

2017 ANNUAL
**BUDGET
REPORT**

GROWTH & INNOVATION

The New TSTC is educationally focused, perpetually relevant, and financially healthy.

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SITUATIONAL CONTEXT

The New TSTC

Last year, TSTC celebrated its 50th Anniversary. While we celebrated 50 years of success in adapting to technology advances and responding to the state's industrial workforce needs, we also began to close out an outdated way of doing business. TSTC recognizes that the entire sector of higher education will not survive doing business "the way we've always done it." Beginning with the initiative to consolidate the TSTC accreditations, TSTC has embarked on building a new, transformed college, the "New TSTC." The New TSTC is characterized by:

- **Education First.** The college's most powerful dollar is the one spent on the student learning experience. The new college recognizes that administrative dollars are opportunity costs; that is, the loss of potential opportunity to enhance the student learning experience.

- **Growth.** The new college is not defined by the legacy regions where we have operated; the new college is one that serves the entire state. As TSTC evaluates its growth potential, it closely examines strategic market opportunities across the state, and harnesses available statewide resources for maximum impact. The following developments represent this new focus on growth:

The college's most powerful dollar is the one spent on the student learning experience.

- o 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 economic growth. Further, the college has developed a product development protocol, program vitality methodology, and proforma analysis capabilities to support the optimization of its investment.

- o Creation of a sales culture. The culture of the new college includes a shift from an agency mindset to a salesforce mindset. While the new college will require an increased investment in sales, the college is embracing 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. The college has made significant investments in enhancing prospect outreach and student experience as the students arrive and navigate the workforce development pipeline, including resources and tactics intended to remove obstacles constraining student progress through the pipeline.
 - o Business-to-Business. TSTC has significantly increased emphasis in business development on industrial relations initiatives. This includes increasing capacity for incumbent workforce training and contract services as well as addition of talent management resources that include customized workforce placement services.
 - o 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 the TSTC 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:

- o **Statewide strategic planning.** Both strategic and operational planning is no longer fragmented by the single college structure. During fiscal year 2016, statewide plans were generally directed toward three major results: (1) the single accreditation project, (2) launch of the new Fort Bend Campus, and (3) statewide enrollment for Fall 2016. TSTC will take an additional, significant step toward statewide planning with the inaugural, statewide strategic planning process for the new college to launch with TSTC's Board of Regents at their strategic retreat in Fall 2016.
- o **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 appropriations, it allowed flexibility to innovate its product and expand its mix of revenue streams.
- o **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. These 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.

- **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.

The new college is characterized by its courageous innovation.

TSTC's primary innovative initiatives to date 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).

Funding Overview and Outlook

State revenues for the State of Texas have declined in recent years. The drop in world oil prices have taken a toll on the state's economy and related job growth. Consequently, state leaders have asked state agencies to scale back their requests to the 85th Legislature through the Legislative Appropriation Request (LAR) process. In a letter from Gov. Greg Abbott, Lt. Gov. Dan Patrick and House Speaker Joe Straus, agencies are asked to cut 4 percent from their base appropriation levels (letter is provided in Exhibit C on page 45). TSTC has responded to the request in its current LAR.

This Fiscal Year 2017 Annual Budget Report covers the second year of biennial funding that was established by the 84th Legislature. Consequently, many funding considerations were previously determined. While agencies have been asked to anticipate reductions in biennial funding for 2018/2019, there are no indications of reductions to fiscal year 2017 appropriations funding.

State Support

As an agency of the State of Texas, TSTC's largest source of funding is state appropriations. Total general revenue funding for Texas Higher Education grew from the \$2.9 billion funded during the 2010/2011 biennium to \$3.2 billion and \$3.4 billion for the 2014/2015 and 2016/2017 biennia, respectively. Still, the level of public funding for Texas higher education has not grown at a rate sufficient to keep up with inflation and the same is true for TSTC. The level of formula funding for higher education has declined on an inflation-adjusted basis from \$7,058 per full-time student equivalent (FTSE) during the 2000/2001 biennium (\$1,297 space support + \$5,761 operations) to \$4,399 per FTSE for the 2016/2017 biennium (\$677 space support + \$3,722 operations). Consequently, Texas public higher education institutions have increased the level of funding from students through related tuition increases. TSTC believes that with the various pressures on the overall Texas budget, this is a trend that will continue. This is the major factor for TSTC's pursuit of a more diversified funding mix.

Beyond the update on TSTC's financial priorities, discussed further below, notable highlights from fiscal year 2016 are:

- **Fort Bend.** Ground broke on the new, 80-acre campus late in fiscal year 2015 and construction substantially occurred during fiscal year 2016 with an expected opening in August 2016. TSTC will open the new campus with a record-breaking inaugural enrollment at the new campus location.
- **Enrollment.** TSTC's investment in recruiting, enrollment management, advertising, and sales efforts appears productive with indicators pointing to significant increases in enrollments for the Fall 2016 semester.
- **Two Bond Issues.** TSTC was the first Texas public college to issue the bonds authorized by the 84th Texas Legislature, resulting in nearly \$200,000 in cost savings for fiscal year 2016 (and over \$700,000 per year in the years to follow) for the facility purchased at TSTC in North Texas. The bond sale also realized savings of over \$429,000 for fiscal year 2016 (and \$1,677,000 cumulative savings in the years that follow) from refinancing prior bond issues. The timing of the bond sale, while ambitious, facilitates timely addition of new instructional capacity.
- **SACSCOC Single Accreditation.** TSTC submitted a compliance report and welcomed an on-site review team in connection with the accreditation merger process. The process concluded with an unprecedented no-finding report validating TSTC's progress towards consolidation to a single college.

BUDGET PRESENTATION, ASSUMPTIONS & METHODS

TSTC continues to transform the presentation of the annual budget report. Leadership made the following changes to the budget presentation to increase clarity and transparency:

- Provided both budget and actual (forecast for current fiscal year) for evaluating revenue forecasts used to support spending plans.
- Provided both budget and adjusted budget information throughout narratives to support trend analysis provided.

The annual budget report serves many purposes:

- facilitates the Board of Regent's fiscal governance process;
- controls spending to support the college's stewardship value; and
- promotes intentionality about mission, goals, and objectives for the college, its operational functions and their respective divisions and units.

The annual budget report is merely a starting point and the budget process endures a myriad of changes during the course of year to support the evolving needs and circumstances of the college.

During each year, cost savings opportunities are realized as related plans are not realized, as costs arise that were unforeseen, as revenues realized differ from revenues projected, etc. Consequently, the budget is prepared based on a set of assumptions and projections and related methods and philosophies that significantly influence related plans. Below are some of the notable assumptions, projections, methods, and philosophies that influenced TSTC's Fiscal Year 2017 Annual Budget:

- Appropriation revenues will be realized in accordance with the bill patterns established by the 84th Legislature (budget does not presume a cut to appropriations funding);
- Tuition revenues will increase by 7 percent (enrollment goals targeted a 1.3 percent increase in enrollment);
- The college will realize significant, additional revenues not reflected in the budget to limit spending within realizable revenues.
- The college will realize additional economies through its structural review of administrative functions that are not reflected in the budget proposal; and
- Scholarships will be funded regardless of whether the initiative will net new students.

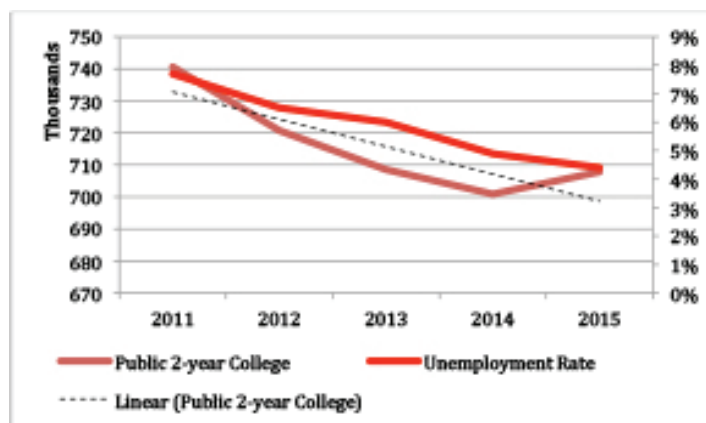
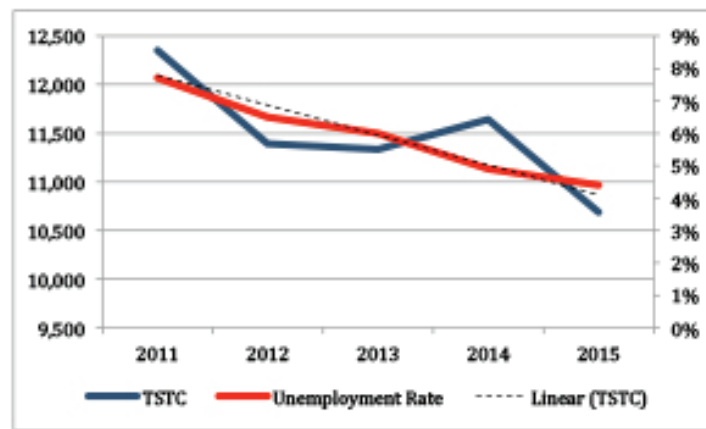
In general, the assumptions used were relatively conservative to implement budget and related spending controls for fiscal year 2017.

Fiscal Year 2017 Financial Priorities

While the financial priorities articulated for fiscal year 2016 remain relevant for fiscal year 2017. The related strategies and tactics for the coming year are provided below:

**Financial Goal 1:
Increase TSTC's Revenue Producing Capacities.**

Classic College. Selling TSTC's traditional line of business remains essential as the college aims to increase the flow of students through the pipeline to ultimately Place More Texans in great paying jobs. In recent years, while the flow of students through the pipeline (graduates) has increased significantly, the number of students entering the pipeline has decreased consistent with the trends across the sector of public two-year institutions of higher education. Researchers credit the decline in enrollments to falling rates of unemployment during the same period. That is, prospective students are choosing employment opportunities over the alternative of enrolling in college.



TSTC recognized that the economy was not the sole contributor to declining enrollment. In connection with the integration of the enrollment management process across the statewide college, leadership recognized significant process and capacity issues across the enrollment management and operating functions. There also was a significant disconnect between the sales and actual customer service experiences for prospective and enrolled students. An indicator of this was the increase in new applications for Fall 2016 and the declining enrollments for the same period. Also, accountability practices and tools were inconsistent or nonexistent under the previous, fragmented structure for recruiting at the different locations. This budget helps leadership continue to address these issues.

...statewide revenues will become a key performance metric for the college.

Exhaustive analysis of the 2016 enrollment management process/funnel indicated TSTC's biggest opportunities to boost enrollment would be realized through surgical approaches in improving all three distinct customer conversion activities: prospect-to-application, application-to-eligible; and eligible-to-registered.

Prospect-to-application. The college will continue the level of investment in recruiting that began in fiscal year 2016, when the college significantly increased recruiting staff with specific emphasis at the three start up locations. Adoption of the new student recruitment accountability model will increase conversion of prospects to applicants.

Application-to-eligible. New expenditures addressing the process of converting applicants to eligible students include the new, dedicated admissions advising/campus experience team charged with a personalized experience for outbound/inbound applicant communications as well as an enhanced, statewide student ambassador program.

Eligible-to-registered. This budget invests \$1 million of institutional funds through the Texan Success Scholarship used specifically as a discretionary, promotional discount to convert prospective students into enrolled students.

The tactics and investments above are largely directed at enrollment of new students. The college recognizes that more than two-thirds of all students are returning students and, consequently, retention rates

significantly impact levels of enrollment. Increasing the pipeline of returning students is a collaborative effort across functional lines and requires disciplined investment in resources. Flexible investment is required to ensure available capacities (available faculty and class resources) are not restricted. This includes increasing capacity through additional night and weekend offerings.

Business to Business Sales. The college will continue to inject resources in Industry Relations to expand the overall mix of revenues for the college. There is a confluence of workforce challenges bearing down on workforce placement, training and continuing education. Those challenges will directly impact employers, workforce and communities all across Texas and have created the current middle skills gap. Today, there are no dominate community colleges or for-profit organizations controlling a majority of the workforce placement, training and continuing education needs, statewide. Further, these same organizations lack a depth of workforce services which will allow TSTC to take a statewide leadership role in workforce placement, training and continuing education as well as significantly increase the awareness and market share of TSTC's workforce programs.

Leading up to and through the course of statewide functional consolidation, Industry Relations at TSTC shifted from four independent workforce efforts that operated under independent and incomplete business models lacking planning and abiding underutilized resources. In addition, units operated as cost centers rather the profits centers and did not perform to their potential.

Industry Relations today is on the threshold of viability as a successful, for profit, business. Under new, statewide leadership, the division is implementing its strategic and annual operating plans. The division developed consistent pricing models to ensure viability as well as a statewide marketing plan and business development plan.

