

**TEXAS STATE TECHNICAL COLLEGE
Board of Regents Special Meeting**

**Baylor Research Institute Collaboration (BRIC)
100 Research Parkway
Waco, Texas 76704**

**Wednesday, August 10, 2016
1:00 p.m.**

AGENDA

- I. Meeting Called to Order
- II. Determination of Quorum
- III. Chancellor's Comments
- IV. Budget Overview and Discussion
- V. Minute Order

Proposed MO#

[37-16\(c\) Operating Budget for Fiscal Year 2017](#)

[38-16\(c\) Appropriation Transfers for Fiscal Year 2017](#)

[39-16\(c\) Allocation of Higher Education Assistance Funds for Fiscal Year 2017](#)

[40-16\(c\) Approval to Submit Legislative Appropriations Requests for Fiscal Years 2018 and 2019](#)
- VI. Chancellor's Comments
- VII. Board Comments
- VIII. Adjourn

Board Meeting Date: August 10, 2016

Proposed Minute Order #: 37-16(c)

Proposed By: Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

Subject: Operating Budget for Fiscal Year 2017

Background: Consistent with TSTC's shift to statewide budgeting and planning, the Fiscal Year 2017 Operating Budget addresses statewide strategic priorities and projects, rather than an arbitrary allocation and local prioritization process as was done prior to Fiscal Year 2016 with continued focus on the following financial priorities:

1. Increase TSTC's Revenue Producing Capacities
2. Exploit TSTC's Potential Scale and Size
3. Right-size and Refocus Investments in Programs & People
4. Manage Cash Flows

Budgeted revenues increased for the Fiscal Year 2017 budget over the prior year related to higher levels of expected state and designated tuition revenues and state appropriations (HEAF and debt service appropriations increased). Carryforward balances also account for the higher level of overall budgeted revenues.

Budgeted expenses were set at \$236,545,047, funded with \$186,727,909 of revenue and \$49,817,138 of fund balances carried from the prior year. The increase in budgeted expenditures for Fiscal Year 2017 substantially relates to capital projects funded by bonds issued and sold during Fiscal Year 2016 and increasing levels of operating costs for the first full year of operations at TSTC in Fort Bend County. Also included are reductions/reclassification of personnel costs made in connection with TSTC's functional restructuring and consolidation.

Justification: The proposed budgets for Educational and General (E&G) funds are in balance with legislative appropriations, projected tuition, and other appropriated income. The proposed budgets for Designated, Auxiliary, Agency, and Plant Funds are based on estimates that are supported by anticipated and historical activities. The proposed budgets for Restricted Funds are limited to those funds available from existing grants and contracts. Historically, these budgets increase during the year as new agreements are approved; these increases often result in additional FTE.

Additional Information: Total budgeted FTEs from all fund sources for Fiscal Year 2017 are 1,682, compared to 1,670 in Fiscal Year 2016 due to growth at new campuses offset by reduced workforce at other locations.

Fiscal Implications: Authorizes TSTC budgets for Fiscal Year 2017

Attestation: This Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.

Attachment(s): TSTC Operating Budget FY 17 - Revenues
TSTC Operating Budget FY 17 – Expenditures by Fund
TSTC Operating Budget FY 17 – Expenditures by Function

Recommended Minute Order: “The Board of Regents approves the Texas State Technical College Operating Budget for Fiscal Year 2017, covering the period from September 1, 2016, through August 31, 2017.”

Recommended By:


Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

TSTC Operating Budget FY 2017 - Revenue Types

Fund	Revenues	Carryforward Balances	Total Budgeted Revenues
E & G	115,970,027	1,593,063	117,563,090
Designated/ Local	19,308,106	777,252	20,085,358
Auxiliary	11,976,211	0	11,976,211
Plant	5,306,880	47,446,823	52,753,703
Restricted	34,166,685	0	34,166,685
Grand Total	186,727,909	49,817,138	236,545,047

TSTC Operating Budget FY 17 - Expenditures by Fund

Fund	Salaries	Operating	Capital	Benefits	Travel	Grand Total
E & G	66,995,862	20,883,993	604,783	18,819,883	469,266	107,773,787
Designated/ Local	5,758,122	15,044,156	42,590	1,580,527	1,101,548	23,526,943
Auxiliary	2,961,082	6,838,884	433,508	1,095,137	32,370	11,360,981
Plant		12,570,846	47,145,805			59,716,651
Restricted	2,152,950	31,790,345	40,000	131,513	51,877	34,166,685
Grand Total	77,868,016	87,128,224	48,266,686	21,627,060	1,655,061	236,545,047

