

**FINANCE COUNCIL
REACTIONS TO REPORT OF THE VISION 2020 ADVISORY COUNCIL**

In its Progress Report dated January 10, 2006, the Vision 2020 Advisory Council evaluated Texas A&M University's progress toward achieving the major imperatives of Vision 2020. Included in this evaluation is a discussion of some financial challenges associated with achieving these imperatives. At the request of Executive Vice President & Provost David Prior, the Finance Council has reviewed the Vision 2020 Advisory Council's report and offers the following recommendations for consideration. These recommendations are separated based on matters that reflect (1) legislative priorities and initiatives and (2) internal decisions and allocations.

**OPPORTUNITIES REFLECTING LEGISLATIVE PRIORITIES AND
INITIATIVES**

1. State Funding Models for Tier 1 Research Institutions:

As noted in the Vision 2020 Advisory Council's report, the current formula funding system utilized by the state of Texas does not consider the costs of research excellence, but instead focuses on semester credit hour growth. This focus places already large institutions (such as Texas A&M University) at a significant disadvantage, as it is more difficult (if not impossible) to demonstrate significant growth when enrollment is at currently high levels. Further, even if such growth were possible, it would result in higher student-to-faculty ratios and a decline in the educational experience of our students, particularly at the undergraduate level, which would not be consistent with the imperatives of Vision 2020.

If indeed "very different funding requirements for excellence between Tier I Research universities and those of the institutions whose mission is driven primarily by undergraduate education" (from page 11 of the Vision 2020 Advisory Council's report) exist, it is important that Texas A&M University define those needs that differentiate us from non-Tier 1 Research institutions. It appears that state officials view Texas A&M University and the University of Texas as larger versions of undergraduate institutions. Specifically, the economic impact of our faculty's research on the state of Texas is either not known by our legislators or not explicitly considered in their funding models.

Along these lines, it is interesting to note that the states of California (with Tier 1 institutions UCLA and California-Berkeley) and Michigan (with Tier 1 institutions University of Michigan and Michigan State University) have established markedly different funding models for Tier I institutions and other institutions. In particular, a substantial discrepancy exists between the funding of institutions in the University of California system compared to those in the California State System. An examination of the *U.S. News & World Report* rankings of universities indicates that this

distinction and differentiation are indeed “paying off” (in terms of higher institutional rankings).

Given the above, it appears that the current strategy contemplated by Texas A&M University during the upcoming legislative session of working with the University of Texas to impress upon legislators the importance of Tier 1 Research institutions is sound. Incumbent in this type of effort is explicitly quantifying the impact of Tier 1 Research institutions and demonstrating how such institutions contribute to the well-being of the state of Texas beyond other four-year institutions. It will be important to carefully balance the issues of access to our university to the citizens of Texas (which is always of concern to legislators) with the economic impact of top research universities on citizens of the state of Texas.

2. State Support of Faculty Excellence:

At least two southern states (Kentucky and Oklahoma) have state-funded programs in which donor commitments for faculty and/or research excellence are matched by state funds. (Louisiana had a similar program at one time, but has discontinued it). The incentive provided to donors under these programs has anecdotally resulted in new and/or enhanced gifts being received because of the state matching funds. These gifts, along with the state “matching funds” have, in turn, enhanced the institution’s ability to attract and retain top faculty, consistent with “Elevating the Faculty” (the first imperative of Vision 2020).

The state of Texas has recently shown some inclination to provide increased funding to institutions of higher learning, particularly in areas where increased economic development would result. While the likelihood of successfully introducing a matching program for privately-raised funds is uncertain, it would appear to be an effective mechanism to enhance the teaching, research, and service efforts of our faculty while attracting additional investment (through privately-raised funds) for this purpose.

3. Revision of Statutory Procurement Codes:

Certain modifications to state policies and procedures governing the procurement of goods and services would provide enhanced flexibility, improved efficiency, and increased financial benefits to Texas A&M University. These modifications are discussed below. Assuming that the benefits to Texas A&M University and entities operating within Texas A&M University are significant, the possibility of seeking modifications to these policies should be explored.

a. Application of Texas Education Code § 51.9335:

The recent adoption of this chapter removed procurement oversight responsibility from the Texas Building and Procurement Commission (with the exception of the Historically Underutilized Business, or HUB, Program) and assigned this responsibility to the State Auditors' Office. However, in so doing, differences in funding sources for higher education were not explicitly considered. Specifically, this chapter is silent on its applicability to procurements made utilizing non state-appropriated funds (as opposed to state-appropriated funds).

