A draft of the plan has been developed and is to be submitted to the board in the fall of 1988. The division had 64 employees in fiscal year 1988.

Special Programs Division

The division provides public information, legislative liaison, and special project assistance to the commissioner. Agency public information services include preparation of press releases, brochures, newsletters, and other printed material for use by the media and institutions of higher education. Legislative liaison office staff monitor legislation and legislative committee activities and are responsible for keeping agency division and program managers informed on the status of legislation. The office maintains the agency library which contains directories, legislative documents, and research and statistical reports. Requests for information from legislators, the media, and the public are directed through this office. The division had seven employees in fiscal year 1988.

Universities and Health Affairs Division

The Universities and Health Affairs Division performs the agency's primary functions that relate directly to the academic programs and operations of the state's public senior colleges and universities and the health related institutions, centers and programs. Further, it performs the agency's oversight and certification authority for the operation of private schools that are not accredited by one of the nationally recognized accreditation bodies. In its oversight role of the public universities the division performs program and course reviews, evaluates

institutions' requests for new degree programs and academic administrative units and makes recommendations to the board for their approval or disapproval. Review of existing courses and degree programs and requests for new ones is a major responsibility of the division. During the period from 1984 through 1987, the board approved 85 requests for new degree programs at public senior institutions, 11 at the associate level, 34 at the baccalaureate, 33 at the master's, and seven at the doctoral level. During the same period the board denied 17 degree program requests and proposals to create new administrative units. During the 70th legislative session the board was charged to perform sunset review of all doctoral programs. In this process the board must take steps to eliminate programs lacking sufficient student demand and institutional support. Annually staff review approximately 20,000 course changes or requests for new courses; an estimated 4,500 are considered substantive changes or additions. Staff also must review and approve all courses offered at military bases, off campus and out-of-state.

The Coordinating Board adopted formal policies concerning televised instruction in 1985. Since that time, the division has been responsible for the administration and monitoring of instructional telecommunications activities at public higher education institutions throughout Texas. In 1988, 25 individual institutions and seven community college districts were authorized to offer courses via various telecommunications media including interactive closed-circuit television, broadcast television and computer modem. Division staff approve the institutions' instructional telecommunications course inventories annually, and are also responsible for coordinating planning efforts for a statewide educational telecommunications network which was mandated by the 70th Legislature.

A primary coordinating function performed by the division is its development and maintenance of each institution's role and mission statement. This process is done in consultation with the university's president and board of regents. In the 34 senior colleges and universities for which the division has responsibility for their role and mission statement development, 26 have tables of degree programs approved by the board and 18 have narrative role and mission descriptions approved as of July 1988.

Division staff in the health affairs section perform similar functions regarding role and mission development for the health science centers and medical schools and monitor all program offerings in health-related fields at all public universities and health science centers.

In situations where a private college or university is not accredited by an accrediting body approved by the board, the division issues certificates of authority to award degrees. During the time a private institution is under such authority, the division oversees its operations and assists it to move toward accreditation by a recognized accrediting body. This normally occurs within an eight year period after the initial request for authority is granted. As of July, 1988, eight private institutions were operating under such certificates.

The division also administers the federal Education for Economic Securities Act competitive grants program. This program is designed to enhance the training of public school teachers in the areas of science, math, foreign languages, and computer learning. In fiscal year 1988 the board awarded approximately \$1.5 million in EESA grants to support 35 projects offered by public and private junior and senior institutions.

A new responsibility assigned to the agency by the 70th Legislature and administered by the division is the creation and administration of the Texas Academic Skills Program (TASP). TASP is an instructional program designed to ensure that students attending public institutions of higher education have the basic academic skills necessary to be successful in college-level course work. It is designed to identify, through an assessment test, students who require remedial courses. Students must successfully pass the test before they complete 60 hours of course work, or be limited to lower division course work until they do pass. The program becomes effective in September 1989 and an estimated 200,000 students per year will take the test. During fiscal year 1988 the division had 25 employees.

Community Colleges and Technical Institutes Division

The Community Colleges and Technical Institutes Division was created by the board in 1985 after the 69th Legislature transferred responsibility for postsecondary vocational and technical education for community colleges and technical institutes from the Texas Education Agency to the Coordinating Board. The division coordinates oversight of 49 community and junior college districts having 66 separate campuses, two centers and four campuses of the Texas State Technical Institute, and the two lower division institutions of Lamar University at Orange and Port Arthur.

The division evaluates and recommends board approval of programs, transfer courses and compensatory courses offered at these institutions. The staff of this division conducts periodic evaluations of postsecondary technical and vocational programs. These evaluations can lead to the abolition of programs upon the initiation of either the institution or the agency.

A major funding program for vocational education administered by the division is the Carl D. Perkins program, a federal program to assure access to quality vocational education and provide services for the disadvantaged and handicapped adults with limited English proficiency, adults in need of job training and retraining, individuals who are single parents or homemakers, and displaced persons. The basic grant for this program including state administrative costs totaled \$22.3 million in fiscal year 1988. Most of these funds are allocated through a formula process, but approximately \$3.7 million are available to all public institutions of higher education through a competitive proposal process in the categories of personnel development, curriculum development, model program and demonstration projects, and "state-of-the-art" studies and research. During fiscal year 1988 the division operated with 24 employees.

Research Programs Division

The Research Division is a new division in the agency and its primary responsibility is to administer four research programs created by the 70th Legislature. In addition, the division is an advocate for university-based research in the state, evaluates the Texas university research enterprise, and facilitates communications among members of the state's higher education research community.

The 70th Legislature created two new major research programs to support both basic and applied research. The Advanced Research Program is funded for \$20 million for this biennium to be used for basic research grants in the biological and behavioral sciences, chemistry, engineering, mathematics, physics, earth sciences,

material sciences, computer sciences, information sciences, astronomy, atmospheric science and oceanography, and social sciences. In April, 1988 144 projects were funded from this program. The Advanced Technology Program (ATP) is funded for \$40 million to be used over the biennium for applied research grants in the fields of: biomedicine, microelectronics, biotechnology, agriculture, aquaculture, energy, aerospace, marine technology and telecommunications. In April, 1988 208 projects were funded from this program. The proposals for both programs were reviewed on a competitive basis by panels of out-of-state peer reviewers, and an advisory committee of scientists made the final funding decisions.

In addition, this division works with the Legislative Budget Board to conduct an evaluation of all research-oriented special item appropriations funded for the 1988-89 biennium and with the governor's energy management center in supervising competitive peer review awards for the energy research in applications program ("oil overcharge" funds). Other activities of the division include: compiling a directory of specialized research centers in the state, summarizing research activities being conducted in Texas public universities, and reviewing and approving the intellectual property policies of each public institution. During fiscal year 1988 the division operated with six employees.

Financial Planning Division

The Financial Planning Division administers the agency's primary higher education financial planning and funding functions. It continuously develops, reviews, and revises formulas to achieve an equitable distribution of state funds available for higher education institutions. These formulas are used by the governor and legislature as the mechanism in making recommendations for distribution of appropriation dollars to institutions of higher education. The formula process allocated \$689 million or 73.4 percent of the \$938 million general revenue funds appropriated to the public senior colleges and universities in fiscal year 1988. The division is also responsible for the administration of the Higher Education Assistance Fund. This fund is a constitutionally based fund that provides \$100 million annually for those institutions that do not participate in the Permanent University Fund. The responsibilities of the agency for this program include financial planning, analysis and recommendations regarding changes in the allocations received by the participating institutions.

The division prepares fiscal notes on bills related to higher education, and it provides analyses of state and national demographic and economic data as requested by the agency, the governor, and the legislature. The division will be responsible for the performance of a new function required by the 70th Legislature to provide the governor and legislature a comprehensive analysis of institutional appropriation requests. In collaboration with the Office of the Comptroller, the division maintains a uniform reporting system for all institutions of higher education. to define elements of cost on which appropriations shall be based and on which financial records shall be maintained.

The division also administers three programs which allocate funds to medical schools and/or medical residency programs: the Compensation of Resident Physicians, the Family Practice Residency Training Program, and the contracts with Baylor College of Medicine and the Baylor College of Dentistry. Under the Resident Physicians' Compensation Program, the board allocates appropriated funds to medical schools once each fiscal year for the purpose of compensating their graduate students while practicing as residents at approved teaching hospitals.

Approximately 200 residency positions are funded, not including family practice. In fiscal year 1988, \$3,151,875 was provided to support 210 residents at the seven eligible schools. Family practice residents are supported by the Family Practice Residency Training Program. In fiscal year 1988, \$7,295,000 was provided to support 462 residents enrolled in 26 programs.

In addition, the state contracts with the Baylor College of Medicine and the Baylor College of Dentistry in order to provide more available slots for Texas residents in the state's medical and dental schools. In fiscal year 1988 the board served as the dispersing agent for \$29,686,930 for 580 Texas residents at the Baylor College of Medicine, and \$13,104,741 for 344 Texas residents at the Baylor College of Dentistry. During fiscal year 1988 the division had eight employees.

Campus Planning Division

The agency assists the board in its responsibility for efficient campus development through the Campus Planning Division. The division maintains current campus master plans and facility inventories for all public senior colleges and universities. It conducts site visits and, based on need and utilization of existing facilities and resources, recommends which campus construction, renovation and land acquisition projects should be approved or denied by the board. The division recommends policies regarding the efficient use of construction funds and development of physical plants. In fiscal year 1988 the division reviewed 60 projects totaling over \$256.5 million. The board approved \$175.3 million, disapproved \$20 million, deferred action on \$49.3 million, and took no action on \$11.8 million.

The staff and board must deal with a situation that is unique to Texas. Institutions do not usually request construction funds for specific projects from the legislature. Instead, institutions have constitutionally authorized funds specifically provided for construction projects and are required only to justify their plans for spending these funds by project, to the agency and board. The agency, therefore, works in an environment in which additional pressures to expand facilities or undertake construction projects exist. The staff and board work closely together and use both formal and informal approaches to promote the efficient use of funds. Site visits are made to institutions which plan new construction projects and, for projects which exceed \$500,000, the agency has authority to consider such costs and suggest adjustments when appropriate alternatives exist. The staff and board also negotiate informally with institutions which desire to undertake new construction projects by encouraging the "mothballing" of underutilized space or the repair or renovation of space which an institution has deferred for budgetary or other reasons. The communication between institution personnel and the staff often results in institutions delaying requests for new projects or developing project requests in such a manner that they are likely to meet agency criteria and be approved.

Division staff, in conjunction with the Financial Planning Division, prepare recommendations for the allocation of the Higher Education Assistance Funds, which are available to institutions not participating in the Permanent University Fund. The allocation formula for an institution is based on its space deficiency, the condition of its facilities, and its educational complexity, which is related to the types and levels of degree programs the institution offers. During fiscal year 1988 the division operated with four employees.

Student Services Division

The major function of the student services division is to administer student financial aid programs. It is also responsible for the coordination of the state's tuition, fees and residency determination policies and the development and distribution of publications on these topics. The division conducts annual surveys of all public higher education institutions on the amounts of tuition and fee revenues they received, the amounts of tuition exemption and waivers they granted, and how they utilized certain campus-based grant and scholarship programs. Once each biennium the division also calculates tuition rates charged nonresident students at public senior institutions. The division is primarily responsible for the administration of approximately 15 state or federal financial aid programs. In Texas, financial aid programs are decentralized: the financial aid offices at each institution determine student eligibility and recommend award amounts. The Coordinating Board promulgates rules and regulations for the financial aid programs, monitors the applications, and coordinates the issuance of student financial aid checks through the State Comptroller's office.

The major loan program which the Coordinating Board administers is the Hinson-Hazlewood College Student Loan. In 1965 a Texas constitutional amendment was adopted which authorized the issuance of state general obligation bonds to finance the student loan program. A total of \$285 million is authorized and \$205.5 million in bonds have been issued since the program's inception. The last bonds were sold in 1977 and the program has operated as a revolving fund since then. In August, 1988 there were \$97.8 million in bonds outstanding. Under the umbrella of the Hinson-Hazlewood loan program, there are seven portfolios. The division no longer originates loans under two of the older loan portfolios: uninsured loans issued prior to the fall of 1971, and federal insured loans (FISL) issued between the fall of 1971 and summer 1984 which are guaranteed by the U.S. Department of Education. The currently active portfolios include: guaranteed student loans (GSL) and supplemental student loans (SLS) which are insured by the Texas Guaranteed Student Loan Corporation; Health Education Assistance Loans (HEAL) insured by the U.S. Department of Health and Human Services; the uninsured Health Education Loan (HELP); and the newly authorized College Access Loan, which is an uninsured alternative loan program for students ineligible for guaranteed student loans. In fiscal year 1988, the division issued loans in the five active portfolios totaling \$22 million to 6,259 students. The principal value of all loans currently outstanding is \$158.3 million and approximately 157,000 persons have received a Hinson-Hazlewood loan since the program's inception.

Functions this division performs for the loan programs include reviewing and approving loan applications, servicing the approximately 9,600 loan accounts of borrowers still in school, converting loans to repayment when students leave college and arranging for payment deferrals and adjustments when necessary. In addition, the division collects approximately \$21.5 million in payments annually from 41,000 persons currently in repayment and deposits them in the State Treasury. Under the terms of an agreement which was reached with the federal government in 1976, the division files suit in Travis County on defaulted loans, obtains judgments on defaulted borrowers, and pursues collections of those accounts rather than filing a default claim. In return, the federal government continues to pay the interest due on the defaulted loans and special lenders allowance funds. There are approximately 22,000 of these loan accounts. In addition, there are another 17,000 accounts for which a default claim has been paid by the federal government but which continue to

require service by the division to answer borrower inquiries and to assist the federal government's collection efforts.

In addition to the Hinson-Hazlewood loans, the division makes loans to students who plan to become teachers under the state Teacher Education Loan and Future Teacher Loan programs (one-time appropriation of \$ 2.2 million in 1985), and the federal Paul Douglas Teacher Scholarship program (\$1.2 million awarded to 342 students in 1988). For these teacher education loan programs, the division tracks 751 students and graduates to confirm eligibility for cancellation of the loans or to place them into a loan repayment status. The division also provides loan repayments to physicians who practice in certain areas or for certain state agencies (\$86,955 in 1988).

The division is responsible for a number of grant and scholarship programs. The division collects the necessary data and determines how state or federal funds appropriated for these programs will be allotted for students at each participating institution, establishes the rules and procedures governing program eligibility, and reviews documentation submitted and audit reports of the institutions for compliance. The major grant programs which the division administers include: the state funded Tuition Equalization Grant program (TEG) which provided \$18.6 million to 15,000 students attending independent colleges in the state in 1988; the state funded State Student Incentive Grant (SSIG) program which provided \$1.5 million to 5,000 students at public institutions; and the federally funded SSIG program which provided \$4 million to 5,000 public school and 4,000 private school students in 1988. The division also oversees the Texas Public Educational Grant program (TPEG), a campus-based program funded through set-asides from tuition revenues which provided \$21 million to 36,000 students in 1988. Scholarship programs administered by the division include the State Scholarship for Ethnic Recruitment (\$235,000 per year plus an equal institutional match), the Minority Faculty and Staff Recruitment program (\$47,000 per year plus an equal institutional match), the Good Neighbor Scholarship program (\$900,000 in annual tuition waivers), and the federal Robert C. Byrd Honors Scholarship program (\$550,000 per year). During fiscal year 1988 the division operated with 72 employees.

Educational Opportunity Planning Division

The commissioner established the Equal Educational Opportunities Division as an independent division in the spring of 1988. Previously, its programs and functions had been administered through a section in the Special Programs Division. Its primary responsibilities are the implementation the Texas Equal Educational Opportunity Plan for Higher Education, coordination of the state's minority recruitment and retention programs, and the administration of the Youth Opportunities Unlimited (YOU) program.

In 1983 the state entered into an agreement with the federal Office for Civil Rights to operate its postsecondary institutions on a totally desegregated basis and submitted a five year desegregation plan. Since that time the agency has been required to submit annual progress reports to the federal agency. This plan expired in August 1988. In January 1988 the governor directed the Coordinating Board to work with the higher education institutions to develop and implement an equal educational opportunity plan to replace the federally mandated plan. The agency is in the process of drafting a new five year plan.

The YOU program is a program funded through the Department of Commerce' federal Job Training Partnership Act. It was transferred to the board from the Texas Department of Community Affairs in 1987. The purpose of the YOU program is reduce the high school dropout rate. The agency identifies eighth and ninth grade students who are at high risk of dropping out. These youth live on college campuses for eight weeks during the summer and take classes in mathematics and English for course credit. They also hold part-time jobs, receive help from tutors and counselors, and participate in other cultural and educational activities. In 1988 over 1,800 students on 18 campuses participated in the program at a total program cost of \$215,000.

The division's activities in minority recruitment and retention are directed toward the goal of increasing the number of minorities entering and graduating from the state's higher education institutions. Those activities include working with advisory groups and institutions to identify projects to increase the number of minority students recruited to and successfully completing college. During fiscal year 1988 the division had five employees.

