

The University of Texas System Administrator's Statement

In accordance with instructions from the Governor's Office and the Legislative Budget Board, The University of Texas System Administration (System Administration) submits this Legislative Appropriations Request (LAR) for fiscal years 2018 and 2019.

Introduction

Founded in 1883, the University of Texas System (UT or System) is governed by nine regents appointed by the governor and confirmed by the Texas Senate (Board or Regents). Regents serve staggered six-year terms, with the terms of three Regents expiring on February 1 of each odd-numbered year. The governor also appoints a non-voting student regent for a one-year term ending each May 31. (The composition of the Board is part of the organizational chart in this LAR.)

The chancellor of the System, William H. McRaven, is its chief executive officer, chosen by the Board.

The Board provides strategy and policy direction, oversight, and governance, while System Administration manages the System and its eight academic and six health institutions (listed as part of the organization chart) consistent with the Regents' rules and System policies.

Contributions to Texas

Among all the great institutions of Texas, UT has a unique opportunity and responsibility to prepare the state to lead nationally. Texas is an economic powerhouse, but its national economic leadership is not preordained. The education and health of the people of Texas will determine whether the state will continue to lead or fall back.

While not well understood, the System's contributions to Texas are immense and are unlike any other Texas university system:

- UT is the largest university system in Texas, with an annual budget of nearly \$18 billion
- UT's total research funding of \$2.6 billion is the largest in Texas and second largest in the country
- UT institutions educate more than 221,000 students – more than 1/3 of all students in Texas public institutions – hailing from nearly every county in Texas, all 50 states, and 168 countries
- UT produces more than 54,000 graduates annually

- UT employs more than 100,000 faculty, health care professionals and staff, making the System one of the largest employers in Texas
- UT health institutions host more than 7.3 million patient visits annually
- UT received the 4th largest number of U.S. patents of any higher education institution in the world in 2015
- 40% of degrees awarded by UT are in science, technology, engineering or mathematics (the STEM fields) and health related fields, higher than both state (32%) and national (31%) proportions
- 42.6% of degrees awarded in key fields (defined by the Texas Higher Education Coordinating Board [THECB] as computer science, engineering, mathematics and physical science) in Texas were earned at a UT institution

Economic Impact

UT institutions not only put students on a path to prosperity, they also drive tremendous amounts of economic activity for the state.

UT students leaving a System institution in 2013 earned \$2.14 billion working in Texas in 2014 alone. In comparison, UT institutions received \$2.06 billion in state appropriations.

Former UT students now employed in the Texas workforce add to the state economy as productive citizens. This results in increased tax revenue, lower unemployment rates, reduced dependency on government services, and a potential increase in spending on housing and consumer items.

UT graduates work in a wide variety of industries within the vast Texas economy – health care, energy, technology, finance, and beyond. Two areas where graduates are most often found working are critical for Texas’ future – education and health care. As part of the return on public investment in UT institutions, UT graduates are doing their part to help educate the next generation and ensure the health of Texans.

Financing Sources

System Administration is financed through the Available University Fund (AUF), made up of annual distributions from the return on the Permanent University Fund (PUF). The PUF was created through the constitutional dedication of 1 million acres of West Texas lands in 1876. Supplemented by other lands and fueled by the oil and gas underneath the lands, along with historical returns on investments, the PUF now has a market value of \$17.5 billion.

The PUF and AUF, constitutionally shared 2/3 by the System and 1/3 by the Texas A&M University System (A&M), are invaluable resources that have allowed the University of

Texas at Austin (UT Austin) and Texas A&M University in College Station to become Texas' only nationally ranked public research institutions as members of the Association of American Universities. But even at its current size, the PUF is a limited resource, without the capacity to support all the needs of the two systems for construction and operations.

The AUF is used first to pay the debt service on bonds issued by the UT and A&M systems. The remainder of the UT share is divided between System Administration and UT Austin for support and maintenance. The AUF cannot be used to support or maintain any of the other 13 UT institutions.

System Administration

The employees of System Administration add value to the state and every UT institution, stewarding resources; ensuring proper governance and oversight; and providing prudent management of the 14 institutions. System Administration employees facilitate opportunities for institutional collaboration and enhanced communication through a level of skill, knowledge and experience that either does not exist at many of the institutions or that can be more cost-effectively offered at a System-wide level.