TSTC Operating Budget FY 17 - Expenditures by Function

Function	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Finance	11,778,478	29,912,244	47,687,105	19,861,106	125,471	109,364,404
Integrated Marketing	17,483,309	42,396,860	169,345	1,136,443	822,069	62,008,026
Operations	38,928,101	9,279,802	310,236	316,490	462,961	49,297,590
Information Technology	3,567,044	3,665,998	100,000	13,014	60,835	7,406,891
Governance and Regulation	2,822,500	1,132,003	0	36,684	75,741	4,066,928
Office of the CEO	1,627,132	257,802	0	143,733	53,250	2,081,917
Policy	786,604	433,065		113,830	32,908	1,366,407
Business Intelligence	874,848	50,450		5,760	21,826	952,884
Grand Total	77,868,016	87,128,224	48,266,686	21,627,060	1,655,061	236,545,047



Board Meeting Date: August 10, 2016

Proposed Minute Order #: 38-16(c)

Proposed By: Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

Subject: Appropriation Transfers for Fiscal Year 2017

Background: Under the Texas General Appropriations Act, Special Provisions Relating Only to State Agencies of Higher Education, the Board of Regents may approve the transfer of appropriated funds among components of Texas State Technical College. Operational needs and related budgets commonly vary from the funding patterns established during the appropriations process. This is due to strategic imperatives and changes to operational realities throughout the course of the year. Managing the college budget from a statewide perspective allows flexibility to match up strategy and operational realities to available funding. The appropriation transfers facilitate that flexibility and are anticipated at a higher frequency under this new structure. These transfers require Board of Regents approval.

Justification: The recommended plan for transferring funds among the components of TSTC was developed to provide funding for the strategic initiatives of the institution and to place the funds in the entity from which they will be expended in accordance with the proposed budget.

Various administrative functions are included in both the System budgets and the College budgets. Specific transfers are made to support Technical Training Partnerships, core administrative operations, the East Williamson County Higher Education Center (EWCHEC), the new campus in Ellis County (TSTC North Texas), and the new campus in Fort Bend County (TSTC Fort Bend).

Additional Information: The proposed transfers among the colleges and Central Administration address strategic initiatives common among TSTC entities. Within the General Appropriations Act, Central Administration is referred to as "System Administration." Strategy reallocations refer to General Revenue Appropriations.

Fiscal Implications: Provides funding to accomplish strategic initiatives as budgeted.

Attestation: This Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.

Attachment(s): None



Board Meeting Date: August 10, 2016

Proposed Minute Order #: 39-16(c)

Proposed By: Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

Subject: Allocation of Higher Education Assistance Funds for Fiscal Year 2017

Background: The Texas State Technical College System was included in the Higher Education Assistance Fund (HEAF) through a change in the Texas Constitution in 1995. The 84th Texas Legislature appropriated \$8,662,500 of HEAF funds for final year of the current biennium to the TSTC System. These funds may be used primarily for the purchase of capital equipment, construction and renovation of instructional and administrative buildings, and retirement of debt service. Up to 50 percent of the allocation may be pledged for debt service. HEAF may be used at each TSTC location that is designated as a campus.

Justification: The recommended HEAF allocations for Fiscal Year 2017 are based on project prioritization. The following table provides a comparison of the FY 2017 recommended allocation with the FY 2016 allocation:

	<u>FY 2017 Allocation</u>	<u>FY 2016 Original Allocation</u>
Central Admin	\$0	\$207,207
Fort Bend	967,838	528,800
Harlingen	2,604,593	1,342,291
Marshall	725,027	72,683
North Texas	283,709	359,177
Waco	3,088,797	2,411,798
West Texas	<u>992,536</u>	<u>853,044</u>
Totals	\$ 8,662,500	\$ 5,775,000

Additional Information: None

Fiscal Implications: Funds available as appropriated.

Attestation: This Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.