Statewide Industry Relations strategies lay out the awareness, sales, and planning, and accountability models across the division. The strategies for the divisions of Industry Relations are provided below:

Talent Management

- Implement a profit-model with multiple revenue streams
- Re-launch of HireTSTC.com
- Roll out outreach program aimed at increasing user engagement

Workforce Training

- Enhance/expand training offerings through addition of Competency Based Education and badges
- Increase awareness and participation in the TWC Skills for Small Business and Skills Development Grants
- Increase market share and customer base through community college partnerships

Continuing Education

- Develop and embrace more innovative delivery methods combined with industry recognized credentials
- Enhance and expand continuing education offerings through FAST Trac programs that expedite a trainee's time to completion
- Collaborate with industry associations to become a training partner for continuing education

Contract Services

- Pursue training opportunities with L3
- Develop Agriculture Aviation training school
- Develop strategic aviation partnerships
- Develop new aerospace company partnerships

The Center for Employability Outcomes at TSTC. The Center for Employability Outcomes at TSTC (C4EO) was initially created to develop solutions that enable colleges to align curricula with the specific skill requirements of local employers. Seeking to maximize student employability and increase the supply of qualified graduates, the Center aligned more than 1,300 courses across 83 awards and 26 colleges.

Today, C4EO , is developing new software services and customer-facing applications designed to close skill gaps. Branded as SkillsEngine, these tools use advanced machine learning and natural language processing techniques to model, analyze, and better understand workforce skill dynamics.



Initial product offerings, launched this fiscal year, generated national news coverage and market inquiries from companies such as LinkedIn, Pearson, Blackboard, US Department of Labor, and others. Revenue generating contracts have been secured with four clients with additional negotiations underway. These early gains are guiding the development of formal go-to-market strategies, refinement of marketing and messaging, and prioritization of ongoing product development.



The first customer-facing SkillsEngine web app is scheduled to launch March 2017 at SXSWedu. This service enables educators and industry advisors to align curriculum with skills needed in the labor market. Future web apps will follow based on market response and technological capabilities.

TSTC is pursuing a long-term growth strategy as SkillsEngine matures its offerings and builds revenue to fund ongoing product development. TSTC has filed associated copyrights, trademarks, and provisional patents to secure intellectual properties and is working with outside counsel to inform future commercialization activities as appropriate.

Auxiliary Enterprises. A substantial portion of auxiliary revenues are enrollment-dependent and, for several such operations, the operating performance has declined in relation to the related enrollments. Compounding the impact of the enrollment declines were management practices that deterred auxiliary services from yielding potential profits from operations. With a positive outlook on future enrollments and a business-focus on auxiliary operations, improved returns from auxiliaries are expected in the near term.

Examples of opportunities to improve management practices include the division's progress in addressing two profit-stifling issues: accumulation of slow-moving inventory and the increasing cost and conversion rate of housing turnarounds. After analyzing bookstore profitability across the state, management observed that low-moving inventory crept up to over \$600,000 across the bookstore operations in recent years. The level of stagnant inventory is expected to fall to less than \$145,000 by the end of fiscal year 2016. Within housing, the net cost of housing turnarounds in the Waco family housing operations decreased over \$1,000 per turnaround. With over 25 turnarounds per month, the annual savings is nearly \$293,000 due to increased inspections, accountability, and deposit management.

TSTC will increase bookstore and café sales and profits through increased book adoptions, non-student sales (catering, after-hours sales, and workforce sales) and product mix evaluation. Streamlining operating costs through continued structural and personnel evaluation, outsourcing online sales at smaller locations (TSTC in North Texas and TSTC in Fort Bend County), improving inventory turns, and exploration and maximization of public/private partnership arrangements (e.g., Village Oaks, laundry services, etc.).

The accumulating deferred maintenance is taking a toll on auxiliary operations performance as well. Examples include over 200 housing units that are off-line, dated and dirty laundry facilities, and other product features that are not consistent with our brand promise. An injection of capital into certain auxiliary operations will provide additional returns to the college. During fiscal year 2017, TSTC will explore financing opportunities to increase sales capacity including renovation of off-line housing and housing and café facility improvements necessary to match TSTC's brand promise.

Within airport operations, the college has begun maximizing the commercialized space on the airport. Managing the relationships with existing lessees has produced additional development opportunities and helped the airport reach nearly 100,000 flights per year supporting fuel revenue sharing and supporting TSTC's grant requests. In addition, the college seeks to maximize grant opportunities available to support airport development and maintenance and is pursuing Spaceport designation for possible, related development.

New Locations. TSTC's highest potential opportunities for growth are its newest locations. With significant

available capacity at the new locations, supporting the ramp up of the campuses at Fort Bend County, North Texas, and Williamson County continues to be a statewide focus. Leadership anticipates significant enrollment increases at the three locations for Fall 2016 and for the years beyond.

Financial Goal 2:
Exploit TSTC's Potential Scale and Size.

Increase the Efficiency & Effectiveness of Student Learning. TSTC will continue the rollout of the new statewide leadership structure for student learning initially launched late in fiscal year 2016. This structure accelerates and strengthens deployment of statewide instructional strategies for improving student acceleration, completion, and placement. This will support the uniform program assessment plan that sets and monitors progress towards instructional goals.

Statewide curriculum assessment and alignment with the C4EO DWA methodology ensures best fit with industry needs across our statewide offerings. TSTC will also implement statewide Developmental Education and General Academics best practices which have been piloted at various campuses to improve student success within their chosen field of study. During the next year, Professional Development will focus on a college-wide quality assessment of all online courses, will construct a new, statewide leadership program, and continue the significant progress within areas such as new employee boot camps.

During fiscal year 2016 the college developed its program vitality model that facilitates consistent program assessment, establishes uniform overarching program outcomes, and enables assessment and achievement of related outcomes (program vitality template provided in Exhibits). The program vitality process will be operational for fiscal year 2017. Leadership will begin adoption of a bonus structure linked to the program vitality program, replacing the historical faculty overload system (an activity-based system).

Shift Overall Expense Structure to More Educational Focus.

Cost containment was a primary goal identified during the functional integration. The college sought to ensure the management capacity was in place to support three, new significant operational footprints without installing administrative redundancy. New

locations could leverage the depth and breadth of expertise and services incumbent in the legacy organization. Since then, TSTC has realized cost containment evident through the trend in FTE growth across locations. While TSTC has expanded to three new locations adding 68 positions, the college actually reduced its net FTEs across the enterprise by four positions. This shift was generally realized through attrition and scrutinized replacement of positions.

Leadership believes significant opportunity remains to reduce the size of administration to build a cost structure that is educationally focused. Leadership will remain steadfast in identifying opportunities to trim the size of administration. During fiscal year 2016, college leadership began an assessment of its operational structures, identifying administrative imbalances, including a search for disproportionate investment in noncore activities. In addition, leadership identified alternative service delivery opportunities that resulted in significant administrative cost reductions. This process will continue as the new college becomes more fully formed.

Lastly, gains were made in realizing economies of scale through TSTC's new statewide purchasing process. Numerous purchases were consolidated and TSTC leveraged other negotiated purchases through available purchasing cooperatives across the state. Further savings and value will be realized through this new strategic sourcing capacity.

Financial Goal 3: Right-size and Refocus Investments in Programs & People.

Invest in Faculty. An essential financial focus for TSTC for fiscal year 2017 (and beyond) is faculty compensation. This budget includes an injection in the faculty compensation base that facilitates bringing compensation for all faculty up. Augmenting this effort are two necessary initiatives either under development or planned for implementation during the next year: (1) TSTC's Statewide Faculty Ranking System to create, better retain and reward faculty whose instruction and activities are aligned with the TSTC Mission and (2) TSTC's Statewide Faculty Productivity model which will include routine assessment of available faculty load to support workforce development projects (supporting TSTC's Business to Business strategy described above).

Compensation Framework. TSTC continues to maintain and incrementally evolve the compensation framework established in 2014 with its compensation study. While significant progress was made and original goals were achieved that required re-evaluation, classification, and compensation of all employees, additional steps and investments are required to ensure TSTC's compensation is market-relevant.

Financial Goal 4: Manage Cash Flows.

During fiscal year 2016, TSTC administration boldly proposed a budget that facilitated the merger of four colleges, expanded TSTC to new markets, built a strong brand, pioneered the new funding formula, innovated the delivery of higher education, and continued the shift from a higher education to business model within expected revenues projected for that same period. Shortly after, enrollment returns indicated the expected revenues were short of expectations. Through significant collaboration across functional lines, TSTC mitigated the impact of the revenue shortfall. Tuition revenue expectations for fiscal year 2016 assumed flat enrollment growth. Actual enrollment for fiscal year 2016 was down 7 percent, causing a 10 percent tuition shortfall (relative to budget). The total tuition shortfall was over \$3.3 million. Through varying cost control measures, college leadership mitigated the impact to an estimated \$1.5 million deficit.

Leadership continues that pursuit of a balanced budget for fiscal year 2017. TSTC is committed to doing this while remaining financial healthy and vibrant even through the processes of merging, expanding, innovating, and investing in other entrepreneurial pursuits. In addition, flexible budgeting with contingencies allowing for further budget compression will be essential as state appropriations also endure anticipated budget pressures.

OPERATING BUDGETS: THREE YEAR TREND REPORT

This report includes operating budgets for each of the three fiscal years from 2015 through 2017.

Changes in the fiscal year 2017 report include the addition of comparisons of original budget to either actual (fiscal year 2015) or forecasted (fiscal year 2016) information. Historical trend information highlights the changing budget assumptions and approaches over time. Expense amounts for fiscal years 2015-2017 have been classified to best represent current structures for comparison purposes.

A breakdown of each category of revenue and expense is provided with explanations in the narrative section that follows this report.

Original Budgets for Fiscal Years 2015, 2016 and 2017

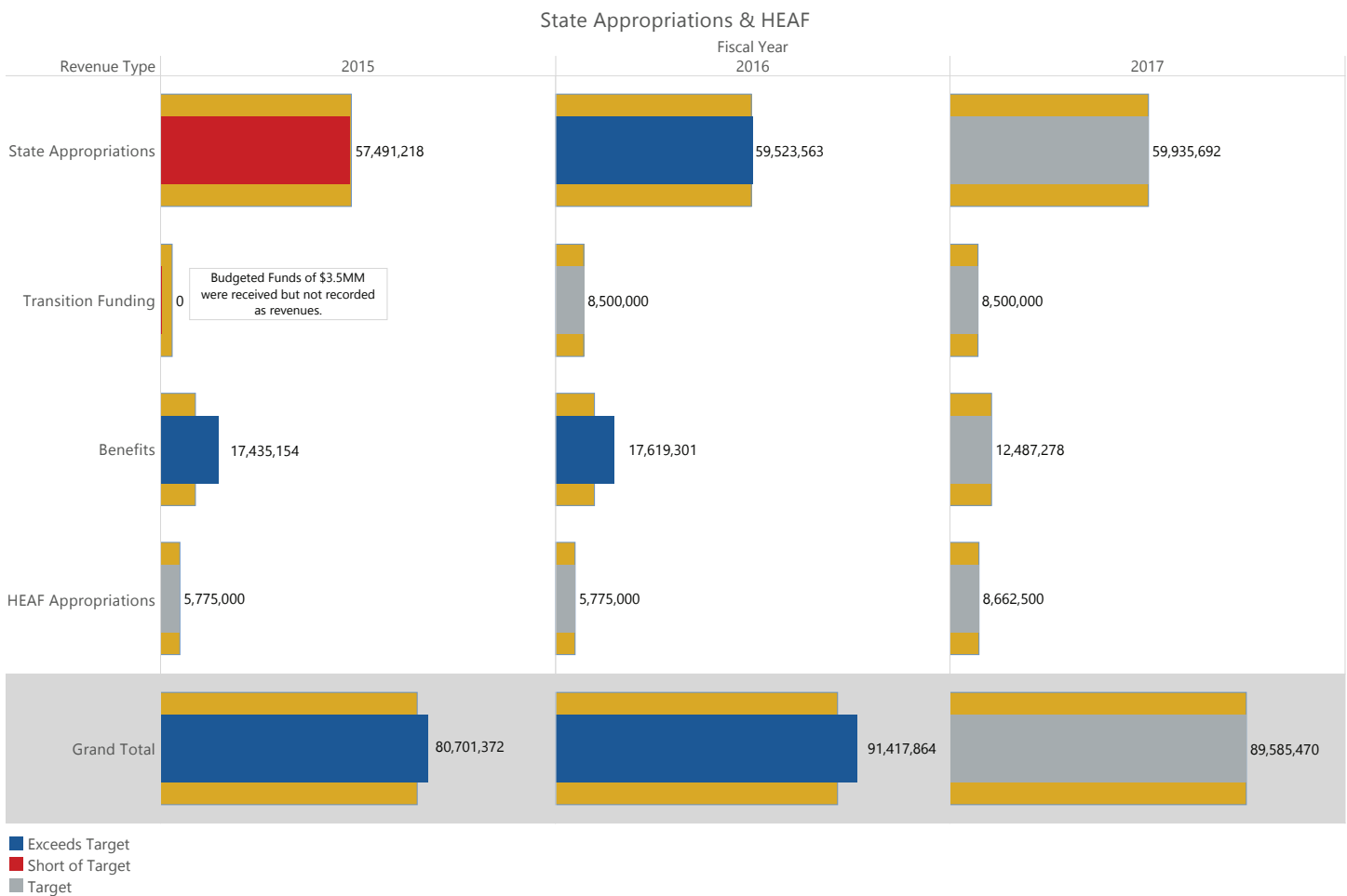
	FY 2015	FY 2016	FY 2017
Revenues			
State Appropriations & HEAF	77,713,610	85,466,604	89,585,470
Tuition	43,352,838	37,819,050	36,864,480
Student Financial Assistance	28,000,000	28,000,000	31,034,146
Auxiliary Enterprises	13,457,336	13,422,345	12,121,911
Debt Service	2,126,978	2,131,482	5,306,880
Fees & Educational Sales	9,035,312	10,687,773	4,478,058
Industry Relations	2,993,255	6,813,269	3,947,613
Grants & Contracts	7,098,641	3,393,564	3,274,851
Other	3,718,283	1,726,120	114,500
Total Revenues	187,496,253	189,460,207	186,727,909
Carryforward Balances	-	-	49,817,138
Expenditures			
Salaries			
Operations	37,679,346	38,081,941	38,928,101
Integrated Marketing	15,683,843	17,882,142	17,483,309
Finance	11,426,740	11,349,080	11,778,478
Information Technology	3,558,656	3,527,472	3,567,044
Governance & Regulation	2,494,622	2,620,704	2,822,500
Office of the CEO	1,084,758	1,444,220	1,627,132
Business Intelligence	612,968	819,436	874,848
Policy	285,392	424,224	786,604
Total Salaries	72,826,325	76,149,219	77,868,016
Operating & Capital			
Operations	9,672,791	10,582,552	10,369,489
Integrated Marketing	43,459,277	47,012,590	44,524,717
Finance	59,417,352	48,651,294	97,585,926
Information Technology	3,969,897	4,466,733	3,839,847
Governance & Regulation	1,473,685	1,409,638	1,244,428
Office of the CEO	468,301	498,000	454,785
Business Intelligence	78,009	95,200	78,036
Policy	105,226	594,981	579,803
Total Operating & Capital	118,644,538	113,310,988	158,677,031
Total Expenditures	191,470,863	189,460,207	236,545,047
Budget Margin (Deficit)	(3,974,610)	-	-