Some functions of System Administration are necessary to ensure compliance with state and federal laws and regulations, as well as to establish and maintain consistent policies across all institutions. For example, the Offices of Academic Affairs and Health Affairs (OHA) provide direction to the eight academic and six health institution presidents and ensure compliance with laws and requirements of the THECB and other state and federal agencies. OHA also operates the consolidated application program that serves all of the public and private medical and dental schools in Texas.

The Office of General Counsel is the central law firm for all institutions and coordinates with legal staffs on the campuses on legal issues ranging from contracting and procurement to real estate, and provides a centralized claims and financial litigation capacity. The Office of External Relations leads in the development of philanthropic capacity to prompt more than \$1 billion in private gifts each year, from more than 250,000 donors, a critical revenue stream for all UT institutions. External Relations also ensures that the more than 14,000 endowments at UT institutions are administered in accordance with the donors' intent.

System Administration operates a system-wide Compliance Office, which ensures adherence to state and federal laws and regulations involving privacy, environmental health and safety, and research. Many information technology functions are centralized as well, such as business enterprise software, information security, fiber-optic data services, and three data centers that provide business continuity.

The System Audit Office provides an internal audit function to each institution and to the Board and System Administration. Centralizing the audit function increases the independence of internal auditors and relieves institutions of these costs, costs that would otherwise be funded by tuition.

The Office of the Director of Police oversees the protection of life and property on all UT campuses by more than 1,400 commissioned peace officers. ODOP also operates a police academy that trains police from System and other university systems.

In order to save money and take advantage of the System's scale, System Administration centralizes numerous functions that other Texas university systems carry out on individual campuses. For example, while on-line learning is an increasingly important component of today's higher education model - facilitated at System by the Institute for Transformational Learning - most learning is still carried out on the distinct physical presence of each of the 14 UT campuses. Every year, System Administration's Office of Facilities Planning & Construction (OFPC) manages the construction and renovation of modern facilities at a pace that can approach \$1 billion a year, across 40 to 50 major projects. OFPC receives no direct state appropriations, but works on a per-project fee basis, meaning its work and size ebb and flow with campus needs.

Leveraging the scale of UT's health institutions, the Offices of Business Affairs and Health Affairs save money in a number of ways.

- An electronic payment program reduces use of paper checks and earns \$1 million in rebates annually
- Common software platforms generate significant savings and increase business efficiency through standardization of business practices
- Self-insurance of medical liability produces premiums considerably below market

System Administration Shared Services (Shared Services) facilitates cross-campus collaborative projects to save money and improve quality. Shared Services allows System to scale its strength, generating cost savings that can be redirected to institutions' core missions. For example, the Supply Chain Alliance secures better purchase terms than any individual institution could achieve on its own, resulting in savings of \$152 million to date, plus an additional \$14 million in incentives and administrative fees.

System Administration's Office of Risk Management oversees UT's self-insurance of workers' and unemployment compensation and property and liability protection. Estimated savings in 2015 from this self-insurance were more than \$25 million.

System Administration's Office of Employee Benefits (OEB) leverages the size and scope of the System to ensure that employees and retirees receive the best pricing possible. OEB contracts with 19 separate vendors to provide insurance, retirement and

wellness benefits for over 200,000 subscribers and dependents, with operating expenses of less than 1% of the \$1.1 billion in premiums.

System Administration's Office of Strategic Initiatives (OSI) provides institutions with cost-saving access to important data for research and decision support. For example:

- UT System Dashboard provides access to data on affordability, student success, post-graduation earnings, research, health care, and state economic impact
- seekUT combines salary information with average student debt by major, providing students and parents with a realistic debt-to-income ratio one, five, and ten years after graduation, allowing families to make informed decisions and plan for their financial future

System Administration's Office of Finance assists the 14 institutions in financing capital projects and equipment. Because the System's credit ratings are far stronger than what any institution could achieve separately, projects are financed at the lowest possible cost of capital. In the last eight years, this has generated \$148 million of present value debt service savings through bond refunding transactions, \$21 million through interest rate swap activity, \$15-\$17 million annually by utilizing internal liquidity, and \$3 million by avoiding the use of external financial advisors.