Focus of Review

The review of the Texas Higher Education Coordinating Board included all aspects of the board's activities. Initial efforts were designed to examine the board's three basic functions: coordination, advocacy, and regulation. A number of activities were undertaken by the staff to gain a better understanding of the board and its responsibilities. These activities included:

- discussions with the agency commissioner and staff;
- visits with the chancellors and designated key executives of the university systems in Austin or at their respective offices;
- meetings and telephone conversations with presidents and others from community colleges and non-system universities;
- review of past legislation and reports prepared by the Select Committee on Higher Education;
- review of numerous reports regarding higher education in Texas and other states;
- group and individual meetings with groups, associations and other persons involved with the agency and higher education; and
- phone interviews with persons in higher education coordinating agencies in other states.

From these activities, a number of issues were identified which generally fell into the following six areas: 1) the need for the agency and its functions; 2) higher education planning and resource allocation; 3) coordination of higher education programs and course transfer policies; 4) student financial assistance; 5) oversight, monitoring, and evaluation; and 6) the Texas College and University Employees Uniform Benefits Program. Also included in this review was the Office of the Southern Education Compact Commissioner of Texas. This office is an independent

entity with its own sunset date. It was included in the review of the Coordinating Board because the agency is appropriated the funds to support the state's contribution to the compact, and it serves as the state's operating link to the Compact.

First, the review examined whether or not there was a need for the agency and its functions. The review concluded that the agency and its functions should be continued, with one exception. Overall, the agency has met its responsibility to coordinate the state college and university system. It has worked to maintain a balance between quality and efficiency in all Texas institutions of higher education. It has assumed a significant number of new responsibilities since its inception. The review determined, however, that the Hinson-Hazlewood student loan program should be discontinued. Since the loan program's inception in 1965, federal and state programs and policies regarding student loans have changed significantly. The federal government encourage private lenders to enter the student loan market by insuring the loans against borrower default, death, or disability, and by providing interest subsidies and allowance funds. Guarantee agencies like the TGSLC in each state provide other services to lenders such as loan account servicing, preclaims, and loan consolidation assistance. In addition, the Federal Student Loan Marketing Association (Sallie Mae) and the nine Texas-chartered Higher Education Authorities provide secondary student loan markets which offer commercial lenders who make student loans the liquidity they desire with their investment. The greatly expanded participation of these private lenders has resulted in decreased demand on the Hinson-Hazelwood program. The decrease in demand has contributed to a reduction in the federal lender's allowance funds to the state and an increase in the state funds necessary to support the program. In addition, the program represents a high "opportunity" cost to the Coordinating Board in terms of the computer resources needed to operate the program. This issue is addressed in the Findings and Recommendations section of the report.

The second area of inquiry was whether the board is effectively performing its higher education planning and resource allocation responsibilities. The board is the state's highest authority for matters concerning higher education, and is responsible for the planning and coordination of higher education. It determines each public institution's role and mission and develops, encourages, and coordinates programs that fulfill the state's higher education needs. Its statutory responsibilities provide authority to review and approve academic programs and organizational units as well as physical facility projects.

An assessment was made of the board's basic planning functions as they relate to academic program development and coordination, and the planning and development of the state's physical plant investment. It was determined that several functions could be improved to better meet the needs of the state's higher education decision-makers. The role and mission statements required of the board for all institutions of higher education were not completed for all institutions. Of those completed, many lack the information necessary to be effective to the institution or the board in planning and coordinating educational programs, research, or physical facility decisions.

In the campus planning function the review determined that several aspects should be modified. First, institutions were not required to report deferred maintenance information in their campus master plans. The absence of this information deprives the board from adequately assessing the deferred maintenance needs of the state's colleges and universities or from making sound decisions

regarding approval of new construction or major renovation projects. A related issue that was identified pertains to the allocation formula for Higher Education Assistance Funds. It was determined that there was not always adequate information available to the persons reviewing the allocation formula regarding the extent the allocated funds were used to meet the deferred maintenance needs of the participating institutions. Without this information, a basic purpose for which the fund was created cannot be assessed.

Finally, three other issues were identified where recommendations were needed to improve the board's operations. These include: clarification of the board's authority over the approval of gifts of land and buildings to an institution and their lease-purchase agreements; the space standards the board uses to determine an institution's need for new construction or renovation; and the statutory cost amounts of repair and renovation projects on which the board must take action. These issues are addressed through recommendations found in the Findings and Recommendations section of the report.

One planning function that was reviewed, but for which no recommendations were made, was the Texas Equal Educational Opportunity Plan for Higher Education. This five year plan, developed in 1983 under an agreement with the federal Office of Civil Rights, expired in August 1988. Substantial analysis of the plan was not feasible because of inadequate data; the Office of Civil Rights has not responded to the agency's 1986 progress report, the most recent report submitted. Further, the agency was in the process of preparing a new five year plan that was not completed during the review.

The third area of inquiry was whether the board is effectively coordinating higher education programs and course transfer policies. The board has the responsibility to control the degree programs offered at all public institutions, and approves all degree programs offered at private institutions that are not accredited by a recognized accrediting body. With regard to degree programs in public institutions, the board approves or disapproves all requests by institutions for new degree programs or organizational units that administer such programs. Part of this responsibility includes staff review of course changes to degree programs after they are approved as well as any new courses offered to assure that the institution does not create degree programs that are not approved by the board. While the agency has allowed some flexibility to institutions in creating new courses outside degree programs, the review determined that the process needs to allow less restrictive degree program development. A recommendation to address this problem is in the Findings and Recommendations section of the report.

In regulating degrees offered in private institutions, the board is responsible for issuing certificates of authority before any such institution may award any degree using the terms bachelors, master's, or doctor's. During the review it was determined that the board's authority to regulate the ability of proprietary schools to grant associate of applied arts and associate of applied sciences degrees was under question.

The board also has the responsibility to assure that lower division courses are freely transferred among all public institutions of higher education. The review focused on the board's policies and institution practices in this area. It was determined that deficiencies existed with respect to an effective process to assure that all transferring students received proper course credits. These areas are addressed in the Findings and Recommendations section of the report.

Two issues in this area were reviewed but, because of extenuating circumstances, no recommendations were made. The first was the issue of the development of programs in the South Texas area. Currently, there is a legislative committee studying the needs of area. In addition, both the University of Texas system and the Texas A&M system are involved in possible merger discussions and program development plans for the area. The second issue is the mandatory academic skills testing program. This program will become effective September, 1989. The test and its related policies and procedures were under development during the review, and there was no basis for any analysis of the program on which findings or recommendations could be made.

The fourth area of inquiry was whether the student financial assistance programs are structured and operating efficiently and effectively. The review included the grants and loan programs administered by the board and focused on the efficiency and effectiveness of their operations as well as their impact on the need for which they were created. The review determined that the purpose of the loan forgiveness programs could be met through a more effective alternative structure. It was further determined that the programs for which the Rural Medical Board was created to administer are no longer the most desirable alternatives to meet the needs of these areas. In addition, problems have arisen over the transfer of the administration of these programs and their funds to the board. Recommendations addressing these issues are in the Findings and Recommendations section of the report.

The fifth area of inquiry is whether the board is performing appropriate oversight, monitoring, and evaluation of its own responsibilities regarding higher education. The agency has a variety of responsibilities and the review focused on those that had implications for the operations of the agency and those that had a direct impact on the areas in institutions for which the board has direct involvement. It was determined that, because of the nature of several operations within the agency, the board would benefit from the review and information provided by an internal auditor. A review of the criteria that guide whether or not an agency should have an internal audit function revealed that the board should have such a position.

The sixth area of inquiry related to the health insurance component of the Texas College and University Employees Uniform Benefits Program. The review focused on the administrative structure of the Administrative Council, the administrative body that oversees the program and its basic operations, and the council's responsibilities with respect to the program. The current system of administering health insurance plans was examined to determine if the program provided for cost-efficient benefits for higher education employees which were comparable to those provided to state employees. The review determined that the current statutory structure of the health insurance program permits institutions to establish individual group plans or to form combined groups with other institutions if they desire to do so. The result is that 65 separate group health insurance plans currently exist. Some of the plans have not consistently met the minimum standards required of them, and the costs to institutions and employees in some cases have been excessive. Therefore, it was determined that the health insurance program should be modified to improve its cost effectiveness. Further, it was determined that additional insurance expertise and a more balanced representation is needed on the council. These issues are addressed in recommendations in the Findings and Recommendations section of the report.

Finally, the review examined the Southern Regional Education Compact Commissioner for Texas. The state is one of 15 states participating in a regional educational compact that enables education and government leaders to work cooperatively on key issues and generate comparative information in the education field. The state's participation is based in law and has a sunset date of August 1, 1989. The focus of the review of the compact was to determine if the state should continue its membership, and, if so, to determine if its services and programs could be improved. The review concluded that the office of the Southern Regional Compact Commissioner for Texas should be continued with a September 1, 2001 sunset date. However, the review did reveal that some improvements should be made to the statute. These improvements are described in the Findings and Recommendations section of the report.

The recommendations have a potential net cost of \$1.7 million. The discontinuation of the Hinson-Hazelwood program could result in a positive fiscal impact in excess of \$100 million.

Findings and Recommendations

Overall Administration

ISSUE 1: The statute should require the appointment of an internal auditor.

BACKGROUND

The Coordinating Board has an annual operating budget of approximately \$9.6 million and employs 214 people. In addition, the board is responsible for the oversight of \$128 million in trustee funds appropriated to the agency, the administration of federal grant programs totaling \$28 million, and the oversight and operation of a \$180 million student loan fund. State agencies of this size usually employ an internal auditor to review their operations, evaluate the adequacy and effectiveness of the agency's system of internal controls, and identify areas for cost savings.

The review of the operations of the agency indicated the following:

- ▶ For the last three years the state auditor has recommended that the Coordinating Board hire an internal auditor. To date, the board has not yet hired an internal auditor, claiming no funds have been appropriated to do so. While new funds have been appropriated to the agency, these have been used for new staff to implement recommendations made by the select committee on higher education and adopted by the 70th Legislature.
- ▶ In Executive Order WPC 87-18, Governor Clements directed all state agencies that meet specific criteria to maximize the use of internal auditors. A state auditor recommendation to hire an internal auditor is one of the governor's criteria.
- ▶ The situation is even more critical given a recent change in focus of the state auditor's reviews. The auditor will no longer routinely audit the financial statements of every state agency.
- ▶ Without an internal auditor, the board has no independent assessment as to whether or not the agency is fulfilling all of its statutory duties or evaluation of how well the programs are operating.
- ▶ In its request for legislative appropriations for the 1990 and 1991 biennium, the board is including an internal auditor position at level three funding.

PROBLEM

The Coordinating Board appropriately determined that the implementation of the recommendations of the Select Committee on Higher Education constituted a more critical priority than hiring an internal auditor. The current lack of an internal auditing function, however, coupled with less detailed oversight by the state auditor leaves many of the agency's programs and activities with insufficient oversight. In addition, the board has no independent assessment as to whether or not the agency is fulfilling all of its statutory duties and meeting its objectives.

RECOMMENDATION

The Coordinating Board's statute should be changed to:

- require the appointment of an internal auditor by the commissioner with the concurrence of the board;
- require the internal auditor to report to the commissioner but authorize the submission of reports directly to the board in situations specified by board rules;
- require the board's planning and administration committee to meet with the internal auditor at least as frequently as each quarterly meeting of the board;
- state that the duties of the internal auditor will include the review and appraisal of the accounting, financial and operating activities of the board, including its internal management information system, as well as an appraisal of the agency's effectiveness in meeting its statutory duties;
- state that the state auditor would review the quality and the effectiveness of the agency's internal management information system as part of his responsibility to conduct expanded scope audits of state agencies.

Requiring the internal auditor in statute will ensure that the agency places sufficient priority on the internal auditing function. In addition, the statutory language will provide direction to the agency on how to implement the internal auditing function by specifying general areas of responsibility and reporting requirements. The framework developed in the recommendation is based on a similar approach approved by the 70th Legislature for the Texas Department of Mental Health and Mental Retardation and the Texas Department of Human Services.

FISCAL IMPACT

The Coordinating Board has the flexibility in its appropriations bill pattern to fund the position within the funding limits set by the legislature. However, there have been no specific funds appropriated for this position.

Coordination of Higher Education

ISSUE 2: Role and mission statements of senior institutions should be strengthened.

BACKGROUND

Role and mission statements are generally accepted as the first and fundamental step in an organization's planning and goal setting process and provide the basis for defining what the organization will - and will not - do in its environment. The statements are the declaration of current and future direction and are the logical context by which coordination and integration decisions are based.

The responsibility for the Coordinating Board to develop role and mission (scope) statements for each public institution of higher education (including junior colleges) was part of its initial charge when it was created in 1965. These statements were to serve decision-makers as basic guides in coordinating and shaping the rational growth and development of the state's higher education system. The agency's first effort to develop university role and mission statements began in 1975 when the board undertook a six month effort to develop the statements for formal review and consideration. The project was never completed, but did result in improving the board's system for collecting and analyzing data submitted by institutions. The next focused effort in this area occurred almost 10 years later, in 1984. During the intervening years, the agency continued to constantly react to requests from institutions to approve facility expansion and to expand the types and levels of degrees from institutions. Prioritizing requests and their subsequent approval was on a case by case basis and was shaped more by local forces and the aggressiveness of each institution than by any systematic coordination efforts of the Coordinating Board.

To help promote a more coherent planning process, the commissioner convened a committee in 1984 which developed guidelines that prescribed four basic components for role and mission statements. Those components were: 1) a table of programs that would list the degree areas and levels (certificate, baccalaureate, masters, doctoral) that the institutions would offer; 2) a narrative role and mission statement; 3) a historical statement about the institution; and 4) additional background information and aspirations. Only the first two were intended to be formally adopted by the Coordinating Board. Formal role and mission statements began being developed in 1985. As of May 1988, 28 of the 36 senior colleges and universities had Table of Programs endorsed by the Coordinating Board and 17 of the 36 had role and mission statements formally adopted by the Coordinating Board. By the same date, tables of programs for six of the seven health related institutions had been approved, and five role and mission statements had been adopted. The agency does not develop role and mission statements for each community college, maintaining that they all have the same basic role and mission as defined in statute.

During the deliberations of the Select Committee of Higher Education, the general topic of planning for the future of higher education of Texas was extensively examined. In its November 1986 report, the committee's consulting firm, Coopers & Lybrand, placed substantial importance on the role and mission statement development process as a key component of the planning effort.

Overall, it found the process at that time to be lacking. Specifically, the report indicated that the statements provided "snapshots" of the institutions' existing operations and did little to help guide policy makers in making future-oriented decisions. The report proposed that each institution develop and maintain individual role and mission statements to better guide strategic, program, and facilities planning efforts at all levels of the higher education system - from the institutions, to their governing boards, to the Coordinating Board, to the governor and legislature.

The review of the agency's efforts in developing role and mission statements indicated the following:

- ▶ In practice, the agency utilizes only one of the four parts of the role and mission process, the Table of Programs, in any of its decision-making. This table is a listing of programs currently being offered at the institution and those which are approved by the Coordinating Board for planning purposes for the following four to six years. The table is used by the Coordinating Board as the basis to review and approve or disapprove requests for changes in certificate and degree program offerings and - to a limited extent - physical plant related requests.
- ▶ While the table of programs is an important document, it usually provides little or no direction or guidance for planning-oriented decisions like facility expansion, programmatic related facility renovations, or research related matters.
- ▶ Aside from the formula funding for courses related to degree programs approved of the Table of Programs, the role and mission process has no direct bearing on the funding process for an institution. Neither the formula development process of the agency nor the state's overall funding process accommodates an institution's unique qualities as may be defined in its role and mission. Except for funding graduate and doctoral programs at progressively higher rates, the formula process is specifically designed not to provide discriminating support for one institution type over another but rather to provide equitable base funding for all institutions. If state support is directed toward a unique aspect of an institution's teaching, research, or public service mission, it is through special line-item appropriations of the legislature, not by the formula funding process.
- ▶ The agency's process for developing role and mission statements does not always provide sufficient information or specificity to lead to effective decision-making in such areas as goal setting or avoiding undesirable duplication in the state's higher education system. There are no specific criteria for the statements beyond the four headings mentioned above.
- ▶ An analysis of the role and mission statements currently approved by the Coordinating Board for widely diverse institutions showed that most are general and more alike than distinct. While some similarity is predictable, the current and future role of each institution in the state's higher education system could be made more explicit and useful by the inclusion of additional information in each institution's role and mission statement.

- ▶ Changes in an institution's role and mission should be made deliberately by the Coordinating Board, because some changes have far reaching implications. For example, a shift in emphasis of an institution from an urban university to a major research institution can result in a decrease in accessibility because of raised admission standards.
- ▶ Discussions with institution and system officials indicated that the role and mission statements are not as useful as they could be because they are not updated as conditions change, and their boards of regents are not actively involved in the negotiations that result in the final documents.
- ▶ The importance of role and mission statements and the need for their improvement was emphasized in the work of the consulting firm with whom the Select Committee on Higher Education contracted, the deliberations of the Select Committee, and the 70th legislature. However, the legislature did not adopt role and mission statements in statute, but continued its original policy by leaving the responsibility in the Coordinating Board.

PROBLEM

The current process and products relating to role and mission statements do not serve decision-makers as effectively as they should because most of the statements are not distinct or precise enough to provide useful information for decision-makers as they are confronted with degree program, physical plant, and other resource allocation issues.