Revenues

TSTC conservatively budgeted revenues for fiscal year 2016, controlling spending through a reduction of anticipated revenues of \$2,732,000, or 1.4 percent. TSTC's mix of revenue streams that source the college's operations vary in scale, driving force, and customer base. For purposes of this report, revenues are categorized into nine major categories: State Appropriations & HEAF; Tuition; Student Financial Assistance; Auxiliary Enterprises; Fees, and Educational Sales; Industry Relations; Grants & Contracts; Debt Service; and Other Revenue.

State Appropriations & HEAF

As a result of TSTC's legislative efforts, TSTC reversed the eight-year trend in formula funding reductions during the 84th Regular Legislative Session. For the second session in a row, both the increase in final bill appropriations over the base bill and the increase in final bill appropriations over the prior legislative session significantly exceeded the increases experienced throughout the higher education sector. In addition, the increased appropriations occurred in both funding for legacy operations and new operations. The fiscal year 2017 budgeted revenues for appropriations below reflect those increases and the comparison to actual revenues recorded for those periods:



General Revenue. General Revenue appropriations primarily consist of funding from the two funding formulas: the Administration and Instruction formula and the Infrastructure formula. TSTC's Returned Value funding formula drives Administration and Instruction funding within the General Revenue category. TSTC's fiscal year 2016 and 2017 General Revenue appropriation levels increased over prior biennia, as determined by the 84th Legislature.

As designed, the Returned Value funding formula is driven by student earnings measured for the five years following their time at TSTC. The direct and indirect economic benefit to Texas is then calculated for these "value-added" wages. Finally, through the appropriations process, the Legislature establishes a discounted percentage of the total "value-added" economic benefit and funds TSTC at that discounted rate. Administration and Instruction, or Returned Value, formula funding, will be funded at the same level during fiscal year 2017 as it was in fiscal year 2016.

Formula funding for fiscal years 2016 and 2017 was based on earnings from students that left TSTC during 2008 and 2009 (a result of the five-year measurement period). From fiscal years 2009-2014, TSTC increased the number of graduate awards by 40 percent, and graduate earnings increased 60 percent over the same period. Consequently, TSTC's funding formula yield is expected to increase over the next six to seven years when considering the trend in both graduate awards and salaries of students entering the workforce. This trend, as well as the positive momentum with respect to TSTC's discounted share of the formula yield, position TSTC well for future appropriation allocations over the next five to six years.

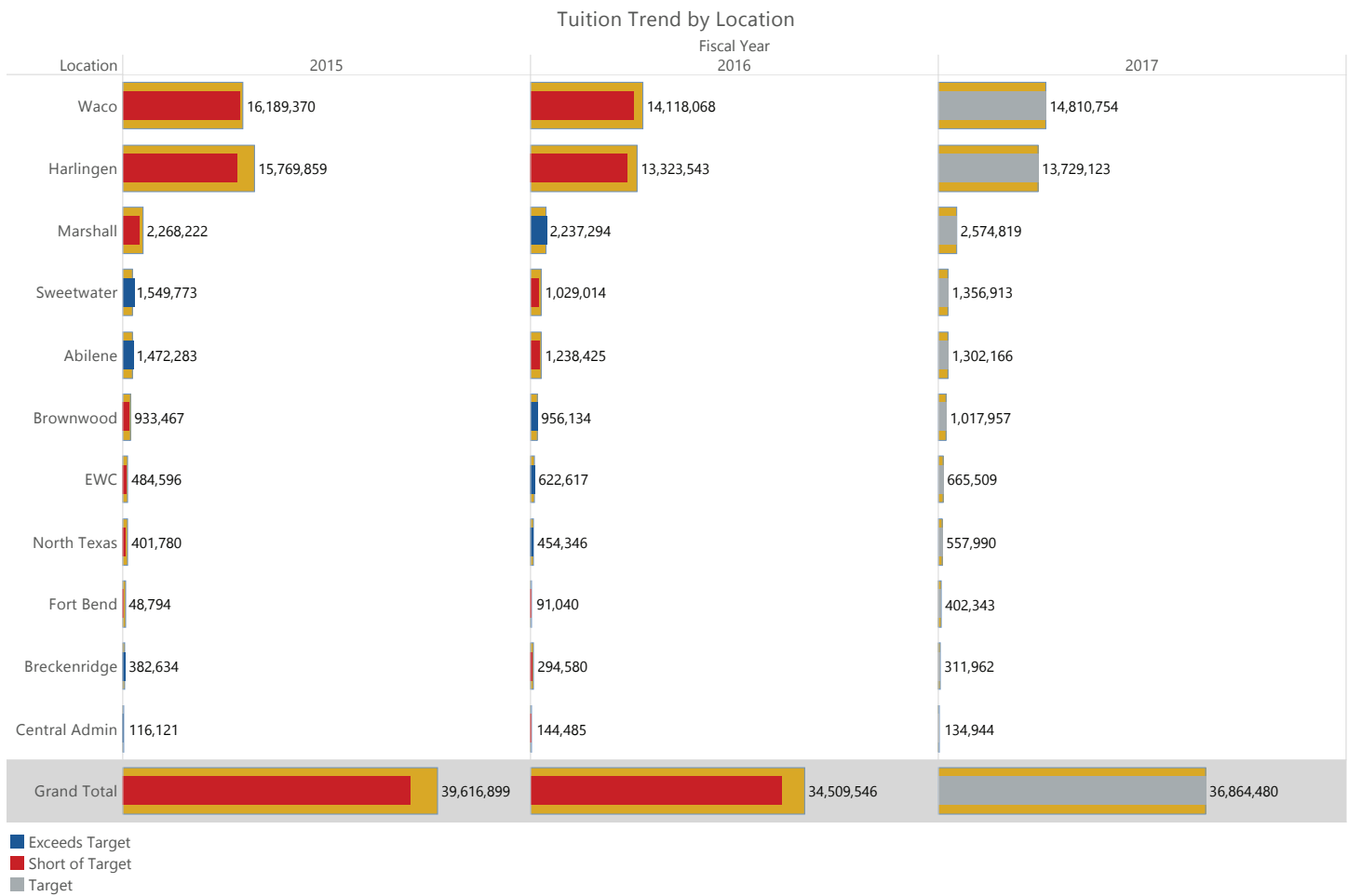
General Revenue - Transition Funding. Transition funding to fund start up costs at East Williamson County Higher Education Center and TSTC North Texas was first appropriated to TSTC during fiscal years 2014 and 2015. The \$6,900,000 was appropriated and consequently recorded as revenues in Fiscal year 2014. The analysis above of budget to actual revenues, reflects the funds budgeted and spent in fiscal year 2015 but recorded as revenue (as required by financial standards) in 2014. The 84th Legislature increased transition funding for fiscal years 2016 and 2017 to \$17,000,000, of which \$8,500,000 is included in the fiscal year 2016 budget. The large increase relates to transition funding for the TSTC in Fort Bend expansion.

HEAF Appropriation. During the 84th Session, the Legislature increased the annual HEAF appropriation for TSTC to \$8,662,500 beginning in fiscal year 2017. The annual appropriation was created "for the purpose of acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, major repair or rehabilitation of buildings or other permanent improvements, acquisition of capital equipment, library books and library materials, and paying for acquiring, constructing, or equipping or for major repair or rehabilitation of buildings, facilities, other permanent improvements, or capital equipment used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for educational and general activities" TSTC may pledge up to 50 percent of the money allocated to secure the payment of the principal and interest for the purposes previously described.

During fiscal year 2016, the college issued and sold \$23,680,000 in constitutional appropriation bonds secured by the HEAF Appropriation to support several major infrastructure projects. Proceeds from the sale were approximately \$27,500,000 Details regarding these projects are discussed further in the Capital Budget discussion.

Tuition

TSTC's fiscal year 2017 budget estimates a tuition increase, for budget purposes, of \$2,354,000, or 7 percent over actual revenues expected for fiscal year 2016. This relates to higher enrollments expected as a result of new location growth, enrollment gains from the statewide enrollment management strategy (which targeted enrollment growth of 13 percent), and the shift of certain high value, high cost programs to Tier 1 pricing.



Revenue Methodology - Auxiliary Enterprises, Industry Relations, and Contracts & Grants

While TSTC places much emphasis and expectation on increasing the revenue contributions from these three areas, for budget control purposes revenues are conservatively budgeted to limit expenses authorized until revenue prospects are likely to be realized. Consequently, year-after-year, budgeted revenues and expenses expand or contract (typically) based on new revenues realized during the course of the year. Management will report back to the Board during fiscal year 2017 on the performance and anticipated returns through these efforts. More detail about how these revenues and expenses break down is discussed in the respective areas of the Expense narrative (Auxiliaries under finance, Industry Relations and Contracts & Grants under Integrated Marketing)

Debt Service

TSTC receives funding through appropriations as well as through joint venture partners that assist with ongoing debt service. During fiscal year 2017, the appropriation for debt service on state tuition and revenue bonds will increase by \$3,228,000 based on the debt service allocation determined by the Texas Higher Education Coordinating Board related to tuition and revenue bonds authorized during the 84th Legislature.

OPERATING EXPENSE





Statewide

The annual budget includes approximately \$49.8 million in capital costs within total expenditures. After excluding the capital costs, overall budgeted expenditures decrease by \$2,732,000 in fiscal year 2017, relative to fiscal year 2016. The net decrease relates to reductions of operating costs across many of the functions, described more fully in the narrative below. The reductions in operating costs were partially offset by growing salary costs in fiscal year 2017. The net increase to salary costs are driven by additional FTEs for new locations, planned compensation adjustments made as positions were reclassified as prescribed within TSTC's compensation plan, and offsets related to headcount containment across functions.

Comparison of Original Budget to Adjusted Budget. The Original Budget is shown in the gold bar chart and the Adjusted Budget is reflected in various colors (defined in the legend) that show the various expense categories.