Some System Administration initiatives that have drawn criticism actually add value and save money, such as the new building that will be occupied in summer 2017. System Administration currently occupies five aging buildings (one, O Henry Hall, has been sold to the Texas State University System and will become its offices when System Administration moves into its new building). The current costs of maintenance and repairs for these buildings is approximately \$4.8 million annually, compared to \$2.1 million for the new building. These savings, combined with the revenues produced from the redevelopment of the current buildings, will produce \$125 million over the next 30 years. No tuition or General Revenue is being used to finance the building.

Some System Administration offices add value through the generation of revenues. University Lands manages the PUF's 2.1 million acres in West Texas. In 2016, University Lands' administrative costs were \$1.50 per equivalent barrel of oil, while private sector costs are typically around \$4.00 a barrel. System Administration will explore with the Legislature how these lands can be better managed in a global 21st century business environment and how leasing and development of the lands can be modernized to keep pace with industry to maximize the value of the resources that go to the UT and A&M systems.

System Administration has recently completed an assessment to identify even more efficiencies and benefits for the institutions. As a result, System Administration will be

smaller by the end of the 2017 fiscal year through a combination of the elimination of vacant positions, an announced voluntary separation program and potential reductions in force in fall 2016 and spring 2017. By continuing to assess our state's needs and evaluating and improving our performance, System Administration plans to achieve its goal for a leaner, more focused, and more highly specialized operation that will add even more value to UT institutions and the state.

Quantum Leaps

Building upon his predecessor's Framework for Advancing Excellence, Chancellor McRaven in November 2015 announced eight Quantum Leaps designed to help UT fulfill and accelerate its mission “to improve the human condition in Texas, our nation and our world” and fulfill its role as “a state university system with global impact.” Legislative action to advance several Quantum Leaps will be discussed in the 85th Session.

The capacity of UT’s health institutions and medical schools can be tapped to propel Texas forward in Leading the Brain Health Revolution, specifically by using our clinical, research and training resources, in collaboration with agencies like the Department of State Health Services (DSHS), to enhance the provision of mental and behavioral health care in Texas. Under the leadership of DSHS, UT can provide physicians, residents, administrators and staff to operate rebuilt and new state mental health hospitals in East, Central and North Texas. UT institutions can also collaborate for expanded training programs and research designed to meet the mental and behavioral health needs of Texans.

Leading the Brain Health Revolution in other areas such as traumatic brain injury and Alzheimer’s can be achieved by UT’s health institutions through exceptional item funding for the Texas Institute for Brain Injury and Repair at UT Southwestern Medical Center and the Barshop Institute for Aging Studies at UT Health Science Center – San Antonio.

The System can use its statewide Health Care Enterprise to improve health care throughout Texas by working with other systems and providers on the expansion of the telemedicine infrastructure. The Board in February 2016 used the AUF to establish the UT Virtual Health Network (VHN). UT Medical Branch, with its experience and expertise in using telemedicine for correctional care, leads the VHN. UT intends to develop with other university systems a proposal to build on the VHN to improve mental and behavioral care through initiatives like tele-psychiatry and in more efficient and productive delivery of health care in rural Texas.

The UT Network for National Security currently has more than 40 centers, institutes and laboratories focusing on issues related to our nation’s security, including world-class expertise in cyber-security, one of the greatest threats to our economy and communities.

UT wants to grow this expertise and make it more available within Texas, for example through the Cyber and Cloud Computing initiative at UT San Antonio (UTSA), for which UTSA is seeking exceptional item funding.

The System believes there are opportunities through the UT System Expansion in Houston to work with others to help make the nation's fourth largest city, and by extension the State of Texas, an even greater international intellectual and innovation hub. The System has acquired more than 300 acres near the Texas Medical Center through the PUF, at a cost of \$14 million per year over 30 years, as a "blank canvas" for this effort. A diverse task force of Houstonians will help design the blueprint for this effort, and System will bring the recommendations of the task force to the Legislature and the THECB for consideration before implementation of a plan that will span generations.

UT knows that advancing its institutions and Texas can only be accomplished if we as a state Win the Talent War. System Administration is strategically using the AUF through the Science and Technology Acquisition and Retention [STARs] program to recruit outstanding faculty and researchers to Texas. These efforts are enhanced by the state's commitment to other initiatives such as the Cancer Prevention and Research Institute of Texas (CPRIT) and its \$3 billion in voter-approved bonds; the Governor's University Research Initiative (GURI), which recently announced its first awards to attract National Academy members to Texas, including two to UT Austin; and the very successful Texas Research Incentive Program (TRIP).