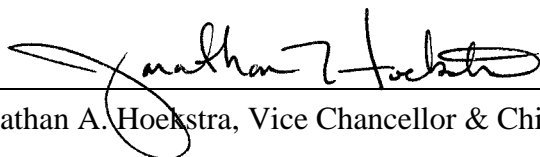
Attachment(s): TSTC Operating Budget FY 17 – HEAF Utilization by Function

**Recommended
Minute Order:**

“The Board of Regents approves the allocation of Higher Education Assistance Funds for Fiscal Year 2017 in the following manner:

TSTC Central Admin	\$	0
TSTC Fort Bend	\$	967,838
TSTC Harlingen	\$	2,604,593
TSTC Marshall	\$	725,027
TSTC North Texas	\$	283,709
TSTC Waco	\$	3,088,797
TSTC Sweetwater	\$	992,536.”

Recommended By:



Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

TSTC Operating Budget FY 17 - HEAF Utilization by Function

Function	Object Desc (group) 1	
Finance	Debt Service	5,838,378
	Facilities Related Projects	1,072,000
	Technology Related Purchases	171,510
	Equipment and Furniture Related Purchases	140,486
	Total	7,222,374
Operations	Debt Service	1,745,266
	Facilities Related Projects	151,341
	Technology Related Purchases	395,658
	Equipment and Furniture Related Purchases	279,899
	Total	2,572,164
Information Technology	Debt Service	55,000
	Facilities Related Projects	25,000
	Technology Related Purchases	144,100
	Equipment and Furniture Related Purchases	75,000
	Total	299,100
Grand Total		10,093,638

Board Meeting Date: August 10, 2016

Proposed Minute Order #: 40-16(c)

Proposed By: Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

Subject: Approval to Submit Legislative Appropriations Requests for Fiscal Years 2018 and 2019

Background: In August, agencies must submit Legislative Appropriation Requests (LAR) in accordance with instructions from the Legislative Budget Board (LBB) and the Governor's Office of Budget and Planning (GOBP). TSTC has prepared its LAR for the period beginning September 1, 2017 and ending August 31, 2019 in a manner consistent with the description of TSTC in Section 135.02 of the Texas Education Code, including an LAR for the System Administration unit and the College's six campuses.

TSTC's LAR includes the following Exceptional Item Requests:

- Dual Credit at All Campuses: TSTC partners with over 100 schools to offer dual credit at the secondary level without receiving appropriations funding for related offerings. Several factors led to the exclusion of dual credit from the returned value formula. Consequently, TSTC receives no appropriation for this training.
- Transition Funding Shortfall, Williamson County (Waco bill pattern): TSTC's participation in the multi-institutional teaching center requires subsidy from the other TSTC operations at nearly \$1 million per year to adequately operate program offerings at TSTC in Williamson County.
- Transition Funding, Base Reduction Restoration (Waco, Fort Bend, and North Texas bill patterns): Transition funding for the start-up locations are included in the baseline reduction calculation; however, formula items for higher education have been excluded from the related reduction request. Since transition funding is a substitute for the formula funded line items, reduction of TSTC transition funding is inconsistent with the exemptions to formula funded appropriations. This exceptional item request restores that funding to consistently apply the reduction strategy.

TSTC will not request authority to issue Tuition Revenue Bonds in this LAR. Formula driven appropriations funding recommendations (for Administration and Instruction, and Infrastructure Support strategies) are informed by recommendations from the Texas Higher Education Coordinating Board to the LBB and the GOBP.

Justification: LAR submissions were due in Austin on August 5, 2016 with revisions due in the Fall. Any revisions to the LAR Administrator Statement submitted to the

Board will be reflected in the revised submission.

Additional Information:

The LAR must include adjustments made to the baseline appropriations request to comply with the Policy Letter provided by Gov. Greg Abbott, Lt. Gov. Dan Patrick and House Speaker Joe Straus, asking agencies to cut 4 percent from their base appropriation levels. In addition, narratives explaining agency approaches to reduce non-formula strategies by 10 percent, in two 5 percent increments was required. TSTC's statewide reductions for these non-formula strategies, at the 10 percent level, totals \$[waiting for LBB calculation] for the 2018-2019 biennium.

The Administrator Statement is an excerpt from the complete LAR. At the writing of this Minute Order, agencies were still receiving instructions from the LBB staff. Consequently, the administrative statement may not be complete.