LEGEND

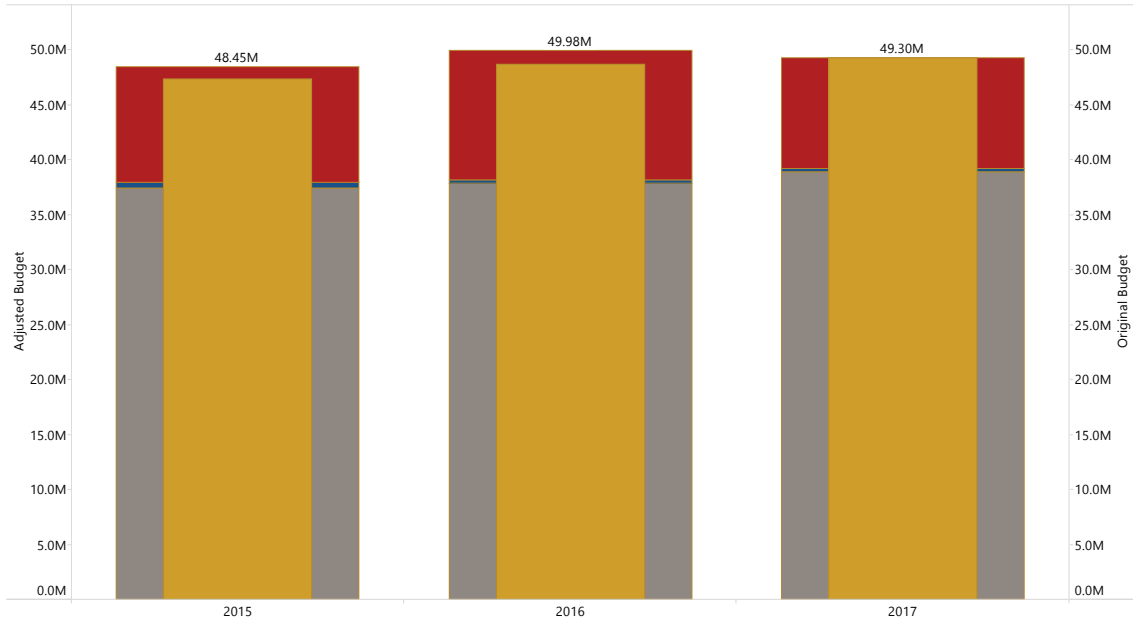
Expense Categories

-  Operating & Capital
-  Benefits
-  Salaries
-  Original Budget

Operations

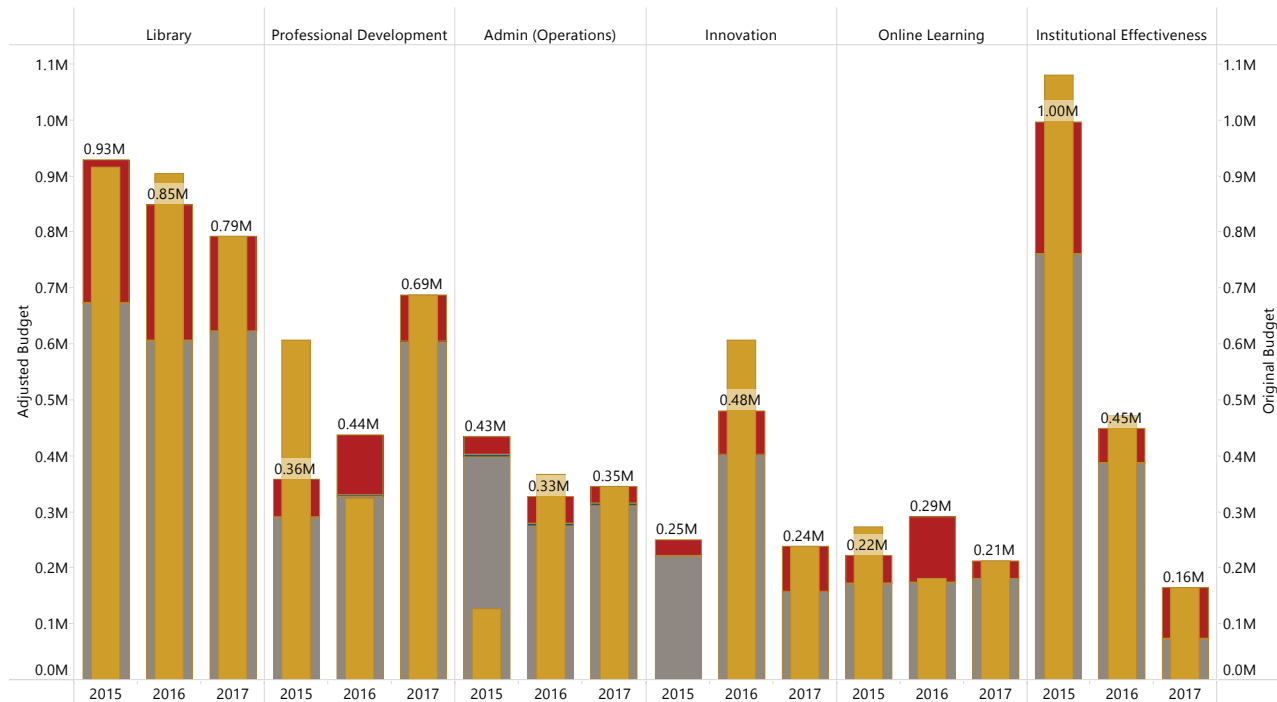
The Operations division represents the core educational activities of the college under the classic model for Placing More Texans, with the substantial portion of the Operations budget related to instruction. The growth in the Operations budget relates to increases in faculty personnel required for the new campuses for fiscal year 2017, faculty raises, as well as increased emphasis in professional development and the related increase in resources dedicated to the effort. These increases are partially offset by cuts across the administrative division within the Operations function.

Orig Budget Variance - Functional View - Operations Total



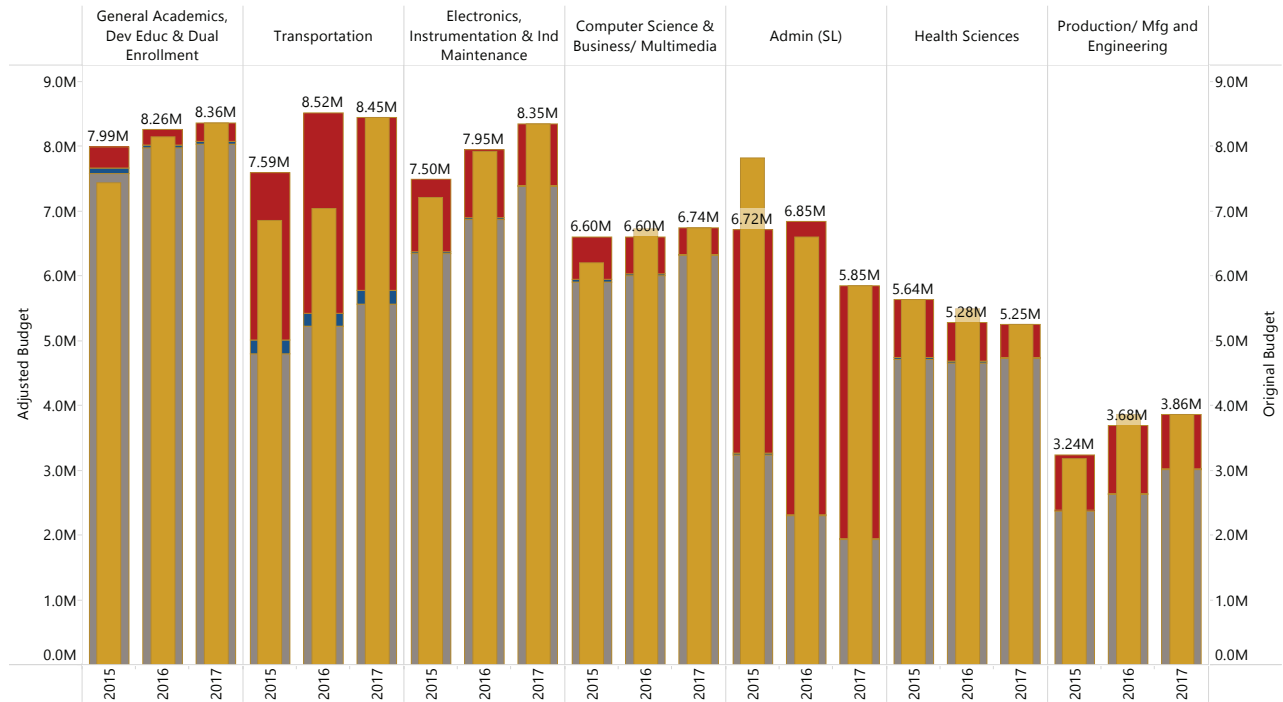
Budget compression is the trend for most instructional support areas during fiscal year 2016. Structural changes during fiscal year 2016 significantly reduced the required outlays for Innovation and Institutional Effectiveness during fiscal year 2016. Both Professional Development reversed that trend due to increased emphasis in both areas to address capacity gaps and to support strategies focused on increasing the consistency and quality of student learning across the college

Orig Budget Variance by Division - Operations - Instructional Support



Within Instructional Operations, the largest increase in budget relates to increasing faculty headcount, specifically at the new locations. The trend reveals the rising focus on Electronics, Instrumentation, & Industrial Maintenance offerings across the state representing the addition of training capacity at our new locations. There is a variable nature to the Instructional Operations budget. Faculty contracts are awarded after Board of Regents approval of the TSTC budget and final enrollment projections are determined to ensure appropriate staffing for sections available for the Fall 2016 semester. Consequently, based on those projections, budget adjustments and allocations will be required as contract decisions are made.

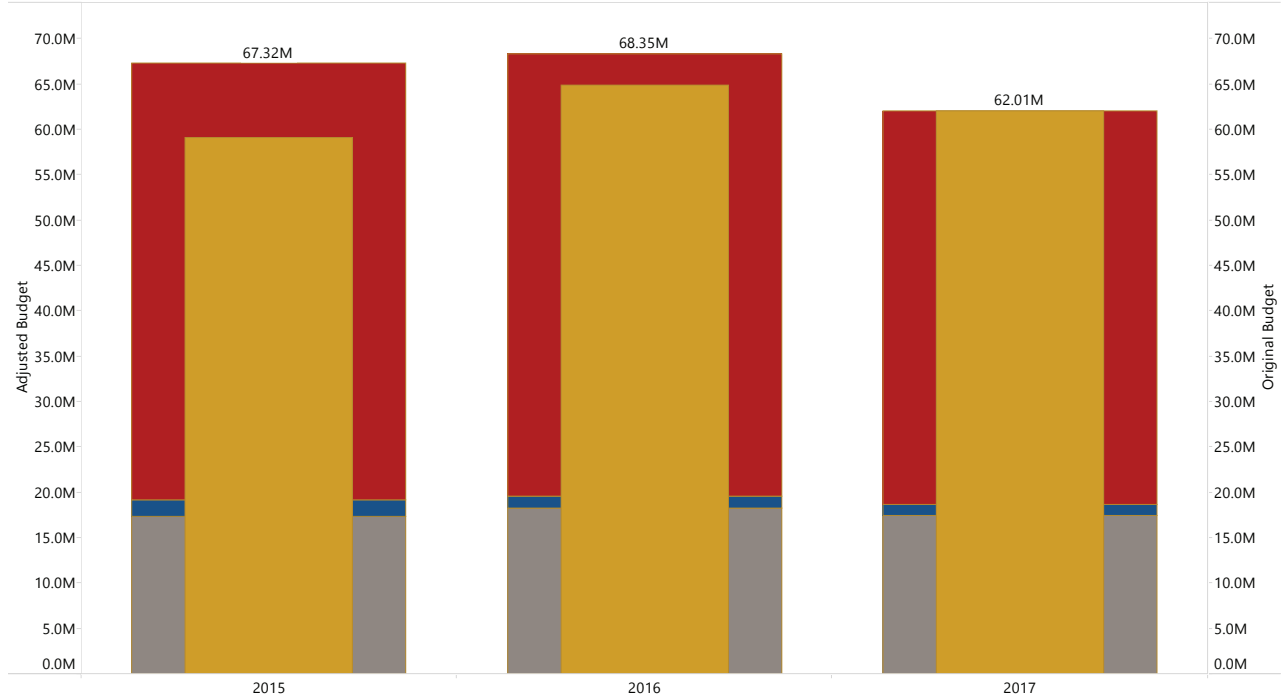
Orig Budget Variance by Division - Operations - Instructional Operations



Integrated Marketing

Integrated Marketing includes a broad set of divisions aimed at building the sales culture for TSTC. It includes the following divisions: Enrollment Management, Industry Relations, Advancement, Communications, Field Development, Sponsored Programs, and the Provosts.

Orig Budget Variance - Functional View - Integrated Marketing Total



Spending is reduced across the divisions of Integrated Marketing in fiscal year 2017. Within non-revenue generating areas of Integrated Marketing, significant efforts were made to streamline budgets during fiscal year 2017, including elimination of certain activities determined as non-core as well as replacement of activities with outside services that will ensure cost efficient, consistent services statewide (e.g., licensed professional counseling services).

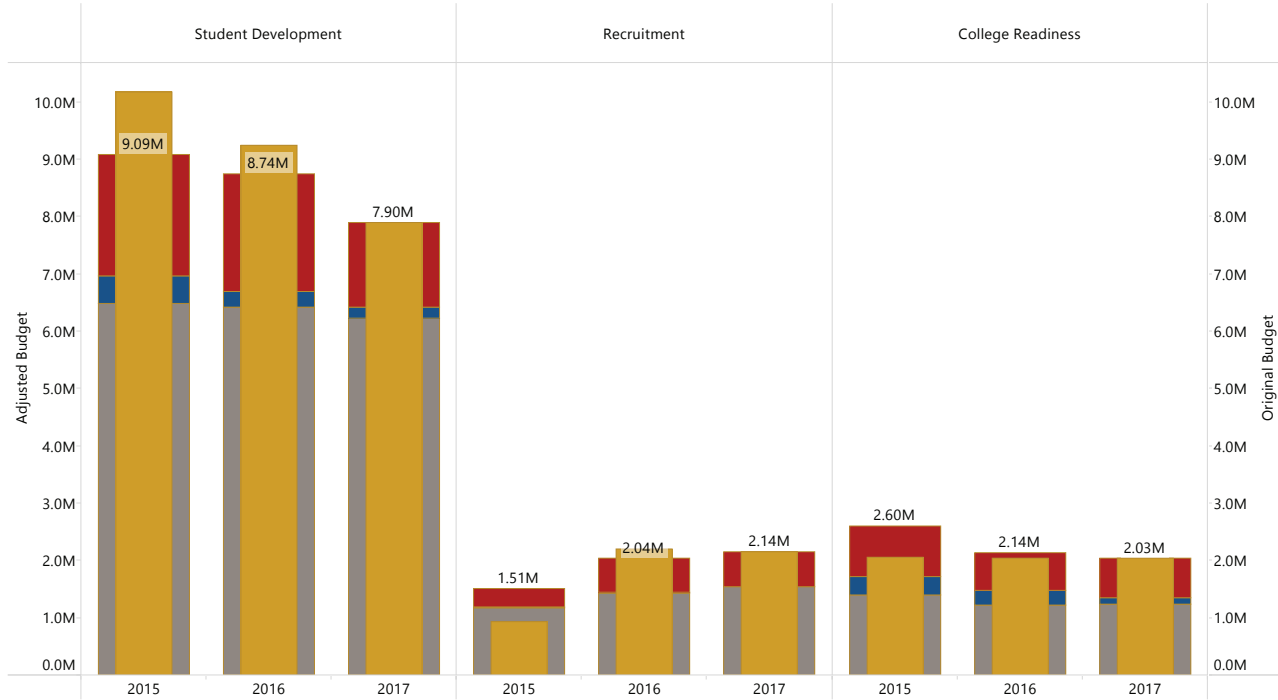
Budgeted advertising expenses were reduced for fiscal year 2017 below prior year levels. In fiscal year 2016, the college necessarily increased spending in advertising and media. Long-term, Integrated Marketing anticipates increasing the level of spending to support campaigns in both new and legacy markets with a mix of promotional strategies. The rates for advertising in the new markets are significantly higher than in TSTC’s legacy markets and a constant, increasing effort is necessary to raise brand awareness. Leadership believes the expense outlay for advertising supports a minimal/ tactical level of advertising that generally supports messaging in advance of registration periods. This is a step toward sustained, strategic messaging campaigns anticipated for TSTC’s long-term plans for brand recognition.