UT acknowledges its responsibility not only to the students on its campuses today but to those who will come in the future. The Texas Prospect Initiative seeks to address this duty by enhancing the educational pipeline and increasing access to higher education through dual credit programs, early college high schools and math and science academies; improved literacy; and better high school counseling and teacher preparation. The Prospect Initiative, which will span several years, is in its early stages of development, and System looks forward to collaborating with the Texas Education Agency and Commissioner Mike Morath in these areas and to the success of programs such as the Institute for P16 progress at UT Arlington.

Some of the Quantum Leaps are focused on internal issues and will not require legislative action, such as the American Leadership Program, designed to equip every UT student with the character and skills to be a leader in their field, and our effort toward Enhancing Fairness and Opportunity, designed to enhance the diversity of System and institutions' leadership through an "Opportunity Rule" that guarantees underrepresented minority and women candidates are finalists for senior positions and a commitment to gender equity in compensation.

A ninth Quantum Leap, sustained from the Framework for Advancing Excellence, is Student Success - an integral thread through all UT's efforts. Graduation rates at UT institutions, even at UT Austin where they are the best in Texas, are not acceptable. The System will commit resources and effort to dramatically improve these rates in the next few years. Exceptional item requests from institutions will also further Student Success, such as the Student Success Initiatives at UT El Paso, the 1st Generation Access, Attendance and Graduation program at UT Permian Basin, and the College Completion initiative at UTSA.

Legislative Issues

Other issues that will come before the Legislature are critically important to UT.

The System knows the challenges to the Texas economy since the end of the 84th Session and respects the leadership of Governor Abbott, Lt. Governor Patrick and Speaker Straus in prudently asking on state agencies to respond to these changed economic conditions by requesting only 96% of current General Revenue appropriations. The System is doing so. At the same time, however, we must note the results of these reduced appropriations. In the case of System Administration, \$200,000 would be cut (\$480,000 with the additional 10% reduction) from the resources we provide to the Texas Heart Institute (THI) for our valuable collaboration through which THI provides training opportunities for medical students, particularly those at the new Dell Medical School at UT Austin and the new UT Rio Grande Valley (UTRGV) Medical School. Each UT institution has noted in its LAR similar consequences from these reductions. In each instance, restoration of the funding to current levels will allow the continuation of valuable services and programs. System Administration is requesting no increases in state funding.

Of greater concern is the continuation of stable formula funding through the Instruction and Operations, Infrastructure, Research and Graduate Medical Education formulas administered by the THECB. In light of the reduced state appropriations per student for operations over the last several years, even with the Legislature's significant additional investment in higher education in 2015 -- for which UT is most grateful -- a sustained state commitment to formula funding, taking into account growth in enrollment, space, and research expenditures and the pace of inflation, is critical to maintaining the positive trajectory of our institutions. This formula funding is essential to the successful start-up of the new medical schools at UT Austin and UTRGV, both of which seek funding at rates equal to those allocated to the other health-related institutions. This is even more critical if Texas is to meet the vision of the THECB's groundbreaking 60X30TX strategic plan and produce the workforce Texas needs for a vibrant and prosperous future.

Adequate formula funding is the foundation for success for all UT institutions, but the research expenditure-based formulas are especially key to the future of UT Austin as one

of the state's two public academic flagships, as well as to the continued development of the four emerging UT research institutions in Arlington, Dallas, El Paso and San Antonio. Additional investment in the Research Formula for the health institutions can spur research commercialization and economic development in this vital part of the state's intellectual infrastructure.

In addition, the special item funding that has been provided to all institutions in previous sessions goes to support critical special initiatives and programs, often ones very important to local economies and communities.

Recognizing the extraordinary investment in capital construction made by the 84th Legislature, UT institutions request no additional bonding authority. We do request both the first and second years of debt service on the tuition revenue bonds authorized in 2015, all of which will be issued by December, consistent with these funds being an exception to the requested reduction in baseline appropriations.

Always looking ahead to the future, UT institutions are proposing a range of new exceptional items, all of which have been reviewed and approved by the Board.