The complete LAR will be distributed to the Board in late August.

Fiscal Implications:

Submission of the LARs is required for the appropriations process.

Attestation:

This Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.

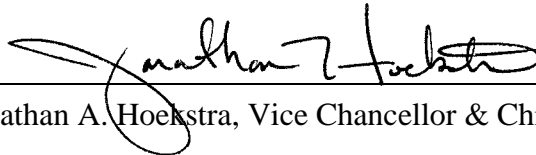
Attachment(s):

LAR Administrator Statement; Policy Letter for Base Request Reduction

Recommended Minute Order:

"The Board of Regents approves final submission of the Legislative Appropriations Requests for Fiscal Years 2018 and 2019 to the Legislative Budget Board and the Governor's Office of Budget and Planning, in accordance with instructions provided by the Legislative Budget Board and the Governor's Office of Budget and Planning."

Recommended By:



Jonathan A. Hoekstra, Vice Chancellor & Chief Financial Officer

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

In accordance with the instructions, Texas State Technical College (TSTC) submits the following Legislative Appropriations Request (LAR) for fiscal years 2018 and 2019 to the Governor's Office of Budget, Policy, and Planning and the Legislative Budget Board. TSTC's LAR is submitted in a manner consistent with the description of TSTC in Section 135.02 of the Texas Education Code, including an LAR for the System Administration unit and the College's six campuses.

To ensure efficient and consistent operations, TSTC's operations are structured, planned, and managed statewide and, consequently, the respective LAR administrator statements reflect the common administrative statement for each submission. Budget information reflects the resource allocation for each respective operational unit described above.

The budget information for this LAR relates to System Administration.

OVERVIEW OF TSTC

The 84th Legislature marked the 50th Anniversary of Texas State Technical College (TSTC, or the College), recognizing 50 years of the College's successes in adapting to technology advances and responding to the state's industrial workforce needs by placing more Texans in great paying jobs (Place More Texans). As TSTC celebrated the milestone, the College also began closing out an outdated way of doing business. Recognizing that the entire sector of higher education will not survive doing business "the way we've always done it," TSTC has taken initial bold steps towards becoming a transformed version of higher education. This new, transformed college, the "New TSTC," is characterized by:

- **Education First.** The college's most powerful dollar is the one spent on the student learning experience. TSTC will continue offering students more choices for mastering technology with recognition that administrative dollars are opportunity costs; that is, the loss of potential opportunity to enhance the student learning experience and generate economic value, or returns, to the State.
- **Return on Taxpayer Investment.** The new college seeks the highest yield when determining resource allocations. As TSTC evaluates its growth potential, it closely examines strategic market opportunities across the state, and harnesses available statewide resources for maximum impact. Recent developments representing this focus include
 - **Investment in new markets.** Investment in increased capacity is focused on those markets with the greatest potential growth prospects; that is, the markets that will generate the greatest returned value to the state. Since 2011, TSTC has expanded operations in three new markets: Williamson County, Ellis County, and Fort Bend County. The industrial workforce needs in these regions have grown rapidly, consistent with the regions' respective rate of population and

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

economic growth.

Further, the college has developed product development protocols, instructional program productivity measurement, and proforma analysis capabilities to support the optimization and prioritization of business development opportunities.

- Creation of a sales culture. The new college is focused on sales, resembling Philip Kotler's statement "The sales department isn't the whole company, but the whole company better be the sales department." The transition to the New TSTC includes shifting people, structures, and systems from the legacy, bureaucratic/agency predispositions, workflows, and mindsets to an integrated-sales directed organization with specific revenue targets, measurement, and accountability systems. Significant investment has been made in prospect outreach and student experience as the students arrive and navigate the workforce development pipeline, including removal of obstacles on their journey.
- Business-to-Business. TSTC has significantly increased emphasis in business development on industrial relations initiatives. The range of related enterprises includes increased capacity in incumbent workforce training and contract services as well as talent management that includes customized workforce placement services.
- Expanding Revenue Mix. To make a significant impact on the state's growing skills gap, the new college must diversify its revenue streams to supplement and expand upon state appropriations to fund a substantial part of its operation. TSTC's financial health will not be secured solely by cost controls and optimization of legacy revenue streams. Entrepreneurial initiatives such as TSTC's industry relations business-to-business division, TSTC's Center for Employability Outcomes (C4EO), and other auxiliary enterprises will expand the mix of revenues for the college. Indeed, statewide revenues will become a key performance metric for the college.
- Results. The new TSTC is driven by results. This is reinforced by a shift in the factors that drive appropriations funding as well as TSTC's new entrepreneurial funding pursuits. This results-focus is manifested in following examples:
 - Returned Value Funding. One of the early milestones for building the new college was the adoption of TSTC's returned-value funding formula. With the passage of Senate Bill 1 in 2013, the 83rd Legislature implemented a new funding model for TSTC and made TSTC the first college system in the nation funded substantially upon student employment outcomes and not educational activities. The returned-value funding model assesses and rewards TSTC for student job placement and earnings (outcomes) rather than contact hours (time in training). While TSTC's returned-value funding model was not expected to fully shelter TSTC from the pressure on state