To ensure consistency, we recommend that the Texas Education Code reflect the same guidelines as the Texas Government Code, with the former applying only to the procurement of general goods and services using state-appropriated funds. Such action would provide flexibility in the University's procurement process and afford the opportunity to be more responsive to the requirements of our faculty, staff, and students. Additionally, this modification would reduce the overall processing costs for such transactions. Of course, the HUB Program initiative and related rules would remain in effect.

In addition to the above recommendation, a similar change to the Texas Government Code § 2254 relating to consulting and professional services would be appropriate. More specifically, it is recommended that the Texas Government Code would apply only to the procurement/contracting of consulting and professional services using state-appropriated funds. The benefits of flexibility, responsiveness, and costs noted for goods and services acquired under the Texas Education Code would apply here as well.

b. Procurement Card Rebate for Institutional Fund Purchases:

The State Comptroller's Office has determined that, under existing regulations, institutions of higher education or state agencies are not entitled to collect rebates when utilizing the state contracted procurement card agreement. Instead, all rebates offered under the state contracted procurement card agreement are deposited into the state treasury.

In the State of Texas, institutions of higher education immediately recognized the value of the procurement card and were the first significant users of the program. Had it not been for the immediate adoption by higher education, the procurement card program would not have flourished. Since the majority (well over 90%) of all procurement card transactions and dollar volume at Texas A&M University are financed using non state-appropriated (as opposed to state-appropriated) funds, it seems reasonable to suggest that Texas A&M is entitled to receive rebates resulting from said purchases.

To illustrate the potential economic impact of this policy, the State of Texas' last semi-annual rebate from JP MorganChase was 0.82% of the dollar volume of purchases. Based on a purchase volume of \$8.1 million, of which 90% is made using non state-appropriated funds, Texas A&M University would have realized approximately \$60,000 in semi-annual rebates [$\$8,100,000 \times 0.90 \times 0.0082 = \$59,778$].

OPPORTUNITIES REFLECTING INTERNAL DECISIONS AND ALLOCATIONS

1. Deregulated and Differential Tuition:

The state of Texas' decision to allow universities and their boards of regents to establish tuition rates provides a source of funding that has heretofore been unavailable. Traditionally, the cost of education within the state of Texas has been among the lowest in the United States and lags behind many of the institutions that are considered Vision 2020 peer and aspirant institutions. This lag, combined with the reduction in funding by the state legislature, has placed Texas A&M University at a significant disadvantage in our ability to recruit and retain top faculty and create state-of-the-art educational opportunities for our students.

The availability of increased tuition as a funding source to achieve the objectives of Vision 2020 should be carefully considered. On one hand, Texas A&M University's land grant mission has allowed persons of modest means to receive a top quality education. On the other, Texas A&M University's students are receiving a top quality education at a fraction of the cost of their peers at other top universities. To some extent, the state's requirement that a fairly significant percentage of any funds received from increased tuition be allocated to financial aid (approximately 20 percent) will allow Texas A&M to maintain its financial accessibility to citizens of the state of Texas.

Related to the deregulation of tuition is the practice of many professional schools at Vision 2020 peer and aspirant institutions charging a differential tuition (i.e., an incremental tuition beyond that charged by the university). In many cases, these professional schools are in a highly-competitive environment for students and faculty, and the availability of differential tuition allows them to be more competitive in these markets. Because professional schools prepare students for careers following their university education and, at Texas A&M University, are highly-sought by prospective students, it appears that differential tuition should be considered as a funding source for the affected colleges and schools. As mentioned in the preceding paragraph, the state requirement to allocate a percentage of tuition dollars to financial aid will permit any colleges and schools choosing to charge differential tuition to support students that might be negatively affected by increased tuition costs.