RECOMMENDATION

The content of role and mission statements should be improved and the agency's statute should be amended to:

- require senior colleges and universities to develop role and mission statements using prescribed elements. See Exhibit 1 in the Appendix. The board and its staff will assist in the preparation and updating of role and mission statements and develop criteria by which it will approve or disapprove the statements;
- specify that all senior colleges and universities must have approved Tables of Programs and Role and Mission statements approved by the Coordinating Board and the statements contain the required elements within the following time frames:
 - institutions that do not have role and mission statements approved by the Coordinating Board by September 1, 1989 shall be required to have them approved by June 1, 1991 and the statements must contain the required elements;

- an institution with a role and mission statements approved by the Coordinating Board prior to September 1, 1989 shall develop its statement that contains the required elements in compliance with a schedule developed by the Coordinating Board;
- require the Coordinating Board to review the table of programs and role and mission statement of each institution with the chairman of its respective board of regents, or his designee, at least every four years;
- direct the agency's formula advisory committee and the committee's formula area study groups to seek methods through which formula could be modified or suspended in lieu of alternative approaches based on role and mission statements.

The implementation of the elements of this recommendation will achieve the completion of the role and mission process, improve the quality of the statements, and assure that they remain current and useful to decision-makers. The integration of the funding process and the defined role and mission of an institution must occur in order for the legislative funding process to adequately achieve what is defined for each institution.

FISCAL IMPACT

None is expected.

Control of Degree Programs

ISSUE 3: The agency's current requirements and approaches to degree program and course approval for public senior institutions should be changed.

BACKGROUND

An initial responsibility given to the Coordinating Board when it was created in 1965 was to approve all new schools, departments, degrees programs and certificate programs (Chapter 61.051 (e) Education Code). The law states that, once approved, none of these may be expanded to include subject matter courses that are outside of approved degree and certificate programs without the prior approval of the Coordinating Board. The board also reviews other courses offered that are not part of a degree program.

The agency carries out these three separate responsibilities first by reviewing each degree program request and the specific subject matter courses that will constitute the degree program's requirements. In order for an institution to get approval for a new degree program, it is required to submit a request for approval that includes: the list of courses that will constitute the degree program; documentation and verification that the cost of the program for its first five years of operation will be funded at least one half by non-appropriated funds; and, that the diversion of those funds will not reduce the quality of existing programs. The course content is approved based on comparisons with generally accepted requirements of comparable degree programs in other institutions in Texas and other states.

In its attempt to meet the second responsibility of not allowing expansion of existing degree programs, the agency reviews all proposed course additions, deletions, and changes to existing courses. Any type of proposed changes to courses in an approved degree program are reviewed to determine if degree program requirements are being altered and/or new courses are being added to those requirements to an extent that they will exceed board guidelines.

The third part of the responsibility comes when the agency allows and approves funding for courses that are not part of any degree program. These courses may be related to new knowledge regarding social or scientific issues or may be popular electives to approved degree requirements. While the agency encourages these types of courses, it monitors them as well in an attempt to control their possible emergence into groups of courses that might lead to an unauthorized degree program. Review and approval of these courses are also intended to provide a mechanism for controlling duplication between the course offerings of community colleges and upper-division institutions, and are supposed to hinder unauthorized development of courses at the doctoral level for non-doctoral granting institutions or in unapproved professional fields such as law, pharmacy, and optometry.

The three-part approval process is theoretically linked to a comprehensive strategy for the orderly development of degree programs and to maintain quality in the state's higher education system. Further, it was supposed to control

expenses by monitoring conditions that might lead to the creation of unnecessary administrative units and by assuring that only courses linked to degree programs approved by the agency are available for inclusion in the calculations for formula funding.

The review of the agency's degree program approval process and subsequent course approval process indicated the following:

- ▶ Approval of degree programs has been exercised by the Coordinating Board in a reactive manner to respond to proposals initiated and submitted by the institutions. There is little lead time for the board to assess the need for the degree program. Once received, the review of a proposed program includes questions of the institution regarding statewide and regional need for another program, student and employer demand, and capacity to offer a quality program. The board infrequently "coordinates" higher education in the sense of suggesting specific programs that institutions should initiate and submit for approval.
- ▶ There have been situations where some degree programs were in operation and degrees were awarded in those program areas that had not had approval of the Coordinating Board. While these situations do not appear to be common, it indicates that the pre-approval process is not totally effective.
- ▶ Requests for new, changed, or deleted courses are voluminous. Each year between January and the following April, the agency processes approximately 15,000 to 20,000 transactions. Of these, most are routine and do not involve extensive review by agency staff. An estimated 4,000 - 5,000 are for approval of requests for new courses or major substantive changes in existing courses and do involve substantial staff review and analysis. Of these, less than 100 are denied. This approach is time consuming and creates an additional approval process with which the institutions and the agency must contend.
- ▶ Constant course review and monitoring is not necessary to protect against funding unapproved courses, because courses that are added during a biennium are not funded for that biennium, whether or not they are approved. Only courses actively involving students in the base year are eligible to be used in formula calculations. For example, the 1990 and 1991 appropriations to institutions are based on the student credits hours generated from approved courses offered in the 1988 academic year.

PROBLEM

While the agency's authority to control degree programs is appropriate and should be continued, the current close control and monitoring of all course additions and changes is unnecessary. The course monitoring and review/approval process is a time consuming, detail oriented approach. It does not appear to be the most effective process to oversee degree program expansion or the creation of new organizational units that would administer them, nor is

constant monitoring necessary to prevent funding of courses the agency might not approve.

RECOMMENDATION

The agency's current requirements and approaches to degree program approval and subsequent course approval should be changed and the statute should be amended to:

- direct the Coordinating Board to begin requiring each institution to submit a declaration of intent to inform the board of its potential to develop new degree programs or related new organizational units that would administer new degree programs. Such declaration is for the Coordinating Board's information only, but must be submitted at least two years prior to the institution's request to the Coordinating Board for approval and funding of any new degree program or related new organizational unit;
- eliminate the requirement for prior approval by the Coordinating Board of any new, changed, or deleted on-campus courses offered in a public senior college or university;
- continue the board's authority to withhold funding of courses that are not authorized, including: professional school courses when a professional school has not yet been authorized; doctoral level or graduate courses in fields which graduate degree granting authority has not been permitted; and of lower-division courses offered at upper-level institutions or centers.

This recommendation will continue the board's authority to approve the degree programs and their course content, but will provide additional information, at an earlier date, to review these requests and make a determination. Additionally, the recommendation will eliminate the time-consuming and unnecessary process for pre-approval of all course offerings and changes. Control over course changes will be continued through control over the funding.

FISCAL IMPACT

Some savings would occur within the Coordinating Board by reductions in the annual 1.1 FTE staff time now spent annually on course approval. This would free staff to engage in broader program coordination functions of the agency.

ISSUE 4: The statute should be clarified as to the degrees authorized to be used by proprietary schools.

BACKGROUND

Two degree titles offered by both public and proprietary schools have received considerable attention. These are the Associate of Applied Arts (AAA) and the Associate of Applied Science (AAS).

Both degrees are being offered by proprietary schools which are regulated by TEA, and public community colleges which are under the jurisdiction of the Texas Higher Education Coordinating Board.

The authority to approve degree titles for use in the state is statutorily placed under the Higher Education Coordinating Board. In 1981, under an interagency agreement between the two agencies, TEA was delegated the authority to approve degrees for proprietary schools. One reason the Coordinating Board delegated this authority to TEA was that TEA already had jurisdiction over the vocational programs offered by public community colleges. The legislature transferred authority over the community college vocational programs to the Coordinating Board, however, in 1985.

This series of events has resulted in the offering of degree programs of the same designation by two different types of institutions.

A review of the responsibilities for regulation and control of associate degrees indicated the following:

- ▶ Since the mid-1960s, most community colleges have been offering AAA/AAS degrees. Sixty-six public community college campuses, four technical institutes and two university campuses now offer more than 1,000 AAA or AAS degree programs.
- ▶ In 1981, there were only two proprietary schools offering AAA/AAS degree programs. Currently, there are 23 proprietary schools offering a total of 54 AAA/AAS degree programs. **See Exhibit 2 in the Appendix.**
- ▶ Community colleges are accredited by the Southern Association of Colleges and Schools (SACS) Commission on Colleges. This body requires 15 semester credit hours of college level academic courses for AAA/AAS degrees. Proprietary schools are required to be accredited by an agency or association recognized by the U. S. Commissioner of Education and are required to offer the equivalent of 14 quarter credit hours or nine semester credit hours of academic courses for AAA/AAS degrees.
- ▶ There are significant differences between the AAA/AAS degree programs offered by community colleges and proprietary schools in terms of transferability of academic courses. The courses in the community colleges could potentially transfer to an upper level degree

program while the courses offered by proprietary schools are usually not transferrable.

- ▶ While the AAA/AAS degrees offered by proprietary schools do not meet the same requirements of AAA/AAS degrees offered by community colleges, the proprietary school degrees differ significantly from the certificate programs also offered by proprietary schools in that they are more rigorous and require an academic component.

PROBLEM

Under current state policy there is no clear mid-point between academic degrees and certificates offered by proprietary schools. The statutory structure does not provide a mid-range of degrees which are more than a certificate, but have less requirements than a community college degree.

RECOMMENDATION

The statute should be amended to clarify oversight of associate degrees as follows:

- clearly specifying the authority of the Coordinating Board to approve AAA/AAS degrees. The board would have no authority over degrees approved by TEA;
- "grandfathering" students currently enrolled in AAA/AAS degree programs at proprietary schools. No new students would be admitted to an AAA/AAS degree program unless it has met the degree program requirements of the Coordinating Board. Programs not subsequently approved by the Coordinating Board to offer the AAA/AAS degrees would be closed;
- authorize TEA to approve for use by proprietary schools the degree title "Associate of Applied Technology" or variations of this title which can clearly be distinguished from AAA/AAS degree titles; and
- require TEA to consult with the Coordinating Board on any new associate degree titles to ensure that titles used by TEA are distinctly different than those authorized by the Coordinating Board.

This structure would create a mid-point between certificates and community college associate degree titles. It will allow proprietary schools to continue to offer advanced programs and will provide an appropriate title for those programs. Proprietary schools who wish to offer AAA/AAS degrees in the future can do so if they meet Coordinating Board requirements.

FISCAL IMPACT

There will be no fiscal impact to TEA or the Coordinating Board. There could be a fiscal impact to those proprietary schools that choose to continue offering AAA/AAS degree programs under the standards of the Coordinating Board. No fiscal impact would be expected for those proprietary schools that change the title of their degree programs and remain under the standards of TEA.

Transfer of Courses

ISSUE 5: The agency should initiate a process for resolution of transfer disputes.

BACKGROUND

The Coordinating Board has had responsibility for developing policies for the transfer of courses since 1965. The legislature reinforced this duty in 1987 by requiring the agency to develop policies to encourage the "free transferability" of lower division courses to upper division programs in higher education institutions. "Free transferability" means that course credits of specific Coordinating Board approved curricula must apply toward baccalaureate degree requirements if the courses are part of the degree requirements of the senior institution. The agency has worked with higher education institutions to develop a series of transfer curricula in a wide range of discipline majors and has published these for use by both sending and receiving institutions. The agency is also working with institution representatives to develop a "core curriculum" of courses which would be freely transferable to all baccalaureate programs regardless of the specific degree the student intended to obtain.

The Coordinating Board has an Advisory Committee on Undergraduate Education which is reviewing issues related to resolution of transfer disputes. The committee is currently considering the possibility of the agency establishing review procedures and a committee to address the specific problems of transfer students.

Interviews with agency personnel, personnel from other states, representatives of sending institutions and a survey of the 49 community college districts indicated the following:

- ▶ The Coordinating Board estimates that over 54,500 students each year transfer from one higher education institution to another institution.
- ▶ Sending institutions report that they are almost always successful at transferring a high percentage of their transfer students' course credits and that they are generally able to resolve transfer questions or disputes at the local level through discussions with receiving institutions.
- ▶ Sending institutions report that receiving institutions deny only a small percentage of course credits for transfer. The denial of such transfers, however, can be costly to the state, because institutions are partially funded based on the number of students in each class. When a student must repeat a course because the transfer of a comparable course was denied, the state essentially funds both the denied course and the new course. If one percent of the estimated students which transfer to an institution each year lose even one three credit-hour course which could legitimately be transferred, the cost to the state for students to replace these courses would conservatively approach \$45,000 (at \$27.50 per credit hour in state dollars).
- ▶ Receiving institutions make the final determination as to which courses will be transferred and applied to degree programs. A receiving institution may deny a course for transfer as part of a degree

requirement because it is not believed to be comparable to any of the requirements. Courses may also be denied because the receiving institution believes the quality of a course to be inadequate.

- ▶ At least four other states have a process for resolving transfer disputes at the state level. These states are Florida, Colorado, Maryland and Minnesota.

PROBLEM

Despite the mutual efforts of the agency, sending institutions and receiving institutions, disputes still occur between institutions regarding which courses should appropriately be transferred. When course transfers are denied, students must take additional courses which results in duplication of effort and additional expenditure of state dollars. The denial of courses could also result in additional costs to the students of both time and money. Students currently have no recourse to an appeal to an impartial party when courses will not transfer.

RECOMMENDATION

The agency's statute should be amended to provide a structure for the resolution of transfer disputes which would:

- require a receiving institution to notify both the student and the sending institution when it denies the transfer of course credits;
- require the institutions involved, along with the student, to attempt to resolve the problem locally, in accordance with rules which the Coordinating Board will develop;
- require the receiving institution to report the case within 45 days to the Coordinating Board, along with the reason for denying the transfer of course credit, if the student or sending institution is not satisfied with the disposition of the local process;
- require the Coordinating Board to establish rules and initiate a review process to resolve transfer disputes which could not be resolved at the local level. The Commissioner or his designee will be responsible for making the final determination on each case;
- require the agency to collect data on the types of transfer problems which occur and the disposition of each case which it considers;
- require both sending and receiving institutions to publish procedures for resolving transfer disputes, including the state level review process, in their course catalogs.

The process will ensure that students and sending institutions have recourse, after exhausting a local resolution process, when lower division courses are denied for transfer. The Coordinating Board will have more data available for use in developing policies to improve transferability problems as a result of the process.

FISCAL IMPACT

It is expected that the agency will use existing staff to establish a review procedure and maintain transfer resolution data. Therefore, no additional cost is expected. If the review process is extensively used, however, the Coordinating Board could experience some increased administrative costs. By having a review process, it is expected that fewer students would be required to take duplicative courses at the institution to which they are transferring and a savings to the student and the state would occur.

Campus Planning Activities

ISSUE 6: The agency's approval process for capital expenditure projects should be modified.

BACKGROUND

Generally, all new construction and major repair and renovation projects of public higher education institutions in Texas must be reviewed by the agency if the project cost exceeds \$300,000. The agency also approves, or delays until the legislature meets, the proposed purchase of any real property by an institution except a public junior college.

The constitution exempts from Coordinating Board approval projects primarily funded by constitutionally authorized Permanent University Funds (PUF) at the University of Texas, Texas A & M and Prairie View A & M Universities. Projects with a cost of less than \$300,000 and projects funded directly by the legislature may also be undertaken without board approval. The result is that 60 percent of the space that has been added to the colleges and universities in the last ten years was outside the board's jurisdiction.

The primary purpose of the agency's involvement is to ensure that physical plants of public institutions are developed in an orderly and efficient way to accommodate projected college student enrollments. The Coordinating Board reviews the projects to assure that they comply with the institutions' mission and needs and that an appropriate source of funds is being utilized. For example, the construction of a parking garage is considered to be an auxiliary enterprise and only auxiliary funds should be used for this purpose. A key function of the agency is to ensure that square footage is not added to an institution's inventory when adequate space already exists to meet the institution's needs.

The review of higher education campus planning activities and the agency's capital construction approval process indicated the following:

- ▶ Because institutions receive their funding for operations and maintenance of facilities based on total square footage, an incentive exists to retain underutilized square footage on the inventory and to add square footage to the inventory.
- ▶ Projects planned by institutions are subject to the scrutiny and approval of their governing boards. Each governing board approves these projects based on the institution's goals, priorities and available funds.
- ▶ Interviews with university personnel and examination of the projects which the Coordinating Board has approved or deferred indicated that not all projects require the same level of oversight. Projects which add square footage to the facilities inventory and therefore qualify for state funding should be scrutinized more thoroughly than those which do not. Most new construction projects would fall within this category of projects. The Coordinating Board and its staff, therefore, examine these projects more thoroughly than routine maintenance projects. Projects which would reduce an institution's deferred maintenance

backlog or repair a facility to prevent further, more costly damage, are subject to less restrictive oversight, particularly if no square footage is added by the project. Institution personnel indicated that in view of the differences between new construction and maintenance projects, the trigger for approving repair and renovation projects should be less restrictive. Suggestions for an appropriate trigger ranged from \$500,000 to \$1 million.

- ▶ Eighty-six percent of the costs of projects reviewed by the Coordinating Board in fiscal year 1988 were for projects which exceeded \$2 million. The total cost of projects under \$600,000 represented only 1 percent of the costs of all board reviewed projects. **See Exhibit 3 in the Appendix.**
- ▶ Certain types of projects were identified which should not require agency approval except when costs exceed a certain amount. An example is a reroofing or a painting project. A review of project requests from 1985 through July 1988 indicated that no reroofing project had ever been denied by the Board.
- ▶ The agency's oversight is focused on approving a project before it is undertaken. The agency does not extensively review the projects after their completion to confirm that they were done in a manner consistent with agency rules and guidelines, although the staff may conduct limited periodic reviews in conjunction with other activities.