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

appropriations, it allowed flexibility to innovate its product and expand its mix of revenue streams.

- Program Vitality. During fiscal year 2016, the instructional program vitality model was developed. It is a balanced scorecard aimed at measuring the vitality of programs based on four initial performance measures: enrollment, retention, placement, and first-year income of students. The results of these measures will be used to identify continuous improvement opportunities and influence decisions regarding investment in programs including investments in talent, equipment, and program and related capital expansion. This improves the return on the State's investment.
- Innovation. The new college is characterized by its courageous innovation. This spirit of innovation is needed because the 21st Century requires a new way for teaching and learning. Technology advances have led to transformational changes in most aspects of life. Yet, much of the traditions and methods of educational delivery and skill development remain the same. The historical model for higher education will become irrelevant in a matter of years. Like many other industries, the threat to the historical operating model will likely emerge from outside the current higher education industry. The relevance of education providers will depend on their ability to anticipate these changes. Similar to TSTC's approach to the accountability imperative and anticipated state funding issues, the new college will boldly prepare for, innovate, and lead through the sweeping changes that our industry faces.

TSTC's primary innovative initiatives are focused on enhancing the learning delivery process, including the following: development and phase-in of fully competency-based programs, microcredentials/badges, multiple-entry/multiple-exit point (block scheduling) strategy, and software services and customer-facing applications designed to close skill gaps (SkillsEngine developed by the Center for Employability Outcomes).

SIGNIFICANT ISSUES FUNDAMENTAL TO THE BUDGET REQUEST

Return on Capital

The efficiency and effectiveness of higher education is questionable. TSTC is committed to the notion that higher education, and technical education in particular, can be far more efficient and effective, requiring bold action to generate returns expected of related stakeholders.

- Returned Value Funding Formula. The impact of the Returned Value Funding Formula policy change remains in the spotlight of policy groups, higher education associations, regulators, rating agencies, etc. This funding method, implemented at the Legislative level, is driven by the value of results versus

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

- cost-recovery. As a result, TSTC leadership operates under an imperative to be cost-sensitive, examining all activities to ensure expense structures are optimized. The Returned Value funding formula enables the flexibility to become business like and bottom-line focused.
- **Merged Operations.** TSTC consolidated operations during the 2016/2017 biennium, creating a single structure for administering the operations of TSTC. The objectives of cost containment (mitigate redundant administrative overhead during expansion) and cost reductions were realized, enabling funds to be redirected from redundancies to maximizing instructional operations.

Financial Health and Leverage

- **Funding History.** Though TSTC is a mature institution, shaping a “New TSTC” creates financial pressures more consistent with a start-up venture. The College has experienced negative free cash flows (use of reserves rather than accumulation of reserves) during this transition period, with cash flows poured into investment in new locations and entrepreneurial pursuits, implementation of practices to address identified compensation issues, restructure and consolidation of operational functions, and investment in innovation.

Rating agencies have recognized that recent financial performance has thinned the College's reserve position, creating a smaller margin for error when it comes to funding strategic investments or paying for unexpected costs. TSTC's bond rating agencies credit the State's substantial support of TSTC and TSTC's consolidation of administrative functions for increased efficiency and effectiveness of operations but look for increased revenues from new locations and stable funding from State appropriations in their scrutiny of TSTC's long-term creditworthiness.