Orig Budget Variance by Division - Integrated Marketing - Operations



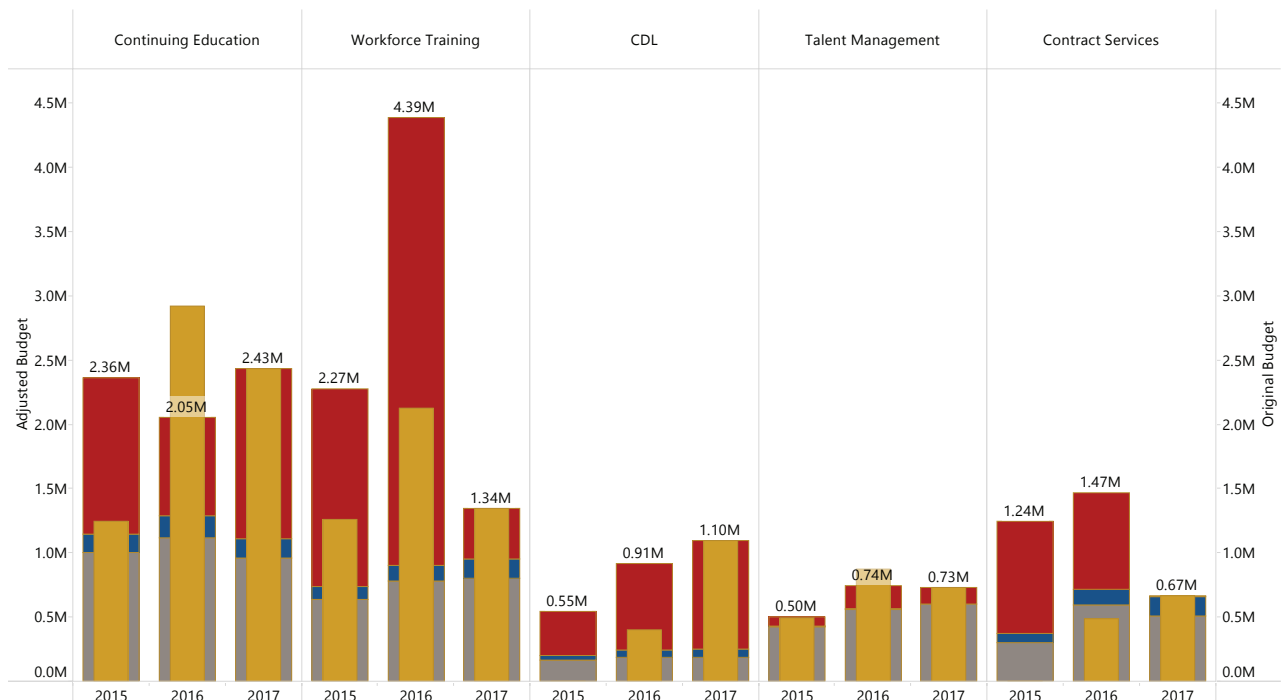
The budget for fiscal year 2017 supports the increased levels of Recruiting represented through new positions added across state operations, with particular emphasis in new locations. TSTC will continue increasing emphasis on sponsorship of SkillsUSA competitions. This increased emphasis increased the budget by \$300,000 for fiscal year 2017.

Orig Budget Variance by Division - Integrated Marketing - Enrollment Management



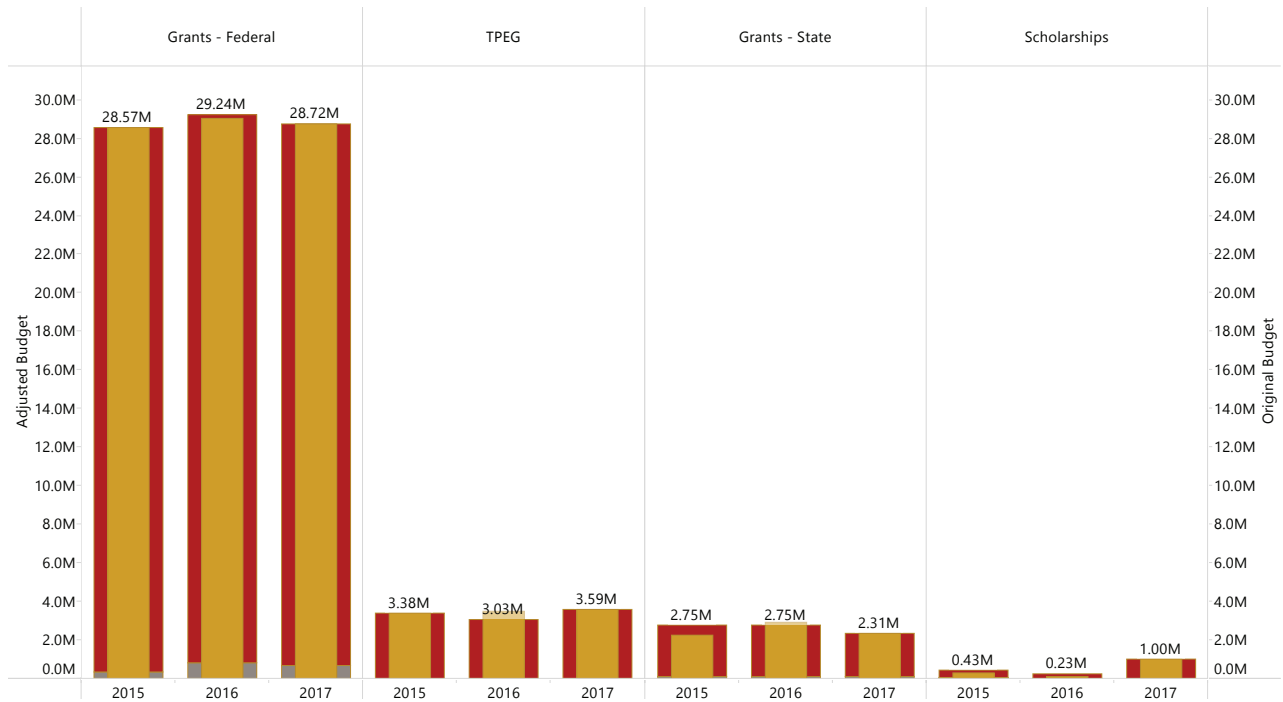
Industry relations is one of the college's most dynamic areas, especially with respect to budget. During the course of the year, significant budget changes are required in response to contract activity. The decrease for fiscal year 2017 reflects a higher level of secured contracts during the budget development process during the prior year. Fiscal year 2016 began with a significant increase in budgeted expenses due to the size of secured contracts when the annual budget was developed. While the fiscal year 2017 budget appears to indicate a lower level of anticipated activity, the development pipeline for Workforce Training indicates an increasing level of revenues for fiscal year 2017 and budgets will be adjusted as those contracts are secured.

Orig Budget Variance by Division - Integrated Marketing - Industry Relations



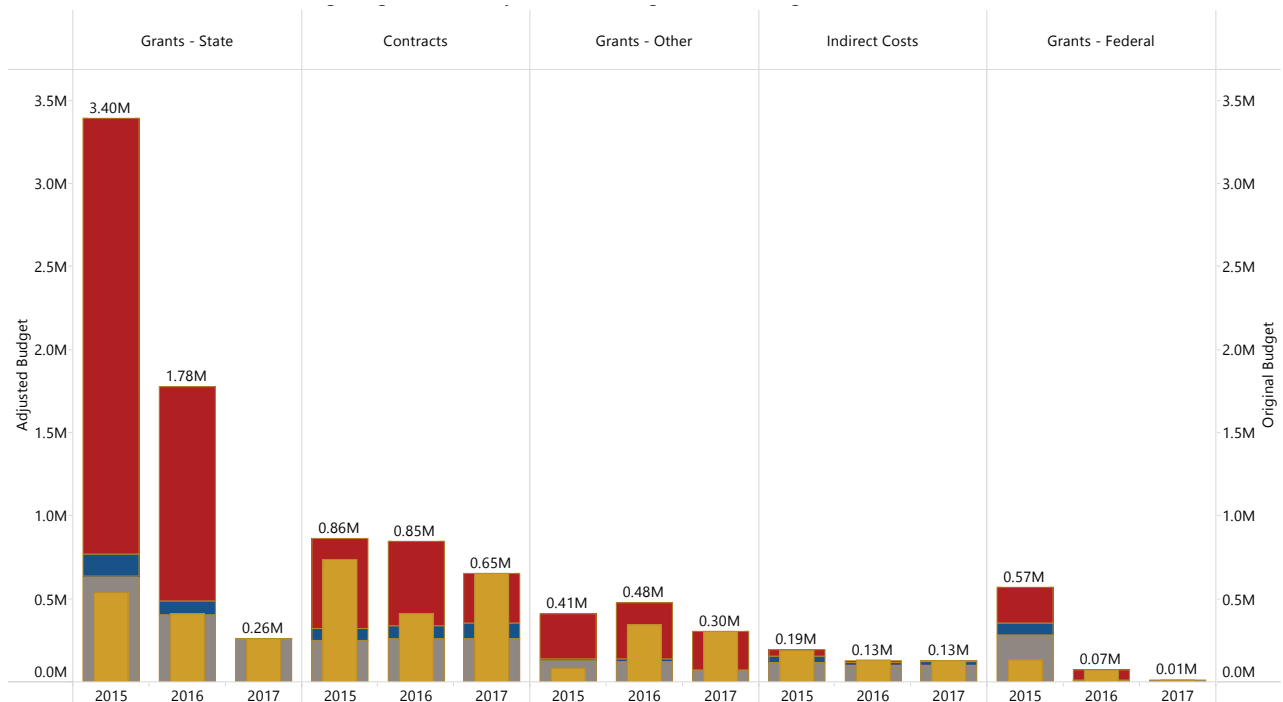
Overall, Student Financial Assistance expenditures are budgeted relatively flat due with the exception of a significant increase in scholarships. This is due to TSTC's Texan Success scholarship initiative established to augment recruiting efforts and increase enrollments for fiscal year 2017. TSTC set aside \$1 million of institutional scholarship in the budget to support the initiative.

Orig Budget Variance by Division - Integrated Marketing - Student Financial Assistance



Several grants planned in the fiscal year 2016 budget did not remain in the fiscal year 2017 budget, resulting in reductions in grants and contracts when comparing spending across both years. Grants will likely increase significantly during the course of fiscal year 2017, resulting in budget adjustments as grants are awarded. Similar to Industry Relations, grant and contract activity is dynamic, requiring significant budget changes during the year as grants are approved.