PROBLEM

There is not an adequate process in place to assess the outcome of the institutions' physical plant development process. In addition, having the same \$300,000 trigger for review of both repair and renovation and new construction projects implies that both types of projects need the same degree of oversight. A trigger is therefore needed which distinguishes between these types of projects.

RECOMMENDATION

The statute should be modified to:

- raise the current \$300,000 limit on repairs and renovations to \$600,000 except that repair and renovation projects over \$300,000 which increase square footage by 1 percent or more would continue to require Coordinating Board approval;
- require that the agency conduct a periodic audit of construction projects to confirm that prior approval of projects is appropriately sought when required, and that institutions complete approved projects as indicated in their requests for approval;
- require that each institution include in its campus master plan the source of funds for all projects over \$300,000 and report any changes in the funding source of a project to the Coordinating Board prior to the project's initiation.

Distinguishing repair and renovation projects from new construction projects with regard to the approval process and making them easier to accomplish could result in an improvement in the state's deferred maintenance problem. The \$600,000 limit was identified as a minimal change with relatively few risks which would add to institutions' ease and flexibility in completing such important projects and accommodate inflation which has occurred. The review identified only eight projects under \$600,000 out of 60 total requests which were submitted to the Board for prior approval in Fiscal Year 1988. Requiring periodic audits of institutions' projects would minimize the risk of removing certain projects from the agency's prior approval authority and permit the agency to analyze an institution's actual compliance with standards and guidelines after projects are completed. The agency has the ability to correct problems it may identify through the audit. For example, incorrectly classified property could be correctly classified on the facilities inventory; facilities improperly recorded on the inventory could be removed and projects funded by the wrong source of funds could be reported to the state auditor. The changes to the current approval process are displayed in the Appendix. See Exhibit 4 in the Appendix.

FISCAL IMPACT

Changing the trigger for certain repair and renovation projects as recommended above would not significantly reduce the agency's workload. The agency could require additional staff to conduct audits of the construction activity at institutions. The agency has requested one additional full time equivalent employee in its budget request for 1990 and 1991 to assist in the performance of its campus planning activities. This additional staff support could help to offset any audit costs. The agency can use facilities inventory data to conduct the audit.

ISSUE 7: The Coordinating Board should be required to approve gifts of buildings and land as well as lease-purchase arrangements when the institution proposes to place such an item on the facilities inventory for state funding.

BACKGROUND

State law requires the Coordinating Board to review and approve new construction and repair and renovation projects which cost more than \$300,000 on public higher education campuses. The purpose of the law is to ensure that capital construction projects are undertaken only when necessary and appropriate. State oversight of such projects is necessary because state funds are frequently used to operate and maintain buildings once they are constructed.

While the law addresses the agency's oversight authority with regard to new construction and repair and renovation projects, it does not specifically authorize the Coordinating Board to approve or defer an institution's acceptance of a gift of land or a building. The law also does not address the agency's authority to approve lease purchase arrangements. As with new construction and other capital improvement projects, such acquisitions could have a significant impact on future state expenditures if they qualify as educational or general use property and are placed on the facilities inventory for state formula funding.

The review of specific cases of lease purchase arrangements and gifts of buildings which institutions received and indicated the following:

- ▶ Property obtained by gift or lease-purchase is extremely varied and can range from a small piece of residential property to millions of acres of land.
- ▶ Some gifts carry with them an endowment for maintenance and support of the building. In such cases, state funding may never be required.
- ▶ Some properties, such as dormitories, acquired by lease-purchase arrangement may offer significant financial advantages to an institution and, since they are defined as "auxiliary" property, would not be eligible for state formula funding. If, however, the auxiliary property were to be converted to educational and general space, the space would be eligible for state funds for its operations and maintenance. For example, the review identified three institutions which had converted dormitories to general education space when the need for dormitory space decreased.
- ▶ The acquisition of property by gift or lease purchase is of considerable importance to the state because, under certain circumstances, the property could qualify for state funding for maintenance and operation. The potential cost to the state is significant because, over its lifetime, a building's maintenance costs represent 75 percent of its total costs. For example, the review identified one building received as a gift by an institution which is now being used for research purposes. The 50,000 square foot building conservatively generates over \$250,000 in state costs each year.

- ▶ Institutions require a degree of autonomy and flexibility in negotiating with donors in order to maximize the potential benefit to the institution and the state of receiving gifts.
- ▶ The acquisition of property and subsequent receipt of state funding for its support may be appropriate for institutions with space deficiencies, but the expenditure of state funds to maintain such acquisitions on overbuilt campuses may be inappropriate.

PROBLEM

The lack of state control over acquisitions of buildings by gift or lease-purchase can result in property being unnecessarily added to the inventory for state funding in the future.

RECOMMENDATION

The statute should be amended to:

- authorize the coordinating Board to review and approve real property obtained by gift or lease purchase by institutions only when:
 - the institution proposes to place the property on its facilities inventory; and
 - the value of the property exceeds \$300,000.

The Board would be authorized to approve, or delay until the legislature meets, the placement of the property on the inventory but would not have authority over the institutions acceptance of any gift.

This change will provide the Coordinating Board with the ability to prevent certain acquisitions from being inappropriately placed on the facilities inventory, while leaving the institutions with the flexibility and autonomy to accept gifts or make lease purchase arrangements as they see fit. Although institutions would not be prohibited from accepting any gift, they would have a stronger incentive to consider not only the benefits of the acquisition but also the likelihood of receiving Coordinating Board approval for the acquisition to receive state maintenance funding in the future. The \$300,000 trigger for approval of such acquisitions would be consistent with the trigger for approval of new construction projects. The two types of acquisitions are similar because they both generally add square footage to the facilities inventory for formula funding.

FISCAL IMPACT

The actual benefit to the state cannot be estimated. However, if the agency could prevent even one gift of a building from being placed on the inventory for state funding when it is not in the best interests of the state to do so, a substantial cost-avoidance could be realized.

ISSUE 8: Institutions should be required to report deferred maintenance information in their campus master plans.

BACKGROUND

The Coordinating Board has statutory responsibility to require institutions to develop long range plans for campus development and assist in developing these plans. The purpose of such planning is to assure the efficient use of construction funds. The board, through its policies and approval procedures, encourages institutions to plan for the timely repair and maintenance of facilities so that the costly effects of delaying repairs can be avoided. Maintenance is sometimes deferred because in times of declining enrollments or limited funding available funds are shifted to other priorities.

Deferred maintenance is considered to be a serious problem in colleges and universities across the country. In Texas, buildings which are over 20 years old represent 49 percent of the total square footage of public higher education institutions. This means that a significant number of the facilities are at a stage where they require such life-cycle improvements as re-roofing or structural or mechanical repairs. Failure to make timely repairs could result in more extensive damage to facilities at an ultimately higher cost.

As a result of a constitutional amendment in 1984, a fund was made available to institutions which were not eligible to receive Permanent University Funds to help address their repair and renovation needs. The fund, known as the Higher Education Assistance Fund (HEAF), was intended to be used for major repair and renovations of buildings, new construction, equipment and library needs.

The review of the agency's ability to address the deferred maintenance needs of higher education facilities and indicated the following:

- ▶ The agency's primary source of information regarding the deferred maintenance needs in the state is a 1982 private consultant study contracted by the Coordinating Board. The study indicated that at least \$300 million in deferred maintenance and repairs had accumulated in the state.
- ▶ The Coordinating Board maintains information on the planned construction and renovation at each institution in the form of a campus master plan. Each institution submits a plan which identifies projects scheduled over a five year period. However, the plans do not always contain the institution's assessment of its total repair and renovation needs.

PROBLEM

The Coordinating Board does not have the information it needs to adequately assess the deferred maintenance situation in colleges and universities in Texas. In addition, the agency indicates that most institutions are unable to report the size of their major maintenance and repair backlog. No comprehensive data exists, therefore, for the agency to measure trends related to the deferred

maintenance situation in the state. Unchecked and unmonitored, this situation can end up costing the state millions of dollars unnecessarily, because buildings deteriorate and eventually require extensive repairs if not routinely maintained. Finally, although the agency is charged with approving new construction and repair and renovation projects built with HEAF funds, it does not always have information available as to how institutions plan to spend these funds, and therefore lacks a potentially helpful management tool.

RECOMMENDATION

The statute should be changed to:

- require that institution campus master plans include an assessment of the institution's deferred maintenance needs and a plan for addressing these needs. The plan should include an assessment of regular, preventive maintenance needs as well, since attention to these needs can prevent future deferred maintenance problems;
- require institutions receiving allocations from the Higher Education Assistance Fund to include plans for expenditure of the funds in the campus master plan;
- require institutions to indicate in the plan an amount which is to be designated each year for repairs, renovations and deferred maintenance projects;
- require the agency to develop, by rule, a definition of deferred maintenance and the specific information which should be reported in the plan;
- require the agency to use the information reported in the plan to assess the deferred maintenance needs in the state and include its findings in its regular annual report.

This exercise would force institutions to assess their maintenance needs and compare these needs to available funds. The information would also provide the agency with additional information which can be used to structure future audits of institutions and plan other agency activities. For example, if the agency identifies through the campus master plan that an institution which is overbuilt by the agency's standards is planning major new construction while doing little to resolve deferred maintenance problems, the agency may conduct more frequent audits of the institution or offer other consultation to improve the problems identified.

FISCAL IMPACT

No additional cost is expected. The agency can use its existing staff to evaluate the additional information which would be reported in the campus master plans.

ISSUE 9: Future reviews of the Higher Education Assistance Fund (HEAF) allocation formula should include a comparison of institutions' deferred maintenance needs and the extent to which the funds were used to meet these needs.

BACKGROUND

Voters approved a constitutional amendment in 1984 which made \$100 million available each year to institutions that were not eligible to receive Permanent University Funds. The fund, known as the Higher Education Assistance Fund (HEAF), was predicated on an urgent need by institutions to meet their repair and rehabilitation needs and to eliminate the practice of deferred maintenance. The funds were made available in 1985 and may be used to purchase land, construct and equip buildings, acquire other permanent improvements, purchase library materials and make major repairs and renovations to buildings.

A review of the current statutory requirements for reviewing the HEAF allocation formulas indicated in the following:

- ▶ Initially, the Coordinating Board participated in a project with university presidents to develop a formula for distributing these funds. The criteria used currently address space deficiency and building conditions. The criteria also take into consideration an institution's complexity, such as the amount and type of degrees it offers and the research it conducts.
- ▶ The Constitution requires the legislature to review, or provide for a review, of the HEAF allocation formula at the end of the fifth year of each ten year allocation period. At that time, adjustments may be made in the allocation formula. The Coordinating Board, with the assistance of university presidents representing the HEAF schools, served as the reviewers in the most recent formula review which took place in September, 1988 for the fiscal year 1991 allocation. The reviewers made no changes to the formula, but the factors for measuring the complexity of an institution were updated to reflect any program changes the institution had made. The next review will be held prior to the fiscal year 1996 allocation.
- ▶ The Coordinating Board has limited data on deferred maintenance needs now. The Facilities Condition Survey which is used as a guide to assess deferred maintenance has not been updated since its development in 1983. This data, combined with information the agency obtains on some of its site visits could be reviewed when the allocation process takes place. The agency has requested \$400,000 to update the facilities condition survey. If funded, this process would provide more current deferred maintenance information.

PROBLEM

Persons responsible for reviewing the HEAF allocation formula do not always have complete information available on the extent to which HEAF funds were used to resolve deferred maintenance problems at an institution. Without this information, those developing the allocation formula cannot adequately assess the fund's effectiveness in meeting one of its primary purposes.

RECOMMENDATION

The statute should be amended to:

- require that future reviews of the HEAF allocation formula include a comparison of institutions' deferred maintenance needs and the extent to which the funds have been used to meet these needs. The review will evaluate the effectiveness of the current HEAF formula and determine if additional incentives should be built into the formula to encourage institutions to address deferred maintenance needs to a greater extent.

This type of evaluation will result in a current understanding of the deferred maintenance problems in the state and facilitate an adjustment in the formula to address these problems if the formula reviewers deem an adjustment to be appropriate.

FISCAL IMPACT

No additional funds should be required to adjust the HEAF formula review process in the manner suggested above. The agency has requested an appropriation of \$400,000 to update its Facilities Condition Survey and this survey would enhance the information available to reviewers of the formula. Regardless of whether this or not the survey is funded, the agency can compile the information it does have available from any sources and submit this to the reviewers.

ISSUE 10: The Coordinating Board should reassess its current space standards and develop new space standards which address the differences between teaching, research and service activities.

BACKGROUND

The Coordinating Board uses a set of space standards developed in 1980 to assess space needs and current utilization of space at each public higher education institution except community colleges. These standards are used to determine the need for additional space and therefore, whether or not construction projects planned by an institution should be approved or deferred. The Coordinating Board compares an institution's full time student equivalent (FTSE) enrollment with the institution's total "educational and general" square footage to arrive at a square footage amount per FTSE.

The review of the current space standards and their use in assessing the need for new construction or other capital improvement projects indicated the following:

- ▶ The space standards used in Texas are generally less sophisticated than those used in other states to assess space needs. Some states, for example, have standards which evaluate research space according to the number of employees assigned to a project or the type and amount of research being conducted.
- ▶ The FTSE factors are appropriate for evaluating the classroom and teaching laboratory space at an institution, but are not always valid indicators of the need for research or service-related space. For example, research activities may involve relatively few students but may require substantial space.
- ▶ Comparisons between states of the standards being used to assess space needs and utilization and the methods for applying those standards are problematic because of the differences in higher education governing structures from state to state. Generally, however, of the 19 states having standards for space utilization and space needs, 11 states were identified which had specialized standards for research space. Space needs for service activities in other states are sometimes determined by the number of employees or the number of offices involved in the activity. The review identified 14 states which use standards or guidelines for office space.
- ▶ Use of the current standards could result in research space and public service space being inadequately funded. For example, if new research space is approved based solely on square footage per FTSE, an institution may not obtain approval for the research space it needs. This could interfere with an institution's ability to compete for future research funds, and further inhibit its research capabilities. While the Coordinating Board considers each request for a new project individually and does not base any decision solely on the current standards, it does lack standards specifically designed for evaluating research space.

PROBLEM

Because the current space need/space utilization standards are based on FTSEs, they do not take into consideration all three of the primary missions of colleges and universities--teaching, research and public service. The state therefore does not have the information it needs to ensure that projects are appropriately approved based on current utilization and space needs.

RECOMMENDATION

The statute should be amended to:

- require the Coordinating Board to reassess its current space standards and develop standards which address the differences between teaching, research and service activities.

Having standards which address the three missions of higher education institutions would provide the agency with a more equitable and realistic management tool for assessing an institution's space needs. The use of such standards would help to ensure that state funds are spent for projects based on valid, documented needs. In addition, institutions with research and public service functions would be evaluated by standards more appropriately related to these functions.

FISCAL IMPACT

None. The agency would use the data produced through its update of the facilities inventory for the development of new standards.

ISSUE 11: The agency should conduct an audit of facilities on public senior institutions to verify the facilities inventories and use the updated inventories to assess the effectiveness of campus planning activities.

BACKGROUND

Since 1969, the public senior institutions of higher education and the Texas State Technical Institute have prepared or updated a facilities inventory and forwarded it to the Coordinating Board annually. The facilities inventory contains information on the square footage of the institutions' "education and general" space, for which state funding is allocated, as well as auxiliary space which is not eligible for state funding. Educational and general space is a nationally recognized space inventory classification which includes all enclosed assignable space on a campus except space such as student unions, bookstores or dormitories. Assignable space is that which is assigned for specific institutional purposes. This space includes classrooms, laboratories, offices and conference rooms but not hallways, stairways or other similar space.

A review of the agency's use of the facilities inventory indicated the following:

- ▶ The inventory is used by the Coordinating Board to determine an institution's utilization of space, the current space available and the relative need for additional space.
- ▶ Through the formula process, the institutions receive their state funding for facilities operation and maintenance based largely on the data contained in the facilities inventory. Through a comparison of the institution's biennial appropriation request and the facilities inventory, the agency staff verify that space for which funding is requested is appropriately placed on the inventory. In 1987, the staff identified 21 institutions which requested funds for operation and maintenance that could not be justified because the facilities were not reported on the inventory. As a result, a savings to the state of \$716,000 for the 1988-1989 biennium was identified.
- ▶ The inventory data and space utilization data are entirely based on information reported by the institutions and are not verified on a systematic basis.

PROBLEM

Although the agency compares inventory data to budget requests to verify the appropriateness of state funding, both of these documents are submitted by the institutions. The agency has no current mechanism for verifying that the information reported is accurate and complete. In addition, the inventory data is not used to the extent it could be by the agency to assess trends in facilities growth, the appropriateness of space classifications, compliance of institutions with general standards and other changes to an institution's square footage.

