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# ***Position on Proportionality***

Texas Association of Community Colleges

August 2006



# Proportionality

## ***Community Colleges Currently Comply With Proportionality***

- Historically, the state has funded educational costs; community colleges, with local funds, have supported facilities and the physical plant.
- Community Colleges are in compliance with proportionality. Employees excluded from receiving state funding for health benefits include:
  - Physical plant employees
  - Custodians
  - Any faculty or staff member whose salary is paid by grant funds

## ***Expanded Definition Treats Community Colleges Unfairly***

- The Legislative Budget Board (LBB) has proposed expanding the definition of community college proportionality to include “the relative share of each revenue source applied to the total benefits costs.”
- This expanded definition of proportionality would treat community colleges in a manner never anticipated in the historical arrangement. If applied, this expanded definition would treat community colleges unfairly.

## ***Proposed Methodology is Inconsistently Applied***

- The expanded proportionality is calculated in a way that places community colleges at a disadvantage with other institutions of higher education. Unlike four-year institutions state general revenue for community colleges is restricted in how it can be spent.
- The LBB methodology excludes benefits other than group healthcare paid by the local community college when calculating this expanded proportionality.
- Currently the state funds 52.6 % of all employee benefits while the colleges using local funds support 47.4% of all employee benefits.
- The LBB methodology excludes tuition and fees in the community college calculation that is inconsistent with the way other institutions of higher education are treated.

## ***Would Create a Disincentive for the Legislature to Fully Fund the Formula***

- A disincentive for increasing funding to community colleges would be caused by the relationship inherent in the expanded proportionality’s definition and method of calculation.
- If implemented, this expanded proportionality would create a situation where increases in state appropriated formula funds for support of instructional costs would also increase the state portion of required funding for healthcare costs.

## Background

For over 25 years, the historical arrangement between the state and local communities for the financing of local community colleges has centered on shared costs. Local communities were to assess property taxes as a way of funding the physical facilities, while the state was to fund the costs of education and administration. This was codified into Chapter 130 of the *Texas Education Code*:

130.003. STATE APPROPRIATION FOR PUBLIC JUNIOR COLLEGES.

(a) There shall be appropriated biennially from money in the state treasury not otherwise appropriated an amount sufficient to supplement local funds for the proper support, maintenance, operation, and improvement of those public junior colleges of Texas that meet the standards prescribed by this chapter. The sum shall be allocated on the basis of contact hours within categories developed, reviewed, and updated by the coordinating board.

(c) All funds allocated under the provisions of this code, with the exception of those necessary for paying the costs of audits as provided, shall be used exclusively for the purpose of paying salaries of the instructional and administrative forces of the several institutions and the purchase of supplies and materials for instructional purposes.

130.121. TAX ASSESSMENT AND COLLECTION. (a) The governing board of each junior college district, and each regional college district, for and on behalf of its junior college division, annually shall cause the taxable property in its district to be assessed for ad valorem taxation and the ad valorem taxes in the district to be collected, in accordance with any one of the methods set forth in this section, and any method adopted shall remain in effect until changed by the board.

Within this understanding, community colleges have used the revenue appropriated by the state to fund the education of students, while taking locally raised tax dollars to build and maintain buildings and facilities. Originally, this arrangement included the local colleges paying all benefits for employees. However, in the late 1980's, the state moved community college employees into the state's Group Health Plan. For the first time, the state funded community college employees' health care benefits using state resources.

## Community Colleges Currently Comply With Proportionality

In 1985, the General Appropriations Act included rider language that instructed institutions to "apply for and use federal funds for group insurance premiums for salaries paid from federal funds." Community colleges complied with this rider and no state funds are used to pay insurance premiums for employees whose salaries are paid by federal funds. The 1991 Texas Performance Report, "Breaking the Mold," recommended that community colleges pay all physical plant employee benefits from local funds. This was proposed because of the historical arrangement between the state and local colleges, which defined proportionality as the state paying the benefits of all academic and administrative employees. During the 78th Legislative session this recommendation was implemented and currently all physical plant employee benefits are paid out of local funds.