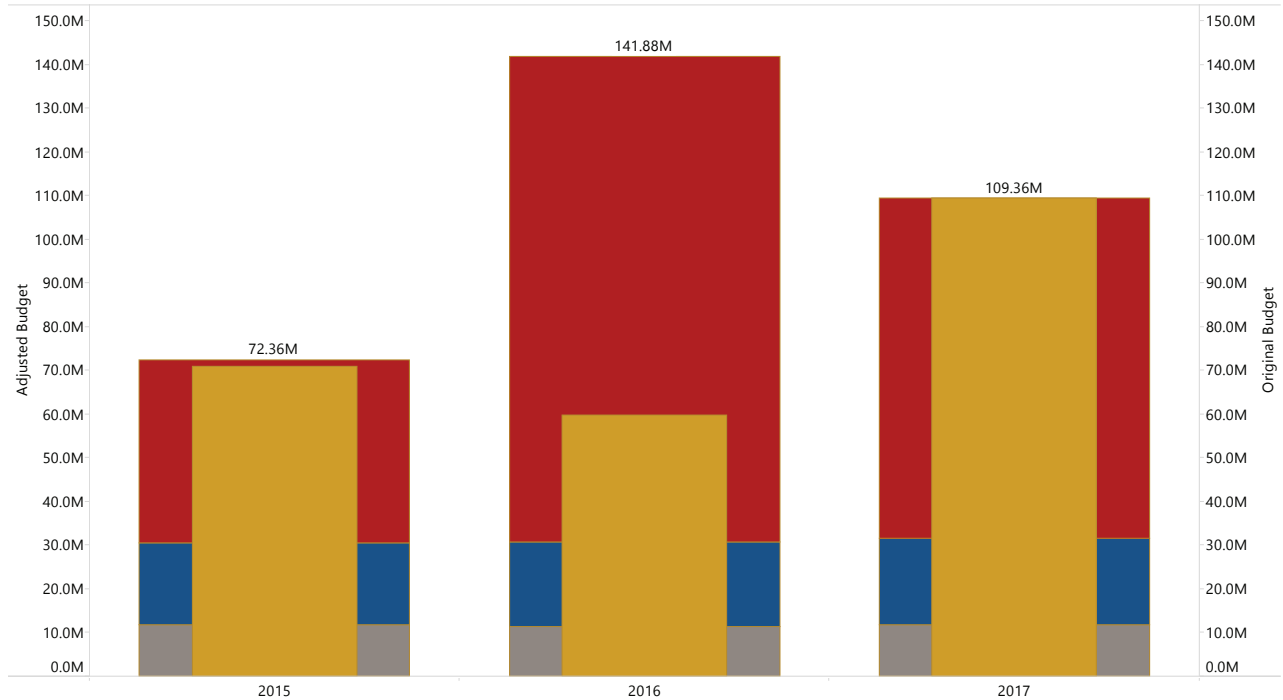
Orig Budget Variance by Division - Integrated Marketing - Grants & Contracts



Finance

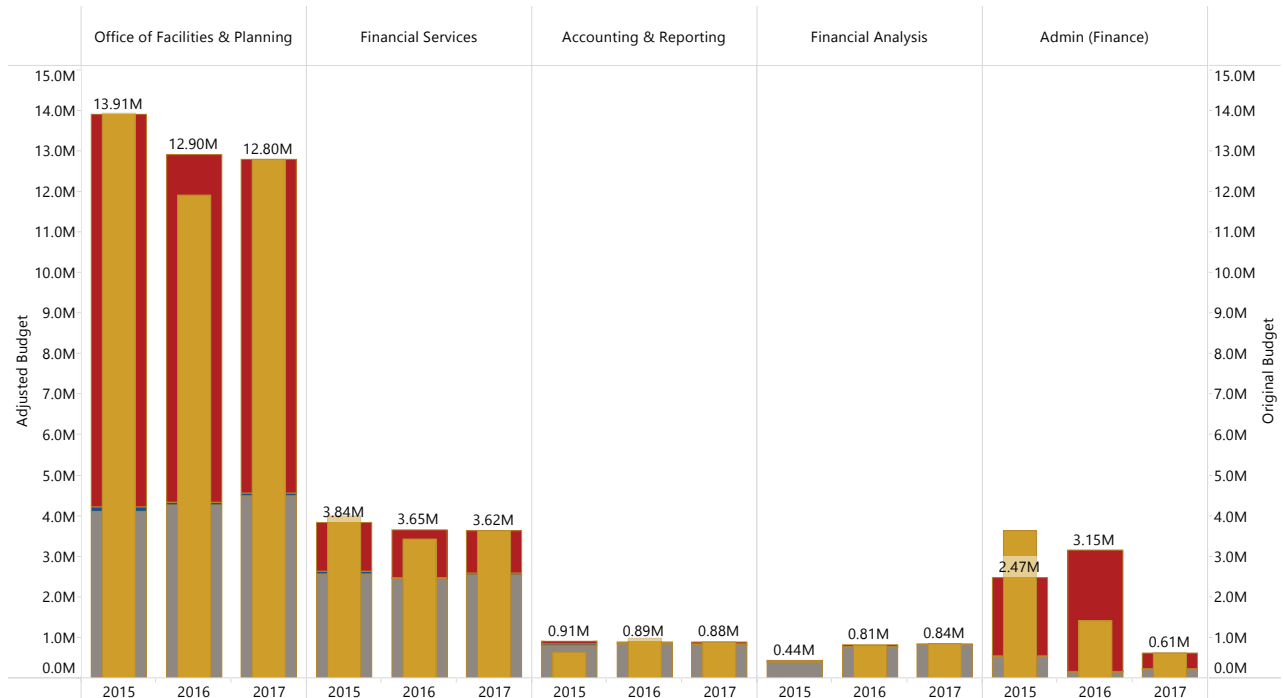
Generally, the operating budgets for Finance will vary significantly due to the level of capital finance and construction in progress during fiscal years 2016 and 2017. Salaries increased as a result of compensation adjustments prescribed during fiscal year 2016 under the continued implementation of TSTC's compensation framework.

Orig Budget Variance - Functional View - Finance Total



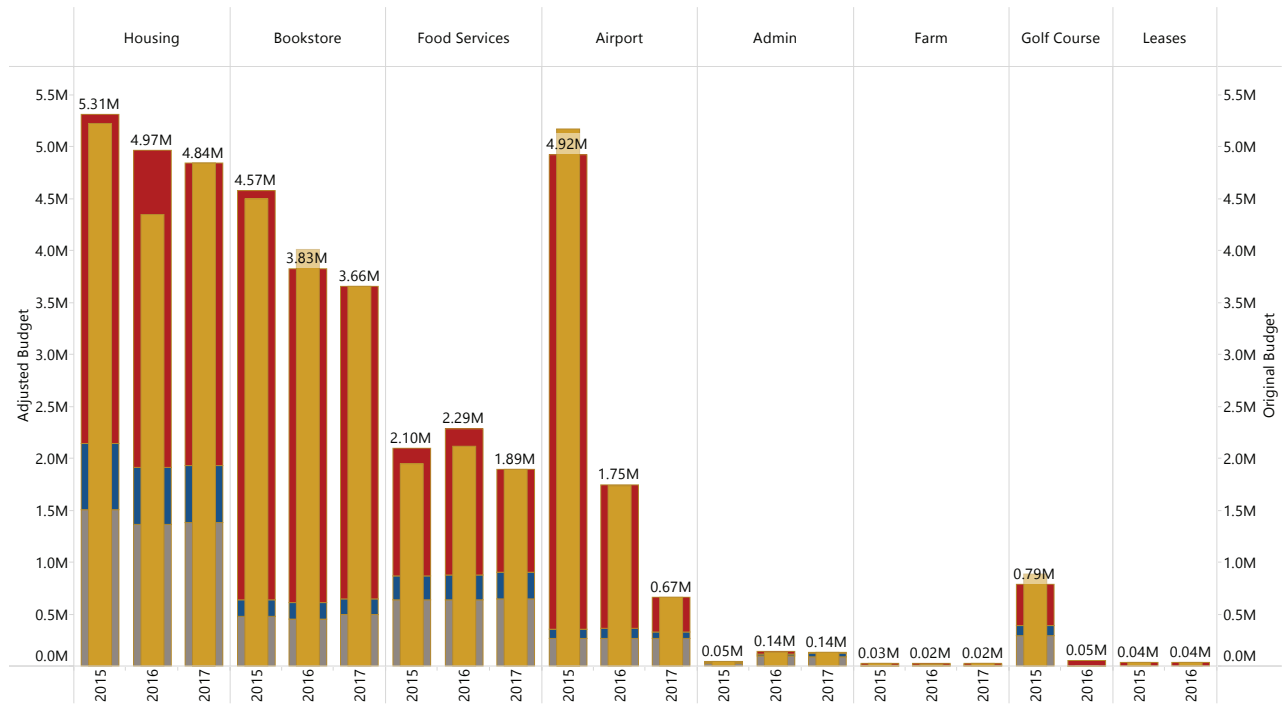
Budgeted expenditures will decline overall for the operations area of the Finance division when comparing fiscal year 2017 to fiscal year 2016. Salaries will increase slightly from the impact of the compensation framework recommendations; however, the increases are offset by reductions in operating expenses for 2017. Facilities budgets are seeing compression as more precision and consistency are incorporated across statewide facilities planning and budgeting.

Orig Budget Variance by Division - Finance - Operations



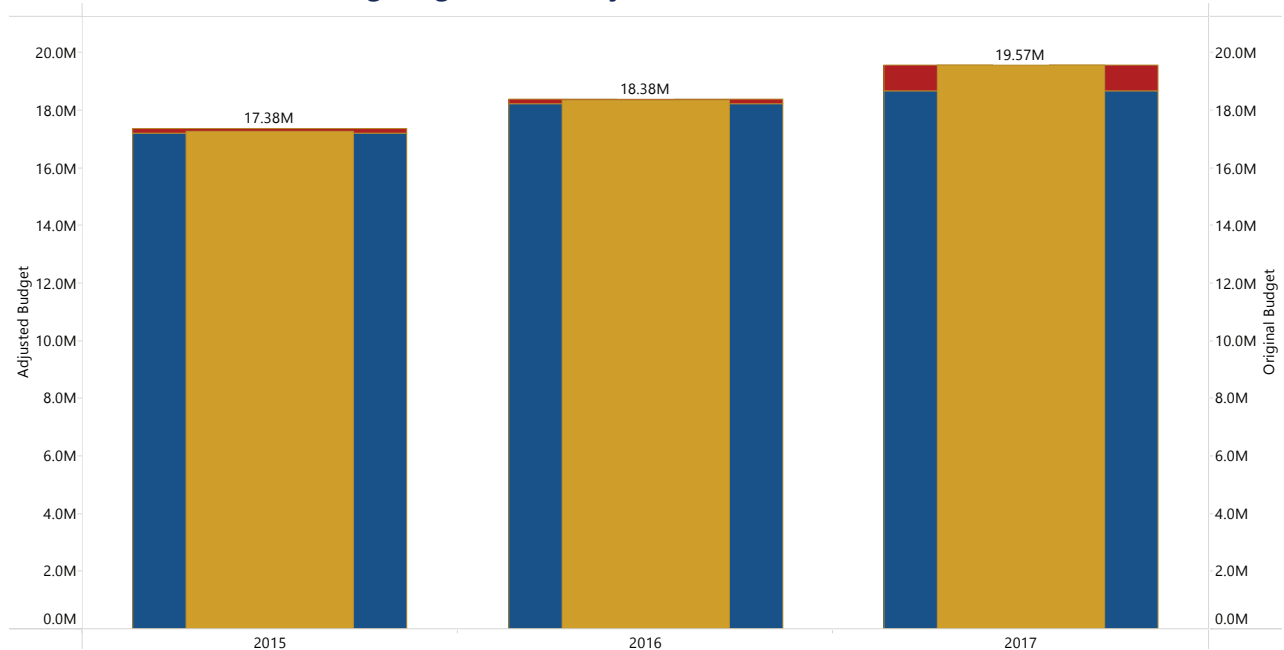
Compression of Auxiliary Services budgets continues for fiscal year 2017, reflecting the focus on streamlining operations and profitability during years of declining sales. For budget control purposes, the original budget is conservative to contain costs; however, auxiliary services budgets are flexible and underlying variable costs will expand in relation to enrollment increases and their resulting sales. Margin and profit analyses are at the forefront of business and management development planning within the division. Updates on revenue and profit expectations and results will be shared with the Board later in the fiscal year.

Orig Budget Variance by Division - Finance - Auxiliary Services



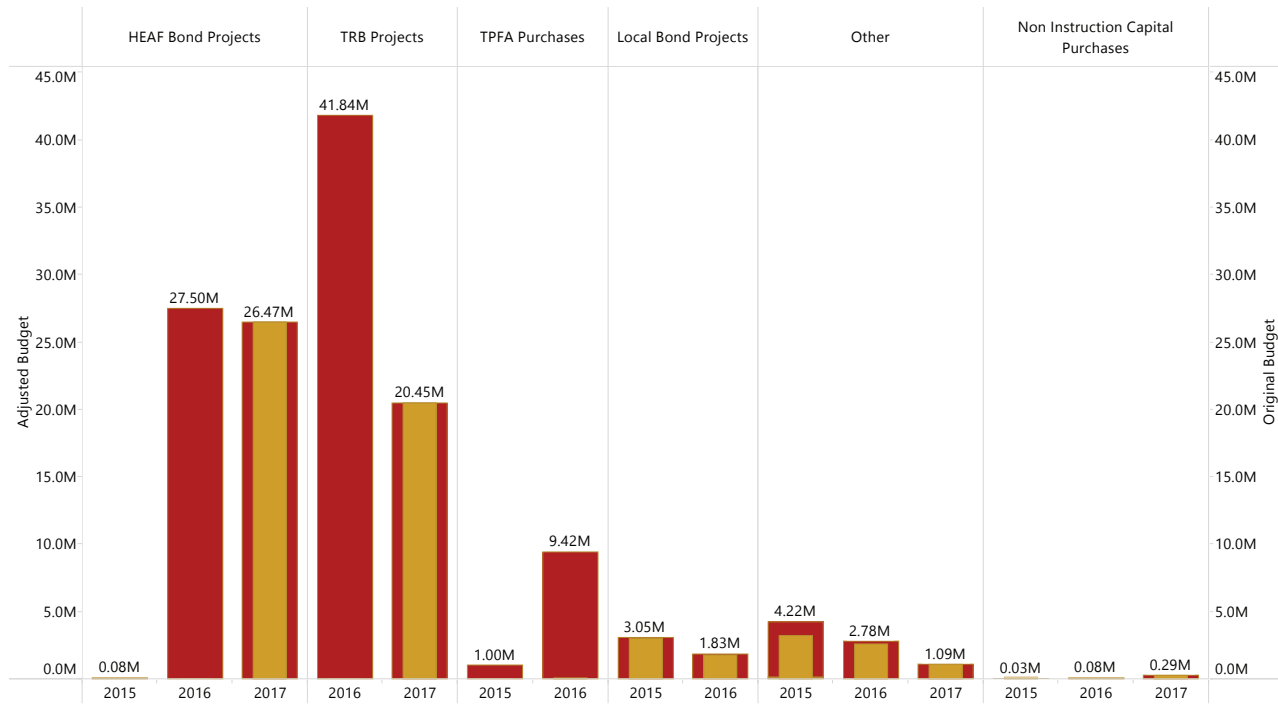
The chart below represents certain benefits that are funded by the state. The rising costs directly correlate with the increases to compensation at TSTC as well as rising costs of healthcare benefits.