2. Priority of Funding Faculty Merit Raises:

The faculty reinvestment program, in which 447 new faculty will ultimately be hired at Texas A&M University, has already and will continue to make a tremendous impact on the research, teaching, and service missions of our institution. This initiative has resulted in the hiring of a number of “transformational” faculty members from leading institutions across the world. In many of these cases, significant commitments of salary and/or faculty research start-up funds were required.

The first imperative of Vision 2020 identifies faculty as a top priority in Texas A&M University’s strategic plan. We anticipate that many of the faculty hired under the reinvestment program, as well as existing faculty at Texas A&M University, will be subject to attractive job offers from competing institutions. It is imperative that Texas A&M protect its significant investment in faculty by identifying meaningful salary increases as a priority in the budgeting process.

3. Strategic Focus, Coordination, and Flexibility with Gift Funds:

Both the Texas A&M Foundation and the Association of Former Students facilitate fundraising efforts on behalf of Texas A&M University and units within Texas A&M University. While individual units’ goals and priorities are considered in their interactions with donors, the possibility exists that some inconsistencies exist between the overall goals and strategic initiatives of Texas A&M University and the efforts of the Texas A&M Foundation and Association of Former Students. (Such inconsistencies are not likely to exist within the 12th Man Foundation, as this entity is restricted in its fundraising efforts for support of athletics.)

While the wishes and desires of individual donors should be paramount in determining the purpose toward which gifts are deployed, it seems appropriate to consider how university priorities can be implemented and presented to donors as part of broad fundraising strategies. President Gates’ Development Strategy Group (which includes membership representing the Texas A&M Foundation, Association of Former Students, and 12th Man Foundation) appears to be a first step in this direction.

As a result of the Texas A&M Foundation’s *One Spirit One Vision Campaign* reaching its \$1 billion goal and the increased number of baby boomer former students who will be reaching retirement (and, potentially, giving, age), it seems appropriate to evaluate the current relationships and development strategies that Texas A&M University has with its Foundations to ensure that current efforts are consistent with the long-term goals of Texas A&M University. One example of this effort is the recent development effort that resulted in George Mitchell’s contribution to privately fund the construction of two new academic buildings dedicated to research and education in Physics.

4. Responsibility Centered Management:

Responsibility centered management processes treat individual academic and service units as profit centers (ability to influence both their revenues and costs) as opposed to merely cost centers. A number of Vision 2020 peer and aspirant institutions have developed some form of responsibility centered management programs to influence desired behavior by directly rewarding units. As just one example, Indiana University identified recruiting a higher percentage of non-resident students as a strategic priority; their responsibility centered management program allows individual colleges to retain a large percentage of the incremental tuition paid by non-resident students for their use. This program has resulted in marked increases in the percentage of non-resident students enrolled at Indiana University.

From an operating standpoint, responsibility centered management makes individual units more cognizant of their costs and the impact of various decisions on their financial well-being. For example, under traditional budgeting practices, increased enrollment requires academic units to provide educational, advising, and computer resources to students, often without increased funding to offset those costs. As a result, academic units have no direct economic incentive to enroll additional students. However, if units were provided incremental revenues for increasing their enrollments (through a responsibility centered management model), their incentives and decisions can be more completely aligned with the university's objectives.

Two new (or anticipated) programs may make responsibility centered management particularly applicable. First, President Gates' plan to increase undergraduate and graduate enrollments through 2011 will result in all academic units serving a greater number of students. A responsibility centered management model that provides units serving these additional students with the tuition revenues from those students will provide relief from the additional costs associated with increased enrollments.

Second, the proposed University Studies degree (which will be evaluated by the Faculty Senate during fall 2006) will require academic units to increase offerings of courses and programs of study to a larger number of students. Again, responsibility centered management models may increase units' desire to serve these students and create meaningful concentrations and minors that will be so integral to the successful offering of a University Studies degree.

Obviously, responsibility centered management programs have numerous implications for the manner in which decisions are made within all units (both academic and nonacademic) at Texas A&M University. Prior to any decisions to begin implementation, a thorough study of the potential costs and benefits of these programs should be undertaken, perhaps led by the Finance Council. Further, it is imperative that important "ground rules" be established with respect to any activities