RECOMMENDATION

The agency's statute should be changed to:

- require the agency to conduct a comprehensive audit of all educational and general facilities on the campuses of the public senior institutions and the Texas State Technical Institutes (TSTI) to verify the accuracy of the facilities inventories;
- require the agency to conduct periodic audits to confirm the appropriateness of the institution's budget requests, and to assess the effectiveness of campus planning activities of both the agency and the institutions. The audits should be used to determine whether projects undertaken by the institutions meet the agency's standards and guidelines; and
- require the agency to report its findings to its board, the Legislative Budget Board, and to the audited institution with recommendations for improvement.

This change will require the agency to conduct an initial, on-site review of educational and general facilities at public senior institutions and TSTI in order to update inventory data. The agency will subsequently use the updated data to evaluate the effectiveness of the institution's campus planning activities and compliance with standards and guidelines. The agency will initiate an audit process which will allow for each institution to be audited periodically using appropriate sampling techniques or other methods adopted by rule. The information obtained in the audit will be used to update the inventory. This process will result in more accurate information on which state funding is substantially based, and enable the agency to assess its own effectiveness as well as that of the institutions in coordinating campus planning activities.

FISCAL IMPACT

The initial comprehensive audit of all institutions would cost approximately \$155,000. The agency estimates, however, that a correction of one percent in the amount of space receiving full state support for operation and maintenance would result in annual savings of over \$2 million. The agency has requested one additional full time equivalent employee (FTE) in its budget request for fiscal year 1990 and 1991 to assist in the performance of its campus planning activities. This would provide the campus planning division with the staff necessary to conduct the audits after the initial comprehensive audit of all institutions is completed.

Financial Aid Programs

ISSUE 12: The Hinson-Hazlewood College Student Loan Program should be discontinued and additional authority granted to the Texas Guaranteed Student Loan Corporation to ensure that loans not available in the private sector continue to be available to students in need.

BACKGROUND

In 1965, a Texas constitutional amendment was adopted which authorized the Texas Opportunity Plan Fund. Loans are made from the fund to Texas students attending public and private institutions of higher education in the state. A total \$285 million in state general obligation bonds to finance the loan program is authorized. Originally known as the Texas Opportunity Plan and sometimes referred to as the TOP loan program, it is now known as the Hinson-Hazlewood College Student Loan Program. Since its inception, the loan program has been operated by the Coordinating Board.

Shortly after the Texas Opportunity Plan Fund was created, the federally insured student loan (FISL) program was started. Under the terms of that program, in the fall of 1971, Texas' Hinson-Hazlewood loans became insured directly by the federal government against the death, disability, or default of the borrower. In the fall of 1976, the federal government, seeking to decentralize the FISL program and to encourage greater private sector participation in student loans, offered incentives to each state to establish a guarantee agency to insure, or guarantee, the loans and provide services to commercial lenders. The federal government, in turn, reinsures the state guarantee agencies at a rate based on the level of defaults they experience. In response to the federal initiative, the Coordinating Board recommended to the legislature that a special study committee consider what course of action the state should take.

The legislature established a joint interim study committee in the spring of 1977 which was staffed by the Coordinating Board. The board contracted with the accounting firm of Touche, Ross & Co. to evaluate alternative structures for a state guarantee program. Following the recommendations of the study and the joint committee, the Texas Guaranteed Student Loan Corporation (TGSLC) was created in 1979 as a public, non profit corporation. It guaranteed its first student loan in 1981. The TGSLC does not make loans and receives no state appropriation, other than an initial start-up appropriation of \$1.5 million from the federal special lenders' allowance earnings from the Hinson-Hazlewood loan program.

There are currently four main types of Hinson-Hazlewood loans the Coordinating Board offers to students: guaranteed student loans (GSL) and supplemental student loans (SLS) which are insured by the TGSLC; Health Education Assistance Loans (HEAL), backed by the U.S. Department of Health and Human Services; and the newly-authorized College Access Loans (CAL), which are not insured. Since the loan program's inception, a total of \$205.5 million in bonds have been issued. As of August 1988, there were \$97.8 million in bonds outstanding in the loan fund and the last bond was issued in 1977.

The review of the direct, state-financed student loan program indicated following:

- ▶ The system of providing loan financing to students has changed greatly since the inception of the Hinson-Hazlewood loan program. Whereas that program was for many years essentially the only student lender, today many other organizations exist which perform the same functions. For example, several hundred commercial lenders make student loans; the TGSLC services student loan accounts for many lenders; Texas-chartered Higher Education Authorities serve as secondary market purchasers of student loans, as does the federal Student Loan Marketing Association (Sallie Mae); and there are several private specialized student loan servicing organizations. In essence, the Hinson-Hazlewood program today is but one of many lenders "competing" in the complex student loan market. Since the creation of the TGSLC, and the Higher Education authorities, more and more private sector lenders have begun to make student loans in the state. Only three percent of loans guaranteed by the TGSLC last year were Hinson-Hazlewood loans. **See Exhibit 5 in the Appendix.**
- ▶ As the volumes in the Hinson-Hazlewood loan program have decreased and as a greater proportion of the loans made do not receive federal lenders' and interest subsidies, the program has become more costly for the state to administer. Approximately 81 of the board's 214 employees are involved in loan operations and providing computer support for the program. The board's computer is currently operating above capacity and the loan operations account for 47 percent of the agency's total computer budget. Federal lender's allowance funds, which have historically provided the source of funds for the administration of the program as well as minority scholarships, teacher loan cancellations, and supplements for the commissioner's salary, are decreasing steadily. By 1991, lender's allowance funds will amount to only 27 percent of the program's administrative and computer support costs alone, and general revenue appropriations will fund the difference. **See Exhibit 6 in the Appendix.**
- ▶ The Coordinating Board and the TGSLC are currently authorized "lenders of last resort" in statute. However, the Coordinating Board is not capable of meeting the full demand for student loans in the state should the private sector lenders, for whatever reason, stop making student loans. The TGSLC, on the other hand, is equipped to handle the volume but does not have an economical source of capital. The review determined that the TGSLC could be the state's lender of last resort more effectively than the Coordinating Board. By authorizing the TGSLC to issue revenue bonds and to administer student loan programs other than the federally guaranteed student loans, the corporation could offer all of the loans the Hinson-Hazlewood program currently does without any state appropriations or incurring any state debt.
- ▶ The review determined that the state could take an alternative approach to providing student loans that would result in substantial cost savings to the state in the future, eliminate a general obligation debt, and that would not harm students who are seeking loans. By

discontinuing the Hinson-Hazlewood student loan program operations at the Coordinating Board, approximately \$1.2 million in annual general revenue operating costs could be saved after a one year phase-out period. Another \$900,000 in annual general revenue funds for the board's computer center would be available for other agency objectives. The board's existing student loan portfolio could be sold under competitive bid and the bid proposals could stipulate a preference for Texas secondary market lenders or other Texas agencies such as the Employees Retirement System or the Teachers Retirement System. In addition, other requirements of the portfolio purchaser(s) could be made such as requiring ample notification and assistance to current borrowers about where to send their payments, etc. Proceeds from the portfolio sale and existing assets in the loan fund would allow the board to refund all its bond obligations. This would terminate the Texas Opportunity Plan Fund, which is authorized, but not required, under the Texas Constitution. There would be a balance in the fund after all the obligations have been retired of approximately \$102 million because of investment earnings. Under the constitution, this income may be used for the purposes prescribed by the legislature.

- ▶ Students would continue to receive guaranteed student loans from commercial lenders, as over 242,000 (95 percent) of them currently do, if the Hinson-Hazlewood loan program were discontinued. However, the review determined that provisions should be enacted which would authorize the TGSLC, which is currently designated the state's lender of last resort of guaranteed student loans, to issue tax exempt student loan revenue bonds in order to finance last resort loans in the event commercial lenders are no longer willing or able to issue guaranteed student loans. The terms of these loans are set by the federal government and fluctuate for private and state lenders alike.
- ▶ Special types of loans are also offered, in addition to the standard loans, through the Hinson-Hazlewood loan program. These are the Health Education Assistance Loans (HEAL); the Health Education Loan Program (HELP); and College Access loans (CAL). These types of loans could be statutorily continued through the TGSLC. Authorizing TGSLC to issue revenue bonds and issue and/or guarantee these types of student loans would allow a student to continue to receive these loans in the future. However, it should be recognized that if interest rates were to increase greatly in the near future, the TGSLC could not offer the same low interest rates (8 percent fixed interest compounded semiannually on HEAL and HELP loans and 10 percent fixed simple interest on CAL loans) as the Hinson-Hazlewood program currently offers. The Coordinating Board itself could not continue these terms because the cost of issuing the needed bonds would increase.
- ▶ Federal lender's allowance funds received by the Coordinating Board for the Hinson-Hazlewood loan program have been used by the legislature as a method to finance many different endeavors in recent years. For fiscal year 1989 out of the estimated \$1.2 million in allowance funds, \$432,000 is used for three purposes: \$104,940 is used to help support the agency's administration of the Hinson-Hazlewood Loan Program; \$45,060 is used to supplement the commissioner's salary; and \$282,000 is used for scholarships for educationally disadvantaged students and for

recruitment of minority staff and faculty. The phase-out of the loan program will necessitate new methods to fund the supplementation, scholarship and recruitment efforts. Two approaches to meet these needs have been identified. Should the claims settlement process stretch out over many months, the state will continued to receive an estimated \$600,000 per quarter in federal interest subsidy and lender allowance funds on the defaulted loan portfolio. This amount can easily cover the current uses. On the other hand, should the federal government pay the defaulted claims in one lump sum, the state would have \$33 million available to meet these and other needs. These funds have not been counted in the \$102 million estimated fund balance discussed above.

PROBLEM

The Hinson-Hazlewood student loan program was created in 1965 and for almost 20 years was the only lender in the state making loans to students. Since the creation of Higher Education Authorities and the Texas Guaranteed Student Loan Corporation, however, over 600 commercial lenders also currently make student loans. The review determined that continuing to operate the Hinson-Hazlewood loan program is costly for the state and that the program could be discontinued without adversely affecting the availability of student loans, or the development of other student assistance initiatives the state may wish to take.

RECOMMENDATION

The Coordinating Board's statute should be changed to:

- repeal its authority to issue student loans after a one-year phase-out period;
- instruct it to sell the student loan portfolios by competitive bid; and
- direct the board to file a claim with the appropriate guarantor on all loans that have defaulted.

The Texas Guaranteed Student Loan Corporation's statute should be changed to:

- authorize the corporation to issue tax exempt revenue bonds;
- authorize it to issue and/or guarantee alternative loans (CAL) in addition to federal guaranteed student loans; and
- authorize it to issue Health Education Assistance Loans.

This solution would discontinue the ongoing operations of the loan program by the Coordinating Board and eliminate approximately 65 positions. The proceeds of the portfolio sale would refund the existing bonds and leave a surplus which could be appropriated for other purposes. The existing portfolio could be sold at a premium because of its relatively high quality as compared to other student loan portfolios. In addition, the board should file a claim on all the defaulted loans it has previously held and pursued legally on its own. The one-year phase-out period on issuing new loans will allow students enough time to find another lender. This solution focuses all of the state's student loan activities in one agency, provides the TGS LC with a source of funding for loans of last resort, and authorizes it to provide alternative loan programs to students, at no state expense.

FISCAL IMPACT

There would be approximately on-going net savings to state general revenue funds of \$ 1.2 million per year in loan program operations (after one year). In addition, approximately \$900,000 in annual general revenue appropriations for data processing would be available for other agency objectives. The proceeds of the sale of the loan portfolio, estimated to occur in fiscal year 1990, would allow the board to refund state general obligation debt of \$88.4 million outstanding at the time and save further interest payments on that debt of \$12.3 million. There would be a net balance in the Texas Opportunity Plan fund of approximately \$102 million which could be appropriated for another purpose. See **Exhibit 7 in the Appendix**. In addition, discontinuing the program would eliminate the possibility of long term state general obligation debt of \$285 million being issued in the future.

Once the necessary financial transactions are completed that are laid out in the above recommendations, over \$100 million will be available for expenditure by the legislature. These dollars could be used to meet many identified needs of students in the state's higher education system. The establishment of a trust fund is one approach the legislature might consider to ensure that the proceeds be maximized to help meet the needs for many years to come. Interest from the fund could conservatively approach \$10 million per year and be used to dovetail with changing resource demands. The work of the Select Committee on Higher Education and past legislative proposals from recent sessions indicated the need for university level remediation programs, increased scholarships for needy students, improved substance abuse programs on college campuses, enhanced incentive programs that lead to increased numbers of professionals in shortage areas of the state or a capital fund for prepayment of college tuition.

ISSUE 13: The agency's loan forgiveness programs should be restructured.

BACKGROUND

Texas has developed several programs which offer financial assistance with the cost of education to provide incentives for persons to practice in a particular field and/or in an underserved area of the state. Basically, there are two types of these programs. Grants or scholarships may be offered to students who in return promise to practice in the specified field or area. If the student fails to fulfill the obligation, he or she is required to pay back the money received. In practice all applicants are issued loans (a promissory note must be signed if there might be an obligation to repay), and these loans are in turn "forgiven" or cancelled if and when the recipient fulfills the obligations. These are called loan forgiveness programs. The second general category of financial assistance incentive programs are called loan repayment programs. In this instance, persons who agree to practice in the specified shortage area make application to the program and funds are applied to pay off student loans which the recipient obtained from another source. Loan repayments are made in a direct relationship to amount of time served in the shortage area.

The Coordinating Board currently administers several of these state educational financial assistance incentive programs. The Physician Student Loan Repayment Program assists in the repayment of student loans of physicians who practice in an economically depressed or rural medically underserved area of the state or who work for one of four specified state agencies. The Physical Therapist Loan Repayment Program is similarly structured, but has not been funded. It would repay the student loans of physical therapists who practice in a Texas Department of Mental Health and Mental Retardation residential care facility. The Teacher Education Loan Program (TELP) and the Future Teacher Loan Program (FTLP) are loan forgiveness programs which have been funded only once and provide loans to students who agree to teach in a shortage area or to teachers who agree to get recertified to teach in a primary or secondary education shortage subject.

The review of the state loan forgiveness programs administered by the Coordinating Board indicated the following:

- ▶ The Teacher Education Loan Program and the Future Teacher Loan Program are more time-consuming and problematic to administer than a single loan repayment program that would accomplish the same purpose. In the TELP and FTLP programs, all of the procedures of loan origination must be followed; the students must be tracked throughout their time in school and afterwards, and their employment must be verified. Because of deferrals available, these efforts can last several years. When teaching obligations are not met, the loans must be collected and there are complicated calculations for deferred interest, etc. which must be made.
- ▶ These loans are not guaranteed and the state bears the full cost of loan defaults.

- ▶ Administering loan repayment programs is relatively easy and straight forward: the state issues a check to repay portions of the recipients' existing student loan debt. In addition, there is less state risk since payments are made in direct relation to the time served in the shortage area.
- ▶ Loan forgiveness programs are more costly than regular student loans for students who do not fulfill the obligations because they bear higher interest rates. Currently, needy students can receive guaranteed and supplemental student loans from almost any private lender, and a number of alternative loan programs are available from lenders nationwide for students who do not qualify for the federal guaranteed student loans.
- ▶ Although teachers or other professionals returning to school for teacher certification were not eligible for the federal loan programs at the time the TELP was created, in August 1988 federal regulations were changed to make that group eligible for those loans. The problem with student loans today is not so much obtaining them, but rather the high debt burden which faces many graduates.
- ▶ In addition, the review found that the statutory provisions regarding cancellation of Hinson-Hazlewood loan repayments (Sec. 52.40, Education Code) are duplicative of other sections authorizing the teacher and physician loan repayment programs and should be combined with those sections, as appropriate, or repealed. This section represents the state's first financial assistance incentive program in 1975 when the legislature authorized the Coordinating Board to cancel the loan repayments due on state Hinson-Hazlewood loans from certain specified professionals. An attorney general opinion (H-747) found that the board could enter into loan cancellation contracts in the absence of any legislative "off-set" appropriations because of constitutional provisions that appropriate funds directly to pay the principal and interest due on student bonds as they mature, if there are insufficient funds in the loan fund. Following the opinion, the statute was amended to limit Hinson-Hazlewood loan cancellations to an amount appropriated for that purpose from general revenue funds. Separate sections of the statute currently outline, in detail, provisions for physician and teacher loan cancellations. Since direct legislative appropriations are necessary to make loan cancellations, the source of the student loan, Hinson-Hazlewood or another lender, is not significant.

PROBLEM

The Coordinating Board currently administers two student loan forgiveness programs: the Teacher Education Loan Program and the Future Teacher Loan Program. Both encourage teachers to teach in a subject area with an identified shortage of teachers by making loans which will be cancelled once certain teaching obligations have been met. In loan repayment programs, by contrast, payments are made by the state toward existing student debt after the service requirements have been fulfilled. The repayment programs accomplish the same objectives in a more efficient and effective manner.

RECOMMENDATION

The appropriate statutes should be modified to:

- restructure the Teacher Education Loan program so that its provisions are similar to the physician student loan repayment and physical therapist student loan repayment programs;
- repeal provisions relating to the Future Teacher Loan program;
- define transitional provisions for current loan recipients; and
- remove the section regarding cancellation of Hinson-Hazlewood loan repayments after first combining provisions into the relevant sections on teacher and physician loan cancellations, as necessary.