Orig Budget Variance by Division - Finance - Benefits



The figure below illustrates the spending on major capital projects during fiscal year 2017, relative to prior years. Evident is the increased activity on projects funded from the HEAF bond issuance and the Tuition Revenue Bond issuance. TPFA purchases of \$9.4 million directed at instructional equipment procurement are not currently planned for fiscal year 2017.

Orig Budget Variance by Division - Finance - Capital



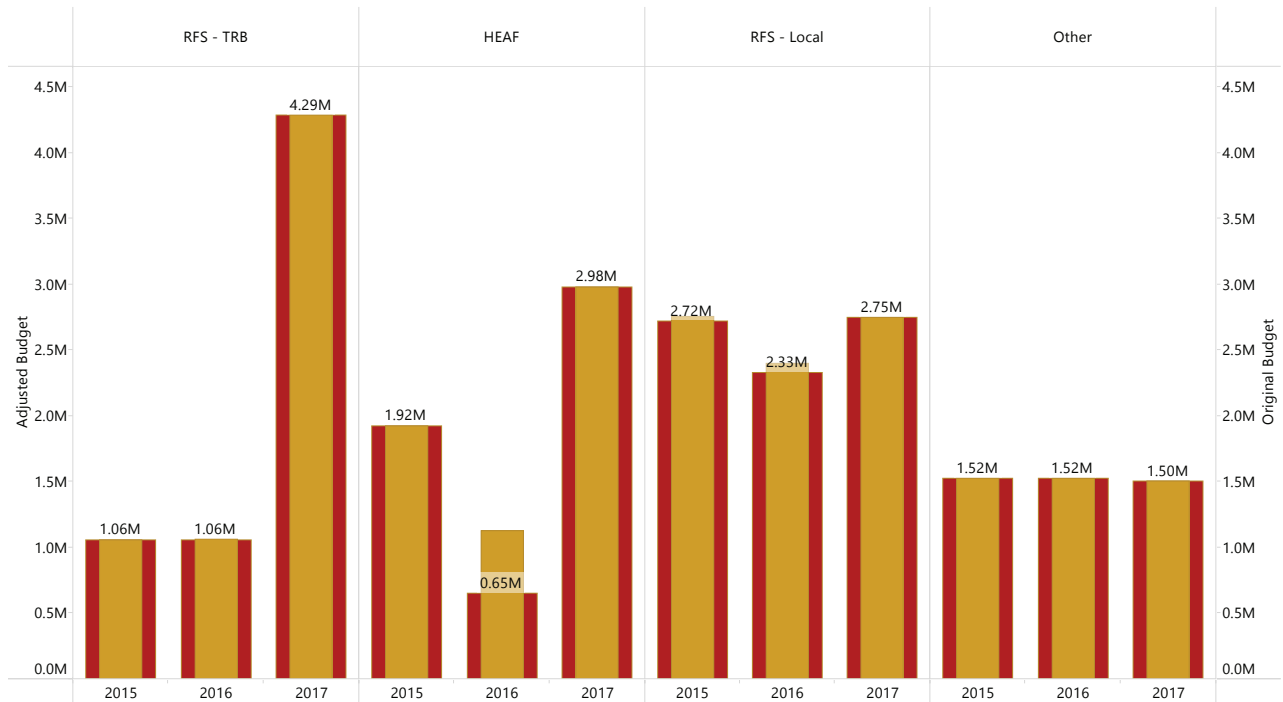
Below is a summary of the capital projects planned for fiscal year 2017:

Major Projects

	Abilene	Fort Bend	Harlingen	Location Marshall	Sweetwater	Waco	Grand Total
TRB Projects							
Trb Abilene Indust Tech Ctr	5,000,000						5,000,000
Trb FBC Bldg II		12,450,000					12,450,000
Trb Ren Engineer Ctr Ph II			3,000,000				3,000,000
Total TRB Projects	5,000,000	12,450,000	3,000,000	-	-	-	20,450,000
HEAF Bond Projects							
HB - Chiller System			8,400,000				8,400,000
HB - Communication Project						1,938,000	1,938,000
HB - HVAC Replacement / Repair				1,500,000	750,000		2,250,000
HB-ACT HVAC						135,000	135,000
HB-BCT/ Solar Project						150,000	150,000
HB-Campus Paving			95,000		40,000		135,000
HB-Electronics Office Center						150,000	150,000
HB-Emer Generators/ CRAC Units			85,000				85,000
HB-Facilities Networking			1,925	45,000	108,000	483,880	638,805
HB-JBC Admin Reno						1,600,000	1,600,000
HB-PPL Bldg				195,000			195,000
HB-Provence Center						140,000	140,000
HB-Signage						780,000	780,000
HB-Water System Replacement						8,500,000	8,500,000
HB-Welding/Diesel Expansion					1,375,000		1,375,000
Total TRB Projects	-	-	8,581,925	1,740,000	2,273,000	13,876,880	26,471,805
Grand Total of Major Projects	5,000,000	12,450,000	11,581,925	1,740,000	2,273,000	13,876,880	46,921,805

The chart below illustrates the increasing debt service requirements for fiscal year 2017 based on the bond sales that occurred during fiscal year 2016.

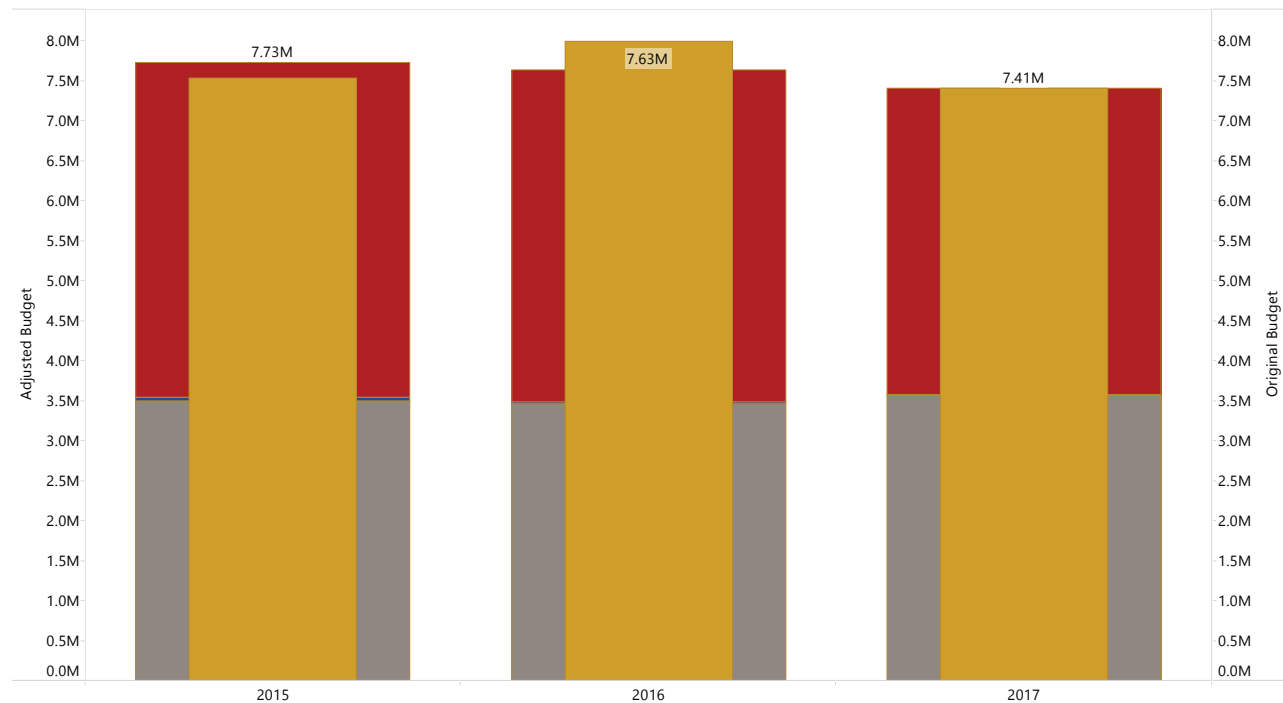
Orig Budget Variance by Division - Finance - Debt Service



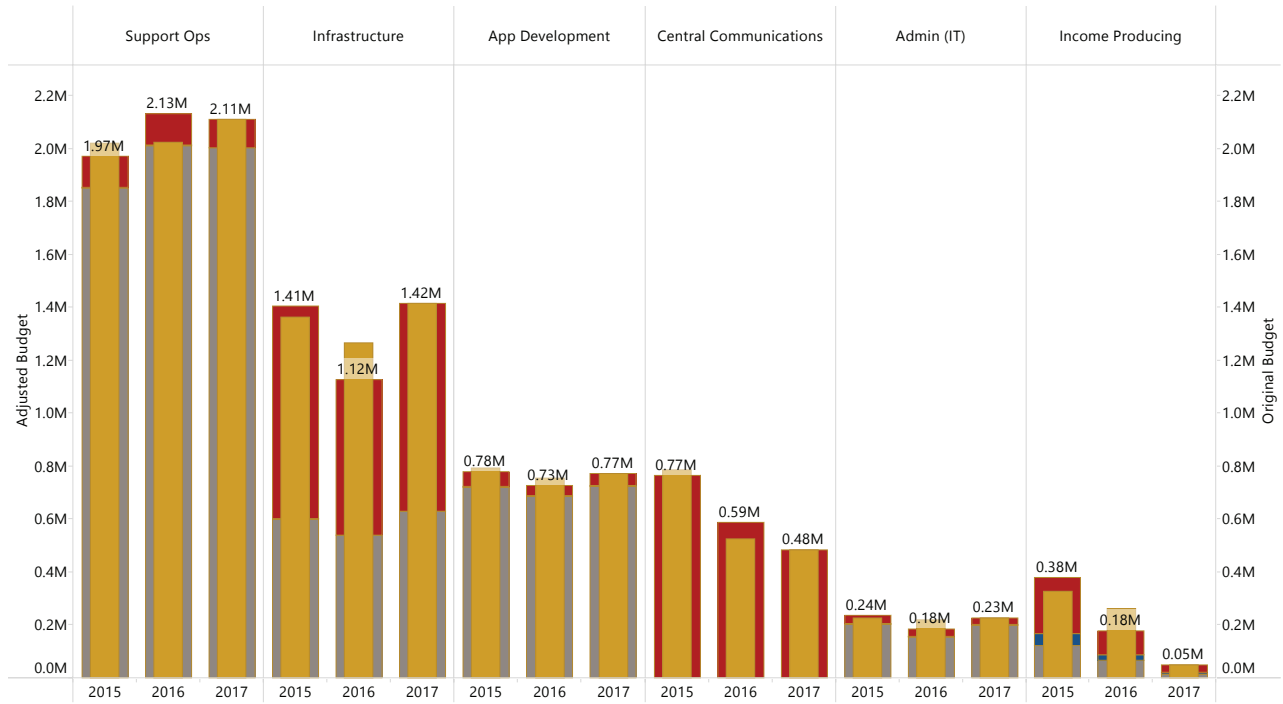
Information Technology

The reduction in overall Information Technology expenditures is due to several reductions in the IT Shared Technology budget (IT solutions shared across the statewide enterprise). These reductions were offset by increases in infrastructure costs associated with a telecommunications infrastructure upgrade and salary costs reallocated/absorbed within the division.

Orig Budget Variance - Functional View - Information Technology Total

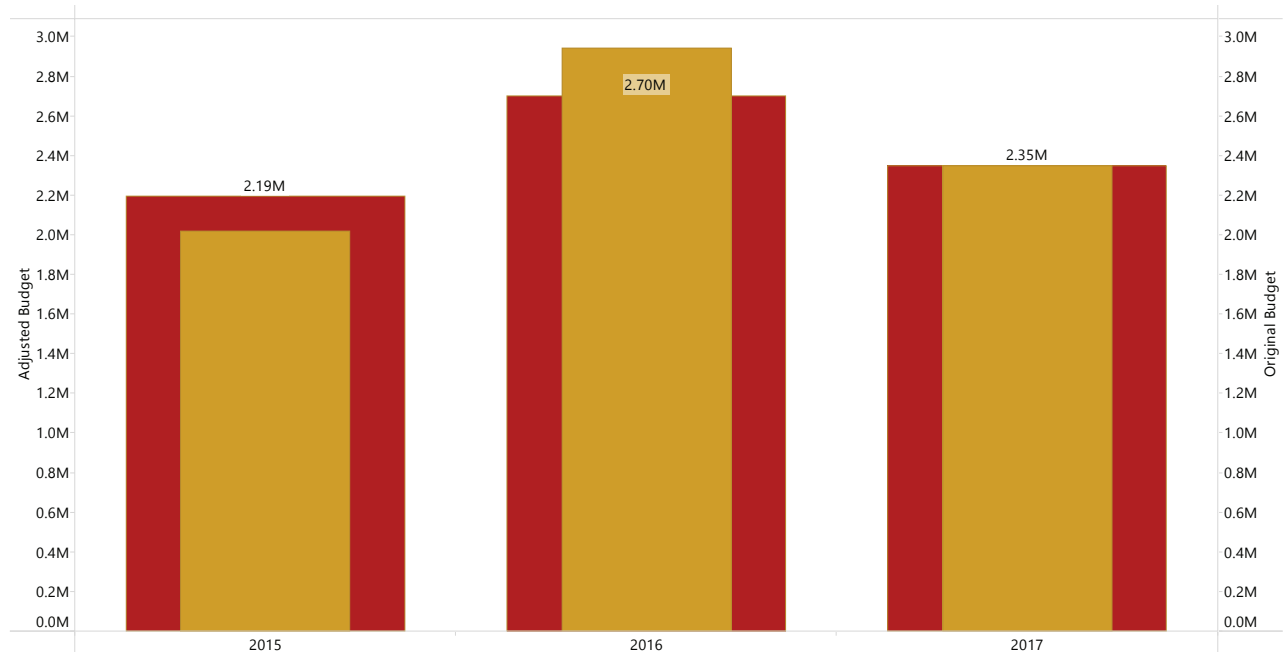


Orig Budget Variance by Division - Information Technology - Operations



A reduction in Shared Technology costs is budgeted for fiscal year 2017 due to (1) the conclusion of lease obligations under the 2011 TPFA master lease purchase of technology and (2) large IT purchases (CROA and IPM) to support Business Intelligence initiatives during fiscal year 2016 that will not reoccur during fiscal year 2017.