- **Infrastructure Funding.** Two emerging policy shifts emerged between the 84th and 85th Legislature relating to Infrastructure Funding for TSTC. First, the Texas Higher Education Coordinating Board Formula Advisory Committee recommended incorporation of the TSTC Space Support funding formula into the Returned-Value formula consistent with the Legislature's directive to further the goal of rewarding job placement and graduate earnings, not time in training or contact hours. Later, the Texas Higher Education Coordinating Board conducted a study of potential new Space Project Models that influence the Infrastructure Formula Funding strategy. The findings of the new models show TSTC, by mission and design, is different than an academic institution. Specifically, TSTC's programs require both classroom space for lectures and laboratory space for the hands-on training. Students at TSTC spend as much as 60 percent of their time working with equipment in laboratory settings. Consequently, the model projected an increase in the allocated funding for TSTC based on the model.

Market Performance and Potential

TSTC's operations are scattered across the Texas landscape, including a diversity of markets that vary in student demand and industry demand. Consequently, growth performance and potential vary across TSTC's various offerings. Newer operations are located in regions with growing demand while other locations have growth prospects that are more challenging due to population declines, lower density of populations, and other factors. According to the U.S. Census Bureau, Fort Bend County and Williamson County ranked 4th and 7th across the United States for percentage growth during 2014-2015. Ellis County was 39th. On the other hand, several campuses reside in counties with declining populations during the same period.

60x30TX Higher Education Strategic Plan

In 2015, the Texas Higher Education Coordinating Board announced the 60x30TX Higher Education Strategic Plan with the overarching goal of 60 percent of Texans ages 25-34 attaining a certificate or degree by 2030. TSTC's vision and values support the underlying imperatives within 60x30TX of increasing prosperity for Texans by training and retaining a globally competitive workforce. Indeed, since 2011, TSTC's rallying cry has been Place More Texans in great paying jobs.

60x30TX Completion Goal. TSTC pivoted its focus toward completion nearly a decade ago dramatically shifting its internal performance measurement at certain locations from enrollment to completion. This was validated by adoption of the Returned Value Funding Formula for TSTC, making its key economic drivers for funding placement and earnings. Consequently, TSTC has seen increasing performance with respect to the statewide goals for completion over the last five years. In that time, TSTC has increased the number of students completing a certificate or associate's degree by _____.

60x30TX Marketable Skills Goal. With respect to the 60x30TX strategy for aligning marketable skills with programs, the Center for Employability Outcomes at TSTC is developing solutions that enable colleges to align curricula with the specific skill requirements of local employers. The Center's purpose is to maximize student employability and increase the supply of qualified graduates. To date, more than 1,300 courses across 83 awards and 26 colleges have been aligned. The Center is now in the process of launching a refined web application with greater capabilities and engaging Texas colleges for broader adoption. This work has been supported by the Texas Higher Education Coordinating Board and is an approved methodology for colleges to validate curriculum across Texas.

The fourth 60x30TX goal states that by 2030, undergraduate student loan

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

debt will not exceed 60 percent of first-year wages for graduates of Texas public institutions. The total cost of education for TSTC graduates is extremely affordable, especially relative to the wages earned by its graduates. The average completer earns a salary of \$_____ during their first year after graduation while their average student loan debt is \$_____, or _____% of first year earnings.

Bill Pattern Changes

- Working with the staff of the Legislative Budget Board and the Governor's Office of Budget and Planning, this LAR includes new bill patterns proposed for TSTC in Fort Bend and TSTC in North Texas. This reflects actions of 84th Legislature which designated these two operations as Campuses. It also bolsters transparency and clarity regarding TSTC's funding structure.

REDUCTION STRATEGIES

Still waiting for instructions and calculations for reduction request.

TSTC will approach the requested baseline reduction request and the 10% reduction options similar to its ongoing budget approach. That is, TSTC will assess the performance and potential across statewide operations and invest first in programs and activities with the highest return potential. Consequently, applying reductions to the lowest performing and lowest potential resources will mitigate the impact of reductions to the returns on the State's investment.