These solutions would redefine the state's student financial assistance incentive programs to all be loan repayment programs, which are less costly to administer and reduce state risk. The Future Teacher Loan program would not be needed since the restructured Teacher Education Loan program would serve the same objectives. In addition, by combining or deleting existing provisions regarding Hinson-Hazlewood loan cancellations, all the provisions regarding loan cancellations would be in one location and clarify that loans from any lender are eligible for repayment.

FISCAL IMPACT

The teacher loan programs were funded initially late in the 1984-85 biennium -- after the special session of the 68th Legislature in the summer of 1984. \$1.2 million for the TELP and \$1 million for the FTLP were appropriated out of the federal special lender's allowance funds which are received by the board for the Hinson-Hazlewood loan program. The board was only appropriated unexpended balances for the 1986-87 biennium and no additional funding was made available for 1988-89. For the 1990-91 biennium, the Coordinating Board is requesting \$1 million for the TELP only. If the program is funded, the modifications outlined above should ensure more efficient and effective use of those funds.

ISSUE 14: The State Rural Medical Education Board should be abolished.

BACKGROUND

Texas has long had problems in supplying physicians to rural areas of the state. In 1952, a constitutional amendment was adopted authorizing the legislature to create a State Medical Education Board and Fund to provide incentives to medical students who agree to practice in rural areas. The legislature did not create the State Rural Medical Education Board to implement the program until 1973 (Art. 4498c, V.A.C.S.).

In its Performance Report to the 70th Legislature (1987), the Legislative Budget Board (LBB) found that the success of the State Rural Medical Education Board (SRMEB) was questionable and that the board should be abolished. It found that only 11 percent of the persons who had received loans since 1973 were practicing medicine in rural Texas counties and only 14 percent of those were in areas designated medically underserved. In addition, the LBB found that the program's objectives are now duplicated by two new programs -- the Family Practice Residency program and the Physician Student Loan Repayment program -- both of which are administered by the Coordinating Board.

The Family Practice Residency program (1977) provides state funds to teaching hospitals to establish or maintain certain residency programs. A statutory Family Practice Residency Advisory Committee oversees the development and approval of the programs. Each program is required to employ a variety of techniques designed to get more family practitioners into underserved areas. In fiscal year 1988, there were a total of 462 family practice residents enrolled in 26 programs. The \$7,295,000 appropriated to the Coordinating Board provides for approximately 20 percent of each resident's annual average cost. Forty-two percent (489) of all graduates of the programs since 1979 are currently practicing in Texas counties designated as shortage areas or that have recently been designated.

The Physician Student Loan Repayment (PSLR) program was authorized in 1985. That same year, the legislature prohibited the SRMEB from making any new loans to medical students who had not previously received a loan from the board. This program essentially accomplishes the purpose of the SRMEB program, except that the SRMEB is a forgiveness program and the PSLR a repayment program. Under the PSLR, the Coordinating Board issues payments for the cancellation of eligible student loans of physicians who practice in an economically depressed or rural medically underserved area of the state or who practice for one of four designated state agencies (the Texas Department of Health, the Texas Department of Mental Health and Mental Retardation, the Texas Department of Corrections, and the Texas Youth Commission). Funds for the program come from a statutorily-designated two percent set aside of resident medical school tuition payments. Under Coordinating Board rules, repayments of up to \$6,000 per person are made at the end of each year of service for a maximum of five years. The first repayments were made in fiscal year 1987 when a total of six physicians completed a year of service. In fiscal year 1989, 30 physicians are estimated to qualify for loan repayments. This program has a statutory sunset date of 1997.

Senate Bill 795 by Parker (70th Legislature - 1987) would have abolished the SRMEB and reassigned the administrative duties for existing loans to the Coordinating Board. Another bill (SB 396 by Brooks), would have abolished the board, created a Rural Medical Education Council, and placed the council administratively under the Coordinating Board. Neither bill passed. However, a rider to the appropriations bill for the SRMEB stated the intent of the legislature that the operations and responsibilities of the SRMEB be transferred to the Coordinating Board. In addition, the SRMEB was appropriated only \$10,000 in fiscal year 1988 and \$5,000 in fiscal year 1989 for operating expenses. Previous operating expenses of the board were as high as \$75,000 in fiscal year 1986. Also appropriated were \$125,000 for continuation loans in 1988 and \$33,000 in 1989.

The review of the State Rural Medical Education Board's activities indicated the following:

- ▶ Problems have arisen over the transfer of funds from the SRMEB to the Coordinating Board to implement the rider. The comptroller's office has indicated in correspondence to the Coordinating Board that no statutory authority exists for the Coordinating Board to administer the SRMEB program. The SRMEB could contract with the Coordinating Board to administer the program, but to date it has refused to do so and is, instead, seeking private funding to continue its operations independently.
- ▶ Placing the administration of the SRMEB program under the Coordinating Board will provide oversight of approximately \$4.5 million in outstanding loans and obligations which are currently unsupervised.
- ▶ Repayment programs such as the PSLR are inherently cheaper to administer than forgiveness programs such as the SRMEB. In a forgiveness program, the student receives the loan or scholarship funds "up-front" in return for a promise to serve in the future (and pays penalties if he or she fails to serve). In the repayment program, a student obtains medical school financing from another source, practices in the shortage area, and, in return, payments are made by the state toward his existing student debt. Repayment programs promise a quicker return on the state's money because payment is made only after the service has been performed and less time is spent monitoring the recipients.
- ▶ The Coordinating Board should give consideration to jointly managing the PSLR program with its other physician incentive programs (the family practice residency program, the compensation for resident physicians and the trustee funds for the Baylor medical and dental schools). In this manner, more attention could be focused on planning and promoting each program in the context of a broader mission to effect a better distribution of physicians in the state. In addition, the Family Practice Residency Advisory Committee could serve as a general advisory committee for all the physician incentive programs and advise the board as to the programs' continued effectiveness.

- ▶ The PSLR program statute currently restricts loans eligible for repayment to those obtained through Texas lenders. In view of the relatively small number of physicians participating in the program to date, this restriction appears to be unnecessary as a mechanism of limiting the number of eligible applicants and could hinder the program's goal of recruiting physicians to underserved areas. Furthermore, since only physicians who have been licensed to practice medicine in this state are eligible for the loan repayments, the Texas lender restriction is not necessary to ensure the quality of the eligible physicians.

PROBLEM

The State Rural Medical Education Board and program are not needed because two newer programs administered by the Coordinating Board are getting more physicians to practice in rural shortage areas. The SRMEB has been, in effect, zero-funded but its operations and responsibilities cannot be transferred to the Coordinating Board without statutory modifications. In addition, the review determined that removing a Texas lender restriction regarding eligible lenders and a management change at the Coordinating Board could further improve the effectiveness of the physician incentive programs it administers.

RECOMMENDATION

The appropriate statutes should be changed to:

- abolish the State Rural Medical Education Board and assign the continuing administrative duties to the Coordinating Board; and
- remove the restriction regarding Texas lenders for eligible loans in the Physician Student Loan Repayment program.

In addition, as a management change, the Coordinating Board should consider:

- consolidating the responsibilities for administering the Physician Student Loan Repayment program, the rural medical education scholarships, and the other physician incentive or compensation programs in one division at the agency.

This solution would amend the statutes to conform with expressed legislative intent regarding the State Rural Medical Education Board and provide for continued administration of existing loan obligations. In addition, consolidating the administration of all the physician incentive or compensation programs within the Coordinating Board will ensure that the efforts are coordinated and provide more focus on the objective. Removing the requirement that only Texas loans can be eligible for physician repayments will increase the number of persons who might be attracted to practice medicine in the rural and underserved areas of the state.

FISCAL IMPACT

The fiscal impact of moving the administrative duties of the State Rural Medical Education Board to the Coordinating Board will be minor.

Higher Education Health Insurance Program

ISSUE 15: The Higher Education Health Insurance Program should be restructured to improve its effectiveness.

BACKGROUND

In 1977, the Texas State College and University Employees Uniform Insurance Benefits Act established a system for the provision of basic group life, accident and health insurance coverages for public higher education employees. This system was intended to help standardize the 65 health insurance plans existing at the time of its establishment

Higher education institutions are required by this law to offer health benefits comparable to those provided for regular state employees. Sixty-five different health plans still exist and each community college, senior college and technical institute generally must develop in-house expertise to manage their benefit plans. Over 103,000 employees or retirees are covered under the higher education insurance system and the state contributed over \$115 million in fiscal year 1989 for health insurance purposes to the senior level institutions. Over 19,000 community college employees and retirees are also covered under this program. However, as a result of the governor's veto of line item funding (\$24.3 million in fiscal year 1989) for insurance for the 1988-89 biennium, the actual amount of state funding being used for insurance cannot easily be determined.

The State Board of Insurance (SBI) provides some support to this program by making available to institutions a list of all insurance carriers authorized to do business in Texas. Upon request, the SBI also examines and evaluates the bidding contracts submitted by carriers and certifies their actuarial soundness.

An administrative council oversees the operation of the plans by setting basic coverage standards for the program and reviewing the individual plans to ensure compliance with the standards. The council, in effect, must be aware of an increasingly complicated and costly insurance environment and assure the state that employees of the public higher education institutions it funds receive equitable benefits in the most cost-effective manner possible and within all the requirements of insurance law.

The Higher Education Health Insurance Program differs from the health insurance program for regular state employees, known as the Uniform Group Insurance Program (UGIP). The UGIP, centrally administered by the Employees Retirement System, covers the employees and retirees of all state agencies under one health insurance program. The Higher Education Health Insurance Program, on the other hand, is a relatively decentralized operation in which each institution or university system negotiates and enters into its own insurance contract. Other than setting the basic standards for the insurance plans, the Administrative Council's authority is focused more on reviewing plans once the contract is executed.

The Coordinating Board staff assist the council by performing a desk audit of each college and university's benefits certification booklet and a benefits report submitted by the institution. This information is then submitted to the council

for consideration. When the council finds that a plan has deficiencies, a deadline is established, not to exceed two years, for the deficiencies to be corrected. If an institution fails to correct the deficiency within the deadline period, the council may require the institution to establish a plan as the council directs. If the institution fails to implement the council's directives, the council is required to notify the state comptroller who will withhold state insurance premium matching funds.

The review of the Health Insurance Program for Higher Education Employees indicated the following:

- ▶ The costs of insurance premiums have risen dramatically in the past decade. Discussions with insurance administrators at a number of institutions substantiated that premium costs continue to escalate each year.
- ▶ Insurance is based on the general principle that the more participants included in an insurance plan, the more the risk is spread and reduced. Because greater economies of scale and reduced risk occur in larger plans, premium rates tend to be lower in these plans. The Select Committee on Higher Education recognized this principle in its recommendation to the 70th legislature that the health benefits for college and university employees be provided under statewide group programs.

During the review, a number of alternatives were suggested for grouping plans. For example, it was suggested that institutions with over 3,000 enrollees be allowed to leave their existing plans intact. The remaining institutions with fewer than 3,000 enrollees would be grouped into plans totalling at least 3,000. The result would be 10 to 15 separate groups.

- ▶ Costs of medical coverage to employees and institutions vary considerably by institution. For example, 17 (26 percent) of the plans cost more per employee in 1988 than the amount the state contributed per employee for health insurance premiums. (The state contribution in 1988 was \$100 per employee per month.) Excluding the University of Texas and Texas A&M University, 78 percent of the enrollees in the higher education insurance program were covered by plans which had premium costs higher than the employee premium costs for regular state employees. **See Exhibit 8 in the Appendix.** In addition, the amount an employee must pay to insure a spouse and dependents varied from \$107 per month to \$336 per month in 1988. The review identified that at least one institution raised its fiscal year 1989 premium cost for family coverage to over \$400 per month. A 1986 report by a private consulting firm to the Select Committee on Higher Education indicated that in some institutions, premiums had risen so sharply that employees had dropped insurance for their families resulting in increased reliance on public health care delivery systems. Another cost variation identified by the review is the amount an employee must pay through premium contributions, deductibles, co-insurance or other requirements.

- ▶ The Administrative Council determined that in 1988, nearly 4,700 (5 percent) of all public higher education employees or retirees were covered by health insurance programs which did not meet the basic standards established by the council. For example, the review identified one institution plan for 1989 which currently provides for an employee to pay up to \$2,000 each benefit year in "out-of-pocket" expenses whereas the standard sets the maximum an employee may be required to pay at \$1,000 per benefit year.
- ▶ The quality and comprehensiveness of the bid specifications developed by an institution can have an effect on the success of an institution in achieving a compliant and cost-effective insurance plan. Having accurate and comprehensive bid specifications can increase the number of insurance carriers willing to bid on the plan. Contracts which result from accurate bid specifications are also less likely to have compliance problems later. Many institutions must utilize consultants to assist them in developing bid specifications.
- ▶ Institution plans are subject to council review after the contract with the carrier is signed and executed. Information regarding the plans is provided to the Coordinating Board through a Benefits Report prepared by the institution. The report is due 30 days after the contract period begins. The Benefits Report may not always include the information the council needs to ensure that the plan is compliant with standards. Through misinterpretation or error, for example, the Benefits Report may include information which is different from the actual contract language. Allowing a 30 day lag time for submission of the report also interferes with a prompt correction of identified problems.
- ▶ Institutions have the responsibility for enrolling employees in the insurance plan. The state currently contributes \$115 per month for each individual enrolled in the plan. No system currently exists at the state level to verify that employees are appropriately and correctly enrolled in the state-funded plan.
- ▶ Higher education employees are made aware of their insurance benefits through the provision of a Benefits Booklet. However, there is no mechanism in place which allows employees to determine whether their plan is compliant with standards developed for all higher education employees' plans.

PROBLEM

Having 65 separate health insurance plans restricts the state's ability to control risks and costs of such plans. In addition, some institutions do not have the expertise available to develop comprehensive and accurate bid specifications which will lead to compliant health insurance plans. Although the Coordinating Board staff currently provide sample bid specifications to institutions upon request, the administrative council does not have the authority to require the use of standardized bid specifications. The council also lacks the tools it needs to correct deficiencies it identifies in a timely manner. Finally, the current system does not have a mechanism for verifying that only eligible employees are enrolled in state-funded insurance plans. This deficiency could result in state funds being inappropriately spent.

RECOMMENDATION

- The statute should be modified to authorize the administrative council to combine the existing higher education health insurance groups having fewer than 10,000 enrollees into one or more aggregate groups. Further:
 - the council would be authorized to contract with consultants or appoint a technical advisory committee as needed to determine the most cost-effective and advantageous method of combining health insurance programs;
 - the council would be required to develop rules to govern the development of bid specifications and the negotiation processes for the insurance groups;
 - institutions with more than 10,000 enrollees would be authorized to participate in a combined insurance program upon their request.
- The statute should be modified to require the administrative council to adopt a uniform set of bid specifications and a standardized format for institutional reporting of enrollment data for mandatory use by institutions with fewer than 500 enrollees until the council established combined insurance groups. This would be accomplished in the following manner:
 - the Coordinating Board staff, with the advice of technical consultants as needed, would develop the bid specifications and reporting format;
 - the council would review and approve the specifications and reporting format;
 - institutions having more than 500 enrollees would be authorized to use the uniform bid specifications upon their request;
 - the council would be authorized to require an institution with more than 500 enrollees and less than 10,000 to use the uniform bid specifications if the institution fails to meet criteria established by the council.
- The statute should be modified to provide that, until the council establishes combined insurance groups, the following oversight and compliance monitoring procedures would be effective:
 - all institutions would submit a copy of its contract and benefits report to the Coordinating Board staff by 30 days prior to the effective date of the contract period;

- all contracts would include a provision that, in the event of the council finding a plan to be out of compliance, the insurance carrier and the institution would enter into negotiations and attempt to resolve the compliance problem. The existing contract would remain in effect until such time as the contract can be amended to resolve the compliance problem;
- the Coordinating Board staff would report an institution's plan deficiencies, as identified by the council, to an appropriate faculty or staff body, such as the Faculty Senate or Faculty Council, on each campus of the non-compliant institution;
- members of the Administrative Council would be prohibited from participating in a decision regarding the compliance of the representative's institution plan with the standards established by the council;
- The statute should be amended to add the following safeguards:
 - require the state auditor to conduct periodic audits of the institution's programs to verify that program enrollees are eligible for the program; and
 - require the Coordinating Board staff to notify the state auditor if it becomes aware of inappropriate expenditures of program funds.

The above recommendations would help reduce the costs and risks of operating 65 separate health insurance plans for higher education employees. Authorizing institutions with enrollees exceeding 10,000 to continue to operate separate programs provides autonomy to groups of an actuarially optimal size without adversely affecting the stability or costs of other combined groups. The only two university systems having more than 10,000 enrollees are the University of Texas and the Texas A&M Systems.

The requirement for institutions with less than 500 enrollees to use uniform bid specifications approved by the council will relieve smaller institutions from the cost and responsibility of developing specifications. Having the authority to require institutions with more than 500 but less than 10,000 enrollees to use uniform bid specifications under certain circumstances will also give the administrative council an additional tool for keeping costs down and plans in compliance.

The recommendations regarding oversight and compliance are designed to force the correction of compliance problems in a timely manner and notify enrollees of deficiencies in their plans.

Finally, the requirement for the State Auditor to verify that program enrollees are eligible for the program helps ensure that state funds are appropriately spent.