## Expanded Definition Treats Community Colleges Unfairly

The Legislative Budget Board (LBB) seeks to apply a definition of proportionality that is not appropriate to community colleges. According to the LBB, proportionality can be defined as “the relative share of each revenue source applied to the total benefits costs.”<sup>1</sup>

Additionally, LBB provides the following example:

“If an agency receives 65 percent of its total revenue from the state’s General Revenue fund, and receives 35 percent of its total revenue from tuition income, then the total dollar cost for employee health benefits would be split per the above percentages. The same logic applies to funding for retirement benefits.”<sup>2</sup>

However, this is a simplification of a relationship that does not take into consideration the special nature of community college funding. The state funds appropriated to community colleges are restricted in how they may be expended. Section 130.003 (c) of the Education Code states that such funds appropriated to colleges “shall be used exclusively for the purpose of paying salaries of the instructional and administrative forces of the several institutions and the purchase of supplies and materials for instructional purposes.”

This significant limitation makes community colleges different than other state agencies or public institutions of higher education. Unlike four-year public institutions, community colleges cannot expend state general revenue funds for any purpose necessary to achieve their goals and strategies. Given this limitation, it is not feasible to apply this proposed definition of proportionality to community colleges; it would be an illogical attempt to fit a “square peg into a round hole.”

Further, language in the General Appropriations Act makes it clear that the intent is to recognize the special nature of community college funding. The General Appropriations Act contains the following rider concerning proportionality:

(a) **Unless otherwise provided**, payment for salaries, wages, and benefits paid from appropriated funds, including “local funds” and “education and general funds” as defined in § 51.009 (a) and (c), Education Code, shall be proportional to the source of the funds.

(b) Unless otherwise specifically authorized by this Act, the funds appropriated by this Act out of the General Revenue Fund may not be expended for employee benefits costs, or other indirect costs, associated with the payment of salaries or wages paid if the salaries or wages are paid from a source other than the General Revenue Fund.

The phrase, “Unless otherwise provided” is key to understanding this intent. Because of the statutory limitation on the expenditure of state funds in Section 130.003 (c), this new

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<sup>1</sup> Legislative Budget Board document, “Community College CFO Questions on Proportionality,” prepared by LBB staff 2/22/2006.

<sup>2</sup> Ibid

definition of proportionality proposed by the LBB should not be applied to community colleges. Instead, the current model of proportionality should be applied as it provides a reasonable and logical fit.

## **Proposed Methodology is Inconsistently Applied**

By focusing exclusively on group health benefit costs, the LBB fails to recognize the extent to which community colleges fund other benefits. This includes social security contributions (FICA), as well as other health costs, and benefits associated with retaining qualified faculty and administrators. When looking at public four-year institutions, benefits such as FICA are funded by the state. Given this, a more accurate representation of cost sharing for employee benefits is reflected in the Comptroller's report required of all community colleges. The data indicates that the state currently funds 52.6% of all community college employee benefits while the colleges' currently fund 47.4% of benefits with local funds.

Another inconsistency occurs in the calculation of proportionality when the LBB does not take into consideration the tuition and fees as is done with the public four-year institutions calculation. According to the LBB, "The method of calculating proportionality is uniform among all state agencies and institutions."<sup>3</sup>

While this might be the stated intent, it clearly is not uniform since this important amount is excluded from the community college calculation.

## **Would Create a Disincentive for the Legislature to Fully Fund the Formula**

The most important and disturbing problem with this application of proportionality is the disincentive for future Legislatures to fully fund the formula. This would be caused by the relationship inherent in LBB's definition of proportionality and the method of calculation. If the amount of General Revenue funding increases, then there would be a corresponding increase in the state's theoretical share of group health benefits. Utilizing the LBB's definition of proportionality would create a systemic problem that, by design, will undermine greater access to higher education in Texas. It is essential that the state maintain both its commitment to funding colleges' educational activities and to supporting the instructors and administrators that provide this crucial activity.

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<sup>3</sup> Ibid