Initially, the following reduction considerations would be required under the proposed reductions:

- Suspend, or considerably change, the business model for dual credit offerings. TSTC partners with over 100 high schools in offering dual credit; however, it receives no appropriations support for the effort. The dual enrollment effort is extremely important to TSTC but it is an activity that requires significant resources of the college without the ability to recoup the costs.
- Evaluate markets by recent performance and growth potential. Depending on the reduction request, TSTC would eliminate programming in areas that provide the lowest prospects for return on capital to the State.
- Continue reduction efforts for activities not essential to Place More Texans. For example, even though student recreation centers help provide a vibrant student life, TSTC might consider elimination of the activity to mitigate the reduction impact on providing a skilled workforce to Texas.

EXCEPTIONAL ITEM FUNDING REQUESTS

Dual Credit – All Campuses. TSTC partners with more than 100 schools to offer dual credit at the secondary level without receiving appropriations funding for related

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

offerings. Several factors led to the exclusion of dual credit from the returned value formula. Consequently, TSTC receives no appropriation for this training. Despite that, TSTC continued to offer dual credit programs with a specific emphasis on Career and Technical Education pathway programs. Funding is required to continue offering dual credit offerings.

Transition Funding Shortfall, Williamson County (Waco bill pattern). TSTC's participation in the multi-institutional teaching center requires subsidy from the other TSTC operations at nearly \$1 million per year to adequately operate program offerings at TSTC in Williamson County.

Transition Funding, Base Reduction Restoration (Waco, Fort Bend, and North Texas bill patterns). Transition funding for the start-up locations are included in the baseline reduction calculation; however, formula items for higher education have been excluded from the related reduction request. Transition funding is a substitute for the formula funded line items since the Returned Value funding formula is outcome based, deriving the formula yield after the teaching event and five years of earnings results. Since it is not a cost-recovery formula, start-up costs require funding from another mechanism. Only after the campus is open, the student navigates the curriculum, and earnings for five years are measured after leaving the College will the formula funding be activated. Consequently, transition funding will begin dissipating 6-8 years after the first cohorts enter the workforce. Due to the operational nature of transition funding, not exempting TSTC transition funding from based reductions is inconsistent with the exemptions to formula funded appropriations.

Start-up costs for technical training are extraordinarily high because of the space and capital equipment required to deliver the hands-on, industrial training necessary for these new campus locations. This exceptional item request restores that funding to consistently apply the reduction strategy and support essential start up operations.

TSTC SYSTEM GOVERNANCE

TSTC is governed by a nine-person board of regents appointed by the Governor and confirmed by the State. Regents serve staggered six-year terms, with the terms of three members expiring in August of each odd-numbered year. The members of the board, their hometowns, and respective term ending dates are included within the organization chart submitted with this LAR.

DESCRIPTION OF TEXAS STATE TECHNICAL COLLEGE

TSTC was established more than 50 years ago and operates today as the state-supported technical college with teaching locations across Texas, including Abilene, Breckenridge, Brownwood, Fort Bend County, Harlingen, Marshall, North Texas, Sweetwater, Waco and Williamson County. As a coeducational two-year, multi-campus institution of higher education, TSTC provides innovative and responsive

LEGISLATIVE APPROPRIATION REQUEST FOR FY 2018-2019

Administrator's Statement: Texas State Technical College

programs and courses of study in technical education for which there is demand in the State of Texas, with emphasis on advanced and emerging technologies.

Texas State Technical College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award Associate degrees and Certificates of Completion. During the 2016/2017 biennium, TSTC consolidated four independently accredited colleges into a single, statewide accreditation structure. TSTC simultaneously merged substantially all operations into a statewide, consolidated, functional structure.

In response to mandates from the 82nd, 83rd, and 84th Legislatures, TSTC became the only college in Texas to adopt a funding model based entirely on student employment outcomes - aligning with its purpose of strengthening Texas with a highly skilled, technically competent workforce.

TSTC System Administration comprises certain functions of the college that are statewide support resources that are generally indirect in nature and shared across statewide college operations. Through TSTC's commitment to education over administration, TSTC seeks for this to be a streamlined and efficient body leveraging the System Administration structure to eliminate redundancy throughout statewide operations.

BACKGROUND CHECKS

Criminal history record information is checked for employment applicants under final consideration, following normal screening and selection processes, for security sensitive positions. Security sensitive positions are restricted to those positions described in Texas Education Code § 51.215(c) and Texas Government Code § 411.094(a)(2). Security sensitive positions include those in which employees handle currency, have access to financial records, legal records, medical records, personnel records and student academic records, have access to a master key, or work in an area of the College which has been designated as a security sensitive area.