FISCAL IMPACT

The Administrative Council will require funds to contract for a study to determine the most cost effective and advantageous method for providing health insurance programs. This cost is estimated at \$100,000 to \$150,000. However, contributions of about \$75,000 provided to a Coordinating Board appointed steering committee may be available for this purpose.

Until the Administrative Council establishes aggregate groups for insurance purposes, the Coordinating Board staff will be involved in developing and administering a uniform set of bid specifications. The consulting costs of this activity would be approximately \$100,000 per year. The agency also indicates that one professional position at \$32,412 and one clerical position at \$18,540 would be needed to provide staff support to the council.

Once the council establishes combined insurance plans, the above activities will be replaced by a more extensive process of administering group insurance plans. The exact cost of these activities cannot be identified until the council determines the specific activities the staff will perform. However, the program is expected to require additional staff support in professional and clerical areas. The agency estimates that these staff costs could exceed \$980,000 per year, based on the staff support used by the Employee Retirement System's health Insurance division. In addition, consulting fees could approach \$250,000 and other operating costs, including computer support, could reach \$450,000. The total estimate, therefore, for the agency to operate a higher education insurance program could reach \$1.7 million.

The State Auditor's office reports that it can absorb the costs of auditing employee enrollment in its routine audit activities if the office is authorized to determine the frequency and intensity of the audit.

ISSUE 16: The composition of the Administrative Council should be changed.

BACKGROUND

The Administrative Council of the Higher Education Insurance Program consists of nine members. Three members are employees of senior level institutions, selected by the presidents of the six senior level institutions having the highest number of employees; three members are employees of junior level institutions, selected by the presidents of the three junior level institutions having the highest number of employees; and three persons are selected by the commissioner of higher education. The presidents are required to consult with their counterparts prior to making the appointments. Traditionally, the appointed institution representatives have been institution executives or insurance managers at their respective institutions. Although the commissioner's appointees are not required to be employees of higher education institutions, they have generally been higher education officers or employees as well.

The council is responsible for determining the basic coverage standards for insurance plans and ensuring that these standards are comparable to those provided to regular state employees. The council's other duties include: determining procedural and administrative practices for insurance coverages to be provided to eligible employees; determining if existing programs meet the established standards; and identifying institutions with programs that contain deficiencies with regard to standards, administrative costs or practices and recommending actions to correct deficiencies. The council also has certain responsibilities regarding the optional retirement program for higher education employees.

The statute also provides for an advisory committee to work with the council in coordinating the administration of the group insurance program. Each institution under the policy direction of a single governing board is entitled to elect, from among its employees, a member to serve on the advisory committee. According to the statute, the elected committee members must demonstrate mature judgement, special abilities and sincere interests in employee insurance programs and be able to represent the needs of all employees of the institution represented.

A review of the current composition of the council indicated the following:

- ▶ A large majority of the council's membership is made up of representatives of institutions who are substantially affected by the council's activities. For example, many council members have the responsibility to recommend to their respective governing boards the type of coverage the institution should have and the amount the institution should be willing to pay for premiums for its employees.
- ▶ In comparing the composition of the council to that of the board that administers the Uniform Group Insurance (UGI) Benefits Program for

state employees, the review found that the UGI program has a mechanism for election of employee representatives to the board, and for appointment of its remaining members by the chief executives of the legislative, executive and judicial branches of government.

- ▶ The state currently requires all members of the council to have "demonstrable qualifications for the administration of the higher education insurance program." This has resulted in the members of the council having been primarily personnel directors, financial affairs officers or officers in other administrative or planning capacities at universities or community colleges.
- ▶ The administrative council has recently been faced with an increasing array of insurance problems such as spiraling rates and the potential instability of insurance groups, based on their size and performance. These problems require the expertise and involvement of persons with strong training in the insurance field. A report dated December, 1986 to the Select Committee on Higher Education by a private consulting firm recommended that technical expertise be available to assist institutions in the selection and management of health benefits programs. The review concluded that additional controls are needed in the current higher education insurance program to help offset these growing concerns.
- ▶ The advisory committee to the council has provided some assistance which would otherwise have to be performed by Coordinating Board staff. Much of the committee's activity has involved gathering information on specific topics at the request of the council. For example, a group of committee members is currently developing materials which can be compiled in a training manual or document for the members' use. An example of the type of project which the committee undertakes at the council's request is a study of the appropriateness of the standard for inpatient psychiatric care. Based on the committee's recommendation, the council recently adjusted this standard.

PROBLEM

The current structure for appointing council members does not ensure that a balance of employers, employees and experts in the insurance field are represented on the council.

RECOMMENDATION

The statutory composition of the Administrative Council should be changed to:

- require that three members having knowledge of the actuarial principles needed to analyze higher education insurance plans be appointed by the governor;

- require that two members be higher education employees elected by the members of the Administrative Council's advisory committee;
- require that two members be designated by the presidents of the three senior level institutions having the highest number of employees;
- require that two members be designated by the presidents of the three junior level institutions having the highest number of employees.

This change will result in the council having additional expertise and capabilities available to conduct its increasingly complex duties, as well as providing a balance of interests between employees, employers or higher education officers and experts in the field. A related recommendation in this report will greatly increase the complexity of the council's duties, and the control which may be imposed on the current program. Issue 15 on page 63 discusses these additional changes. The current advisory committee and its structure would not be affected by the recommendation.

FISCAL IMPACT

Institution representatives on the council and advisory committees have traditionally covered their own travel and per diem expenses. Adding appointees by the governor to the council would result in the agency incurring some travel and per diem expenses for these persons. Other than these limited expenses, no additional cost is expected to result from this recommendation.

Agency's Overall Statutory Mandates

ISSUE 17: Unnecessary statutory authority should be repealed.

BACKGROUND

Since the agency was created in 1965, its operating statutes have included a wide variety of duties and responsibilities envisioned to shape and coordinate the state's higher education system. Statutory responsibilities have been amended and numerous new responsibilities have been added. Many that were assigned initially, as well as some of those added since, have proven to be of marginal benefit to the agency or others involved in the higher education system.

In light of the substantial new duties and responsibilities added by the 70th Legislature, combined with the changing priorities characteristic of a state like Texas and an agency like the Coordinating Board, some statutory provisions become impractical, unnecessary, or marginally valuable. Discussions with agency staff regarding various statutory provisions of the Education Code indicated the following:

- ▶ The requirement for the Board to identify and promote at least one or more degree or certificate program in each institution of higher education to the highest level of excellence is not practical. [Section 61.051 (i)] This requirement is met for senior colleges and universities in the development of role and mission statements and is impractical for community colleges because they all have the same basic mission.
- ▶ The requirement for the board to conduct continuing studies of the needs of the state for extension and public service is impractical because each institution is better able to determine the needs of its community and students [Section 61.051 (h)]. This concern is better addressed through the institution's role and mission statement.
- ▶ The requirement for the board to maintain an inventory of all extension and public services activities being conducted by each institution has proven to have no practical value to the agency or those it serves. [Section 61.051 (h)]
- ▶ The requirement for the board to report its activities annually to the governor and the legislature not later than December 1 prior to the regular session of the legislature is met with the newer provisions of Section 61.051 (a) which requires the board to report matters pertaining to higher education and the state of higher education in January of each year. [Section 61.069]
- ▶ The requirement that each institution submit a comprehensive list of all courses by department, division, and school together with a description of content, scope and prerequisites of all the courses is impractical. [Section 61.052] This annual submission of the total list of courses and related material would be a massive amount of detail that is not now being collected and is unnecessary. However, the agency does require additions and changes to existing course lists be submitted

and will continue to collect that information in order to maintain its data base.

PROBLEM

As a result of the expanding charges that have been given to the agency and the changes in the higher education system over the past 23 years of the agency's existence, there are currently statutory duties and responsibilities assigned to the agency which are no longer relevant, that are being better performed by other organizations, or have proven to be impractical or of little value to it or those it is charged to serve.

RECOMMENDATION

The Coordinating Board's statute should be changed to:

- remove the above statutory duties and responsibilities from the respective chapters of the Education Code.

FISCAL IMPACT

Most of the above statutes are not impacting current operation. The exception is the annual report required by Section 61.069. It is currently costing the agency approximately \$4,600 annually to prepare and distribute. This cost would be saved if the basic content of the requirement were allowed to be incorporated into the report required under Section 61.051 (a).

Southern Regional Education Compact

ISSUE 18: The Office of the Southern Regional Education Compact Commissioner for Texas should be continued.

BACKGROUND

In 1948, the state of Texas, through its governor, entered into a regional education compact along with thirteen other states. Fifteen states currently participate in the agreement. This compact is ratified in statute as Chapter 160, Education Code, V.T.C.S. The purpose of the compact is to enable education and government leaders to work cooperatively on key issues and generate comparative information in the education field. Through the compact, the Southern Regional Education Board (SREB) was established. The Board is comprised of the governor of each member state and four other individuals from each member state. At least one of the four individuals must be a state legislator and at least one must be an educator. All appointments are made by the governor for four year staggered terms.

Each state contributes \$100,000 annually to fund the operations of the Board. The majority of SREB's support, however, is obtained from foundations and federal sources. The administrative offices of the Board are located in Atlanta, Georgia. The SREB studies and reports on needs and problems affecting higher education; offers consultation to states and institutions; fosters cooperative programs on the undergraduate, graduate, professional and technical levels; works with colleges and schools on specific quality improvement efforts and serves as fiscal agent and administrator for interstate arrangements to share programs. The SREB also conducts research projects on such topics as student financial aid, teacher testing and certification and educational progress in schools and colleges. The Board has no authority over any state or institution and is not involved with institutional accreditation.

The review of Texas' involvement in the compact indicated the following:

- ▶ Through the SREB State Data Exchange, government and higher education officials regularly receive SREB information on enrollments, appropriations, faculty salaries and student tuition and fees to assist in planning and coordination. The data compiled is comparable among all the participating states and therefore is useful for performing comparative analyses.
- ▶ The SREB administers an \$11 million regional student contract program in medicine, dentistry, veterinary medicine and other specialized fields. Under this program, other SREB states may contract with Texas' regional training centers (Baylor College of Dentistry and University of Houston) for "places" in dentistry and optometry. These Texas institutions received over \$370,000 for providing the contract services in 1987-1988.
- ▶ Texas' membership in the SREB enables residents of the state to participate in the SREB Academic Common Market. Residents can enroll in graduate programs in other participating SREB states on an

in-state tuition basis. Over 1,000 graduate programs are included in the Common Market. This program provides access to costly, specialized programs not available within the state that might otherwise have to be offered in Texas. For example, the University of Georgia offers a masters degree in Historic Preservation which draws students from various parts of the country. The demand for such a program is low in Texas and the expense of providing the program probably would not be justified by the low enrollment of resident students. Texas also receives graduate students from other states in its institutions' nuclear engineering, occupational therapy, studies in aging and other programs.

PROBLEM

No mechanism currently exists for the public to be made aware of the activities and benefits of the state's participation in the compact. In addition, the office of the Southern Regional Compact Commissioner for Texas is subject to the Sunset Act and will be abolished effective September 1, 1989 if not continued through new legislation.

RECOMMENDATION

The statute should be amended to:

- require the commissioner of higher education, on behalf of the Texas members of the SREB to file notice of national compact meetings with the secretary of state's office;
- change the sunset date for the office of the Southern Regional Compact Commissioner for Texas to September 1, 2001;
- require the Coordinating Board to include an annual report of the activities of the state in the SREB in the agency's regular annual report.

This will result in the public having access to information about the national compact meetings and the degree and type of participation by the state in compact activities. Changing the sunset date for the office will continue the statutory authorization for the state to be involved in these activities.

FISCAL IMPACT

The Coordinating Board, for the last several years, has paid annual dues of \$100,000 from its budget for the state's participation in the compact. The same amount has been included in the agency's budget request for fiscal years 1990 and 1991 respectively. No additional staff needs are anticipated due to the specific recommendations above.

Across-the-Board Recommendations

Higher Education Coordinating Board

Applied	Modified	Not Applied	Across-the-Board Recommendations
			A. GENERAL
	X		1. Require public membership on boards and commissions.
	X		2. Require specific provisions relating to conflicts of interest.
X			3. Provide that a person registered as a lobbyist under Article 6252-9c, V.A.C.S., may not act as general counsel to the board or serve as a member of the board.
X			4. Require that appointment to the board shall be made without regard to race, color, handicap, sex, religion, age, or national origin of the appointee.
X			5. Specify grounds for removal of a board member.
X			6. Require the board to make annual written reports to the governor, the auditor, and the legislature accounting for all receipts and disbursements made under its statute.
	X		7. Require the board to establish skill-oriented career ladders.
X			8. Require a system of merit pay based on documented employee performance.
		*	9. Provide that the state auditor shall audit the financial transactions of the board at least once during each biennium.
	X		10. Provide for notification and information to the public concerning board activities.
		*	11. Place agency funds in the treasury to ensure legislative review of agency expenditures through the appropriation process.
X			12. Require files to be maintained on complaints.
X			13. Require that all parties to formal complaints be periodically informed in writing as to the status of the complaint.
		X	14. (a) Authorize agencies to set fees. (b) Authorize agencies to set fees up to a certain limit.
X			15. Require development of an E.E.O. policy.
X			16. Require the agency to provide information on standards of conduct to board members and employees.
X			17. Provide for public testimony at agency meetings.
X			18. Require that the policy body of an agency develop and implement policies which clearly separate board and staff functions.
		X	19. Require development of accessibility plan.

*Already required.

Higher Education Coordinating board
(cont.)

Applied	Modified	Not Applied	Across-the-Board Recommendations
			B. LICENSING
		X	1. Require standard time frames for licensees who are delinquent in renewal of licenses.
		X	2. Provide for notice to a person taking an examination of the results of the exam within a reasonable time of the testing date.
		X	3. Provide an analysis, on request, to individuals failing the examination.
		X	4. Require licensing disqualifications to be: 1) easily determined, and 2) currently existing conditions.
		X	5. (a) Provide for licensing by endorsement rather than reciprocity. (b) Provide for licensing by reciprocity rather than endorsement.
		X	6. Authorize the staggered renewal of licenses.
		X	7. Authorize agencies to use a full range of penalties.
		X	8. Specify board hearing requirements.
		X	9. Revise restrictive rules or statutes to allow advertising and competitive bidding practices which are not deceptive or misleading.
		X	10. Authorize the board to adopt a system of voluntary continuing education.

Appendix

Exhibit 1

Elements to be Included in Role and Mission Statements

Teaching

- Teaching program emphases
- Levels of degrees to be offered
- Program priorities for undergraduate, graduate, and professional education
- Specialized programs emphasized
- Educational needs of the institution's student population
- Primary geographic region served
- Targeted limits for total student enrollment
- Targeted percent of students enrolled in lower division, upper division, graduate, doctoral, and first professional programs
- Admission and access policy

Research

- Role of research in overall institution mission
- Areas of research emphasis
- Specialized research programs or centers
- Efforts to train current and future researchers through doctoral and post graduate education.
- Sources of funding for research

Public Service

- Extension
- Continuing education
- Specialized populations
- Applied research targeted to the community
- Institutional facilities made available to the general public and/or public groups
- Facilities and resources for cultural offering and events

Exhibit 2

Information on Proprietary School Degree Programs

<u>Typical Proprietary School Degree Programs</u>	<u>Typical Number of General Academic Quarter Credit Hours Required *</u>
<u>Associate of Applied Arts</u>	
Fashion Merchandising	14 - 21 quarter hours
Interior Design	14 - 21 quarter hours
Visual Communications	14 quarter hours
<u>Associate of Applied Science</u>	
Business Management	20 - 24 quarter hours
Court Reporting	15 - 20 quarter hours
Electronics Technology	14 - 18 quarter hours
Business Technology	14 - 15 quarter hours
Electronic Engineering Technology	14 - 17 quarter hours

* One quarter hour is equal to 2/3 of a semester hour.

Texas Proprietary Schools Offering AAA/AAS Degrees

Houston

Art Institute of Houston
ITT Technical Institute (two campuses)
National Educational Center
(two campuses)
Video Technical Institute

Dallas

Art Institute of Dallas
Court Reporting Institute of Dallas
Dallas Institute of Funeral Service
KD Studio, Inc.
National Education Center
Video Technical Institute

Arlington

Bauder Fashion College
ITT Technical Institute

San Antonio

CBM Education Center at San Antonio,
Texas
Hallmark Institute of Technology
(two campuses)
ITT Technical Institute
National Education Center

Austin

ITT Technical Institute

Fort Worth

National Education Center
Texas Court Reporting College, Inc.