Other sources of funds are important for the state's and UT's research efforts, such as the grants for cancer research and prevention through CPRIT, the recruitment of distinguished researchers to Texas from other states through GURI, and the continuing partnership with generous Texas philanthropists through TRIP. UT System believes the continuation and expansion of all of these by the Legislature is justified, whether it is the extension of CPRIT to 2025, more funding for GURI and its extension to recruit rising star researchers, or funds to relieve the backlog in TRIP-eligible gifts and match the generosity of Texas philanthropists.

Another significant source of revenue for institutions' operations is tuition. Tuition rates have increased throughout higher education since 2003, when boards of regents were allowed to establish designated tuition rates. But overall the increases are attributable almost directly to offset reductions in state appropriations, when assessed on a per student basis and taking inflation into account.

Within the System, after significant increases immediately after 2003, the rates of increase declined just as significantly. In fact, UT institutions were among the lowest in the state in terms of increases from 2011 to 2015, with no increases whatsoever at UT Austin or UT Arlington during this period. The Regents in April 2016 made modest adjustments in tuition rates for the 2016 and 2017 academic years, at a level necessary to keep pace with growth and inflation and to provide adequate operating revenues in the ever-increasing competitive national environment for faculty and researchers. Even with these increases, UT institutions still are among the most affordable in the state compared with other institutions, and in the nation among their peers, with UT Austin next to

lowest among its competing national public research universities. The affordability of a UT System education is also seen in that students from families making less than \$60,000, on average, pay no tuition, and those with incomes less than \$80,000 pay only very low amounts of tuition. Affordability is also seen in that the debt of UT students is less than state and national averages.

Overall UT System believes the state's system for setting tuition and fees works and does not need to be modified.

A discussion of tuition must also include the set-asides from tuition the Legislature has previously authorized. These state mandates are used by institutions as another source of financial aid to supplement federal Pell Grants and TEXAS Grants, which still do not reach all eligible students. In some cases, they are the only source of financial assistance an institution can provide to students from middle-class backgrounds, and as such are an important tool for college affordability.

Any discussion of tuition must also include the burdens to institutions in the form of the foregone tuition resulting from numerous statutory exemptions and waivers.

One exemption imposing a much higher than originally expected cost is the Legacy exemption under the Hazlewood Act. No one in higher education wishes to alter the tuition exemption that has been rightly earned by Texas veterans who have sacrificed for their nation. But the Legacy exemption, only in place since 2009, has proven far costlier than projected and should be addressed by the Legislature, whether through policy changes or funding for the benefit. The Legacy exemption resulted in lost tuition revenues of more than \$177 million across all Texas institutions in the 2015 academic year, with UT institutions' share being \$45.9 million. The cost of the Legacy exemption (approximately \$278 per student) is ultimately borne by other students.

At the same time, other exemptions and waivers are important for the future of Texas and should be maintained. In-state tuition for deserving high school graduates who came to the United States with their parents is one example of a beneficial exemption. Other exemptions and waivers whose costs from foregone tuition add great value relate to graduate students, whose services in classrooms and laboratories increase the efficiency and productivity of faculty and researchers, and for out-of-state scholarship students, as Texas competes with neighboring states to bring the best young scholars to our state.

Other costs to higher education come through regulation. During the Sunset process in 2013, the relationship of the THECB and higher education was properly rebalanced, as the Legislature took note of the sophistication of boards of regents, which provide outstanding leadership and proper oversight. This balance, having been recalibrated only four years ago, should be maintained. Recent regulatory statutes have also presented unanticipated consequences, such as new regulation of contracting and procurement

practices from the 84th Session, the conflicts of interest requirements of which pose special challenges for governing boards that could be reconsidered.

Some actions of the 84th Legislature, such as campus carry, prompted fears that costly disruptions on campuses might occur. Thankfully none have taken place. The prescribed statutory process for a careful campus-by-campus analysis of the appropriate implementation of the law, including designation of limited exclusion zones, has worked, such that the Legislature should find no need to revisit the law.

Finally, in addition to all the many other funding and policy factors that affect higher education, the composition of the student bodies at our institutions is critically important for the future of Texas.

With guidance from the U.S. Supreme Court in the *Fisher* case in June, UT Austin and the System will again ask the Legislature to reconsider the state's Top 10% Law, with the goal of ensuring the success of the students who come to UT Austin as a top-ranked national research university.

Criminal Background Checks

System Administration's policy is to obtain criminal history information on all finalists considered for appointment to all positions, as they are all deemed security sensitive, as allowed by Government Code Section 411.094 and Education Code Section 51.125.