All advertisements and notices released for security sensitive positions include the statement: "Security Sensitive Position." Upon selection of the best qualified candidate for the position, the candidate may be offered continued employment by the College contingent upon the evaluation of the criminal history record check. If the check produces a criminal record on the candidate, the Human and Organization Development Executive or his/her designee evaluate the record and work with the department head to determine if the employee should be recommended or not recommended for employment. All criminal history information on applicants is privileged and confidential and is not released or otherwise disclosed to any person or agency other than those persons involved in the hiring process with a legitimate need to know this information, except on court order.



STATE OF TEXAS

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June 30, 2016

To: State Agency Board/Commission Chairs
State Agency Heads/Executive Directors
Appellate Court Justices and Judges
Chancellors, Presidents, and Directors of Institutions and Agencies of Higher Education

Limited government, pro-growth economic policies and sound financial planning are the key budget principles responsible for Texas' economic success. During the 84th Legislative Session, we worked together to prioritize spending and made our state even stronger and more efficient. With your help, we can restrain the size and scope of government to ensure that employers are empowered to create more jobs that benefit hardworking Texans.

An initial step in developing the 2018-19 biennial budget for the State of Texas is submission of agency and institution Legislative Appropriations Requests (LAR). Detailed instructions for the submission are posted on the websites of the Legislative Budget Board (LBB) and the Office of the Governor, including a staggered schedule of submission dates.

It is imperative that every state agency engage in a thorough review of each program and budget strategy and determine the value of each dollar spent. As the starting point for budget deliberations, we are requiring each agency to trim four percent from their base appropriation levels. These levels will be provided to each agency by the Governor's Office and LBB.

Exceptions to the baseline request limitation include amounts necessary to:

- maintain funding for the Foundation School Program under current law;
- maintain public safety resources in the border region to help secure Texas;
- satisfy debt service requirements for bond authorizations;
- maintain funding at fiscal year 2017 budgeted levels plus amounts necessary to cover the impact of payroll growth for state pension systems and employee group benefits (not including payroll contributions made by state agencies and institutions of higher education for retirement and group health insurance), though group benefit modifications may be considered;
- maintain funding for Child Protective Services;
- maintain funding for behavioral health services programs; and
- maintain current benefits and eligibility in Medicaid programs, the Children's Health Insurance Program, the foster care program, the adoption subsidies program and the permanency care assistance program. Baseline requests for these programs should include amounts sufficient for projected caseload growth.

Specific questions with respect to the treatment of the above items should be directed via email to both your Governor's Office and LBB analyst.

The reduction in the baseline request will require agencies to maximize the efficient use of state resources, and all LAR should express the agency's priorities for programs and items that are of highest value to Texas taxpayers.

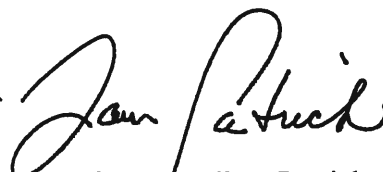
Funding requests that exceed the adjusted baseline spending level may not be included in the baseline request, but these additional funding requests may be submitted as Exceptional Items. The Exceptional Items schedule now includes required fields for information on potential contract, information technology and out-year costs in order to better identify and analyze ongoing state expenses associated with requested items. Agencies that request Exceptional Items should be prepared to suggest lower-priority programs or other cost savings to help offset the increased costs associated with their requests.

Each LAR submission must include information providing the budget request by program in a format prescribed by the LBB and Governor's Office. Additionally, zero-based budget information will also be requested from agencies throughout development of the 2018-19 state budget.

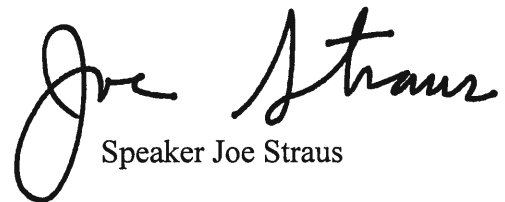
Thank you for your service to the State of Texas, and we look forward to working with you in preparation for the 85th Legislative Session.



Governor Greg Abbott



Lt. Governor Dan Patrick



Speaker Joe Straus