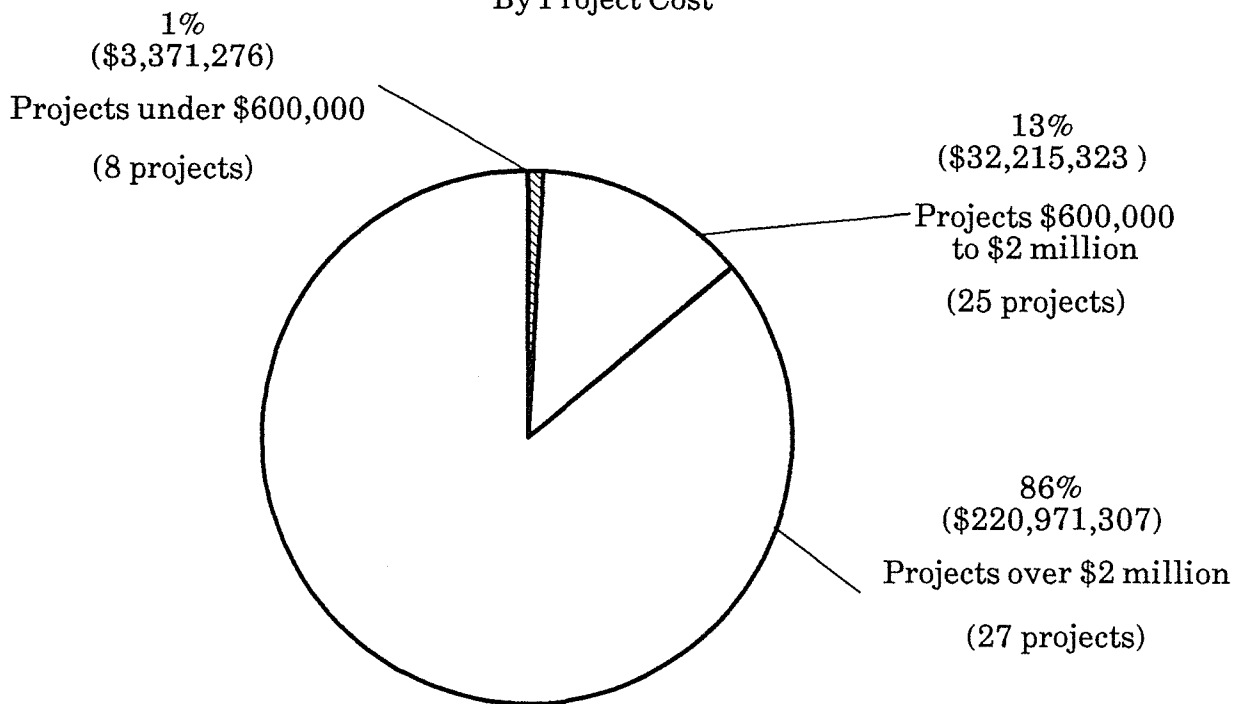
El Paso

Southwest Institute of Merchandising
and Design

Exhibit 3

**Construction Projects Submitted
to the Coordinating Board
Fiscal Year 1988**

By Project Cost



**Projects under \$600,000 Approved by the Coordinating Board
Fiscal Year 1988**

<u>Institution</u>	<u>Project</u>	<u>Cost</u>	<u>Board Action</u>
Lamar University	Renovate-Hazardous Waste Test Facility	\$342,094	Approved
Midwestern State	Renovate-Martin Gym	\$550,000	Approved
Stephen F. Austin	Replace chiller and boilers	\$569,970	Approved
Texas A & I	Renovate art building	\$325,000	Approved
Texas A & I	Renovate speech building	\$370,000	Approved
Texas Tech	Maintain and replace dorm water system	\$300,000	Approved
University of Texas - Austin	Energy conservation at academic center	\$414,212	Approved
University of Texas - Austin	Reroof Erwin Center	\$500,000	Approved

Total cost of projects evaluated by the Board in 1988: \$256,557,906

Exhibit 4

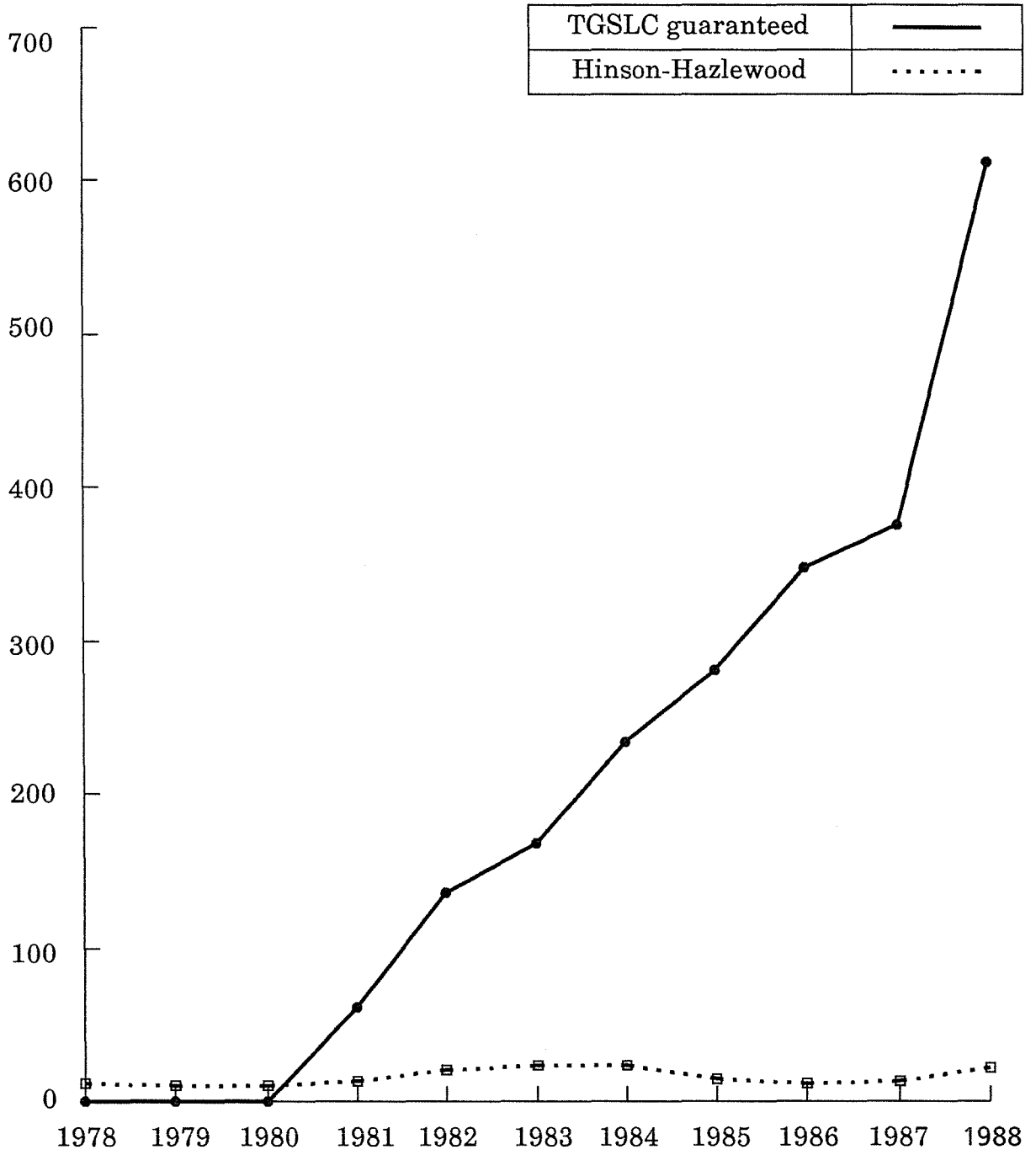
Coordinating Board Process
for Approval of Construction Projects

Current Situation	Proposed Changes	Impact of Proposal
New construction projects over \$300,000 require approval.	No change	None
Repair and renovation projects which exceed \$300,000 require approval.	<p>Repair and renovation projects which exceed \$600,000 would require approval.</p> <p>Repair and renovation projects which exceed \$300,000 <u>and increase square footage by one percent or more</u> would continue to require approval.</p>	Repairs and renovations of less than \$600,000 would be easier for institutions to accomplish and could result in an improvement in the state's deferred maintenance problem.
Institutions report projects over \$300,000 by estimated costs in their campus master plans and submit them to the Coordinating Board.	Institutions would continue to report but would add information concerns in the source of funds for all projects over \$300,000 in the master plan and update the information as appropriate.	The agency's staff and board would have a mechanism to check the appropriateness of funding source, even on projects which no longer require approval.
The agency does not conduct audits of construction projects.	The agency would conduct a periodic audit of any construction projects over \$300,000.	This would permit the agency to analyze an institution's actual compliance with standards and guidelines after projects are completed.

Exhibit 5

TEXAS STUDENT LOAN VOLUMES
Hinson-Hazlewood vs TGSLC Guaranteed

Millions of Dollars



HINSON-HAZLEWOOD LOAN PROGRAM
Operating Costs vs. Federal Lender's Allowance

Millions of Dollars

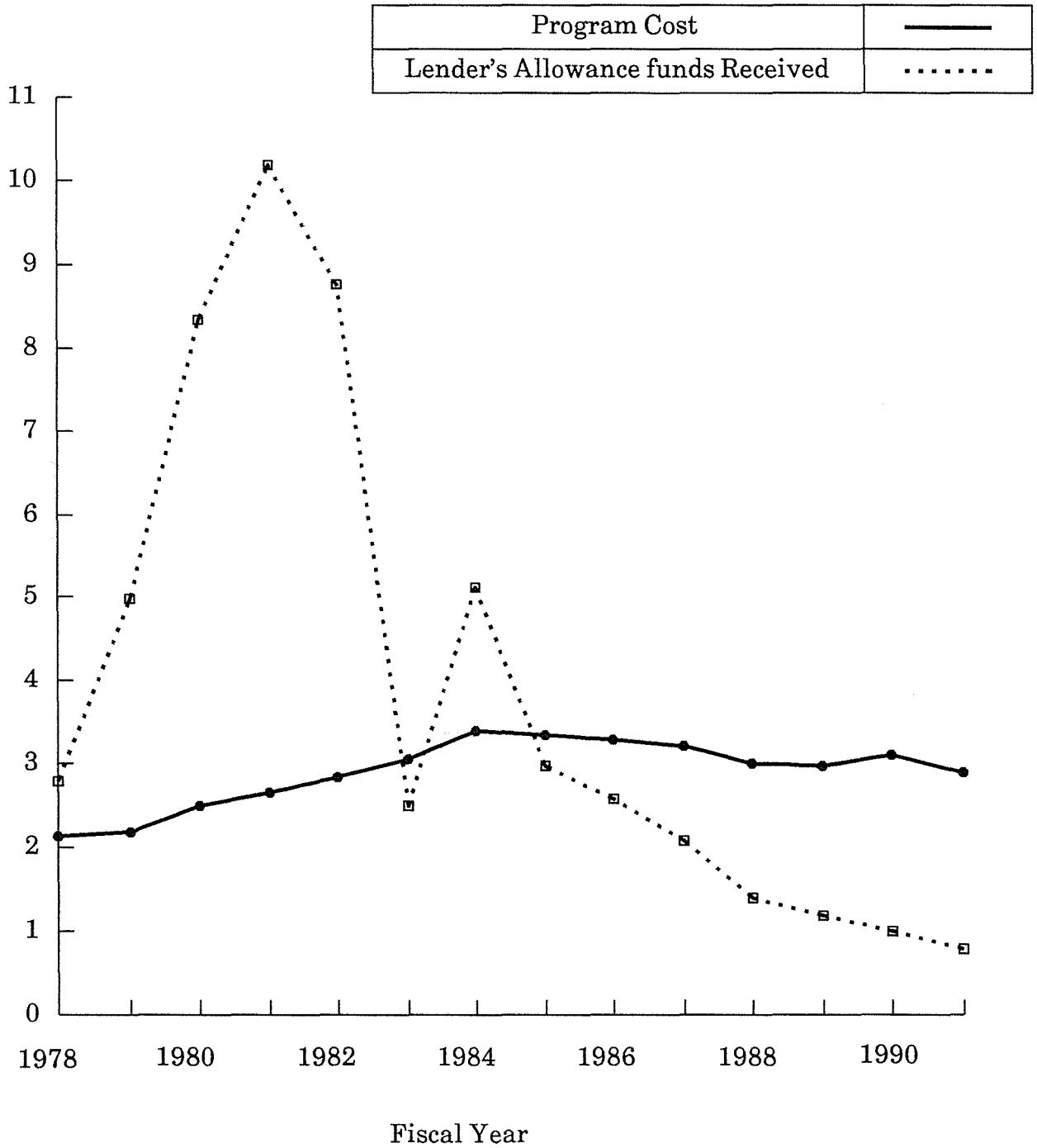


Exhibit 7

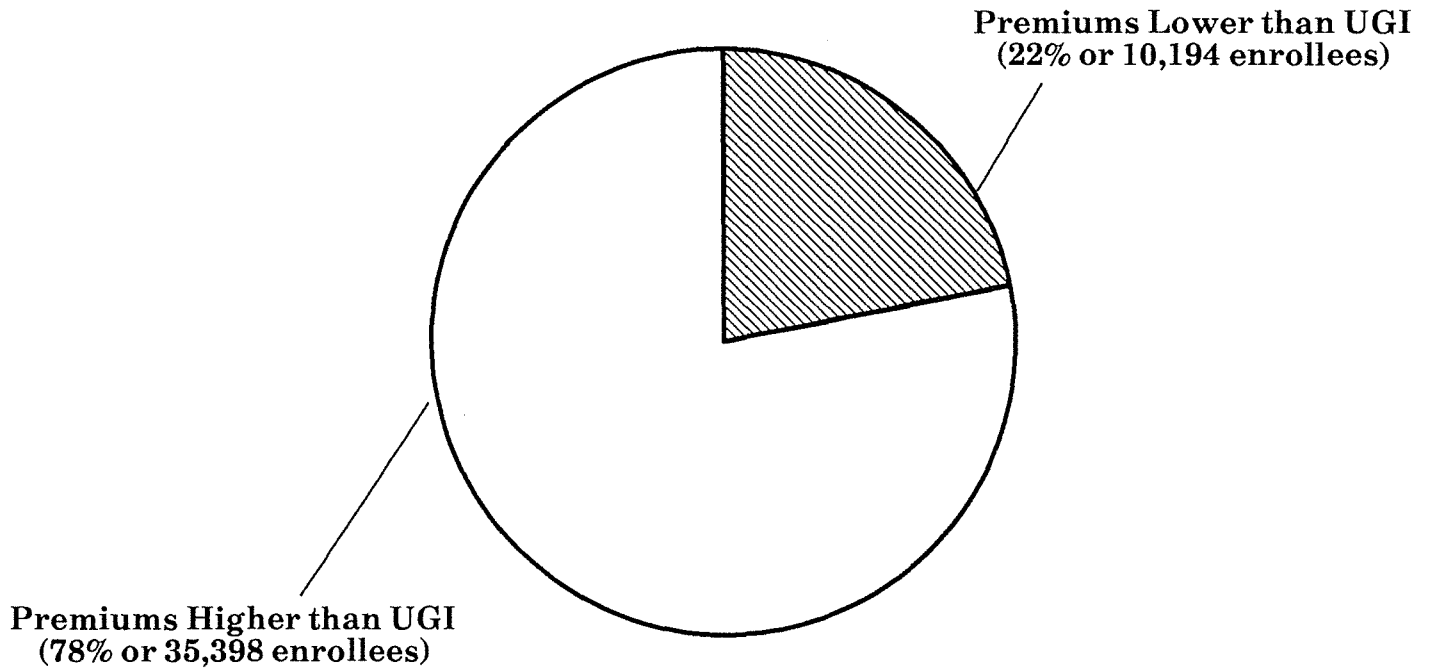
**Estimated Value of the Texas Opportunity Plan Fund after Sale of the
Hinson-Hazlewood Loan Portfolio and Refunding of Bonds**

	1989	1990
Beginning Cash, Investments, and Receivables	\$60,429,000	\$48,887,000
Cash receipts on student loan accounts	22,552,000	23,679,000
Federal interest subsidy payments on loans	2,600,000	2,600,000
Depository Interest and Investment Earnings	3,225,000	2,406,000
New Loans made to students (principal)	(25,500,000)	(28,500,000)
Debt Service:		
Bond Principal	(9,455,000)	
Bond Interest	(4,964,000)	
Ending Fund Cash, Investments, and Receivables	\$48,887,000	\$ 49,072,000
Sale of portfolio:		
principal		146,470,000
premium (2.25%)		3,296,000
Refund of bonds callable		(56,173,000)
Reserved for bonds callable 1991 - 1994		(40,201,000)
Ending Fund Balance		\$102,464,000*

* Additional funds of \$33 million will become available after the board settles its defaulted accounts with its guarantors. Under the terms of an agreement reached with the federal government in 1976, the Coordinating Board files suit on defaulted accounts and pursues collections of most accounts on its own rather than filing a default claim. When the program is discontinued, an agreement will have to be reached between the board and its guarantors on payment for these accounts. Because of the large amounts involved, the full amount may not be received by the board in fiscal year 1990.

Exhibit 8

**Higher Education Health Insurance Enrollees in Plans
having a Premium Higher than the State Uniform Group Insurance (UGI) Premium***



Total Enrollees Represented by Chart: 45,592
* excludes plans with more than 10,000 enrollees

**Higher Education Insurance Premium Costs by Number of Enrollees
Compared to the UGI Premium**

Premium Higher Than UGI

0-4% higher
5-9%
10-19%
20-29%
30-39%
40-49%
50-59%
60-69%
70-79%

Number of Enrollees

2,024
8,428
16,934
723
1,805
2,066
3,156
0
266
Total: 35,398

Premium Lower Than UGI

0-4 % lower
5-9%
10-19%
20-29%
30-39%

Number of Enrollees

1,769
1,667
3,296
1,043
2,419
Total: 10,194