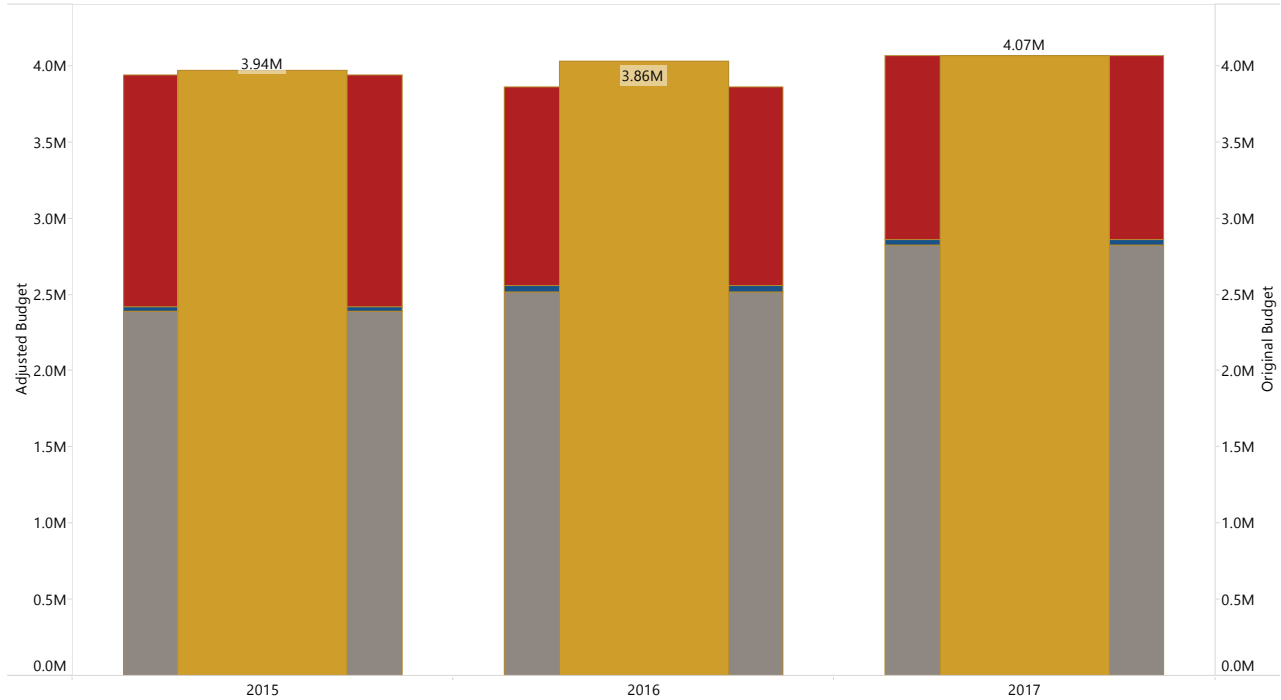
Orig Budget Variance by Division - Information Technology - Shared Technology



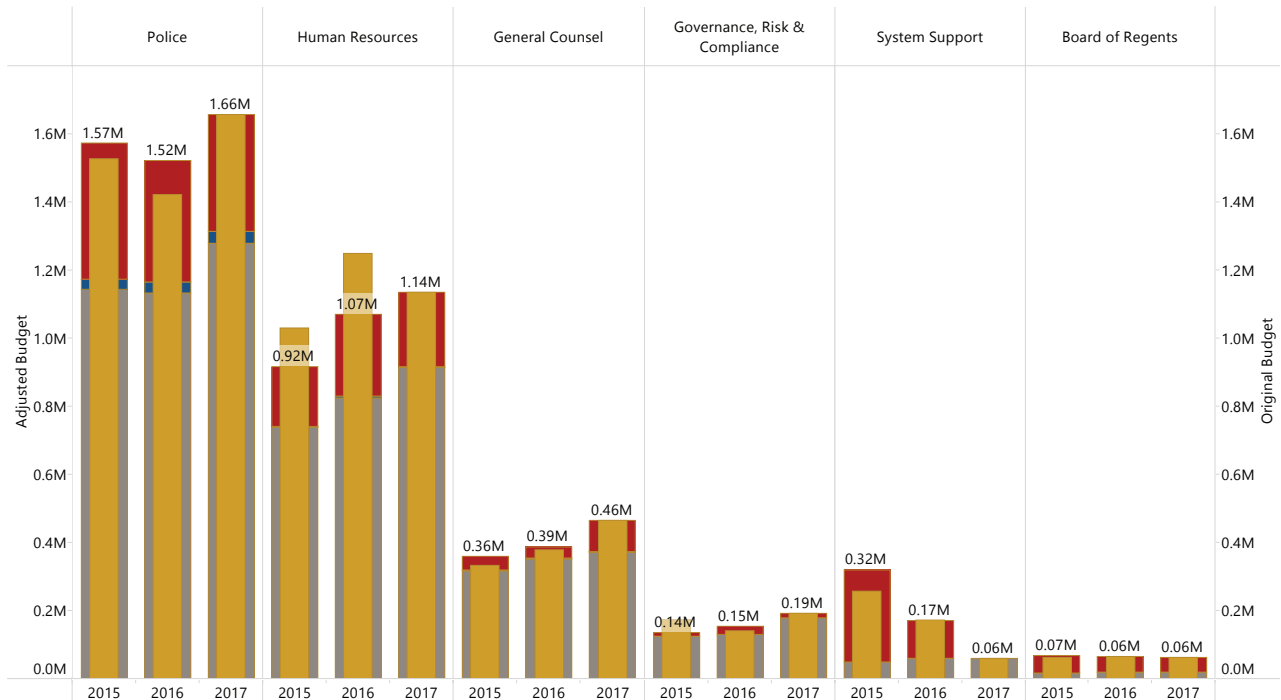
Governance & Regulation

Increases were realized across several divisions of Governance & Regulation, which includes Police, Human Resources, and General Counsel. Compensation increases occurred as a result of compensation study adjustments impacting salaries throughout the function. Establishing a new leadership structure within the HR also added to increased expenses anticipated for fiscal year 2017.

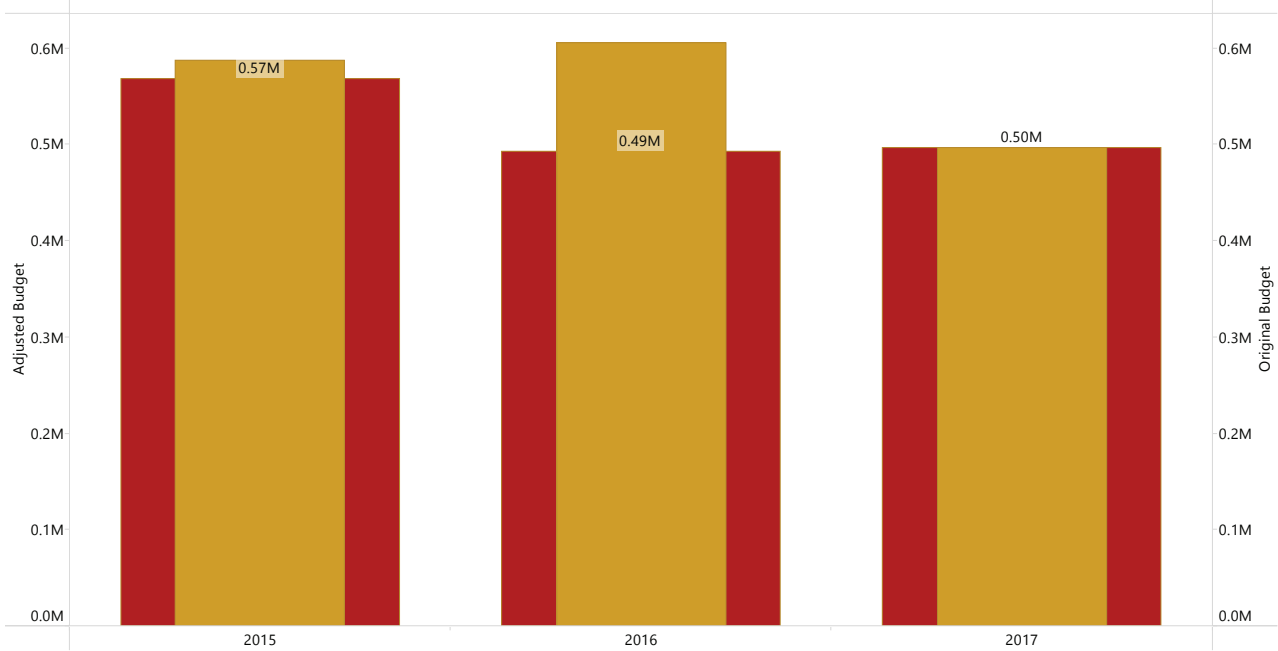
Orig Budget Variance - Functional View - Governance and Regulation Total



Orig Budget Variance by Division - Governance and Regulation - Operations



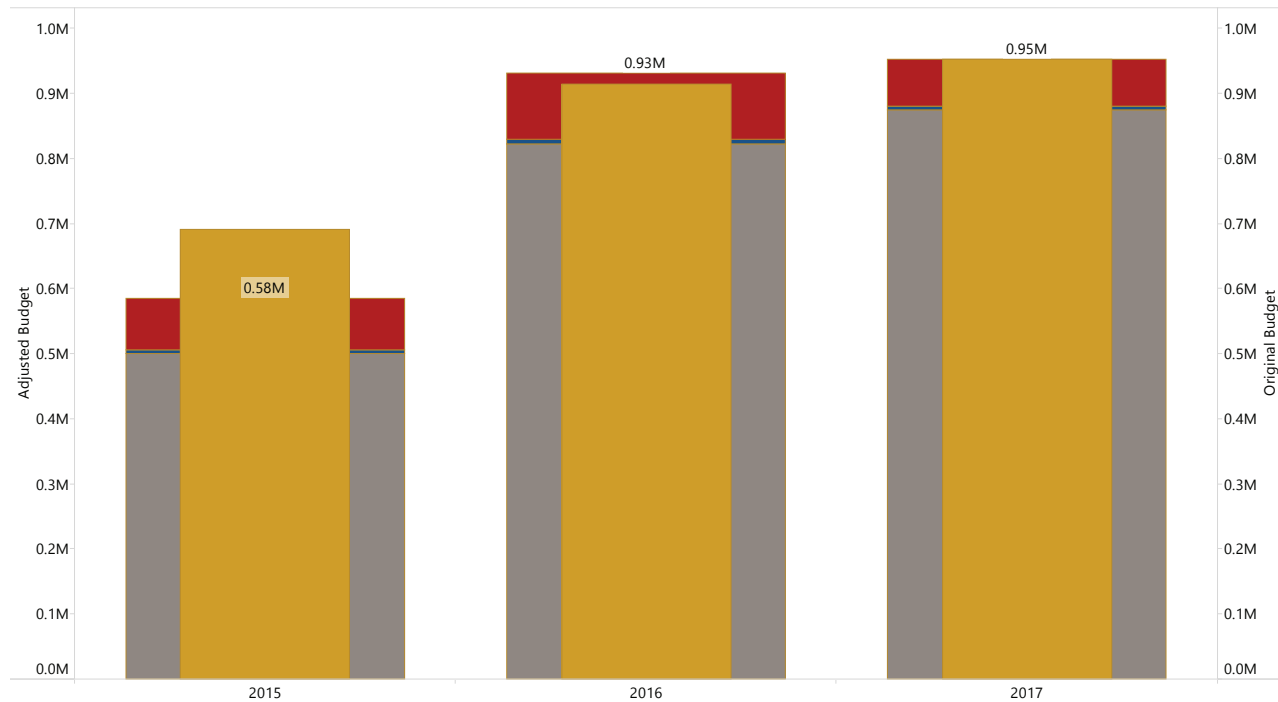
Orig Budget Variance by Division - Governance and Regulation - Insurance



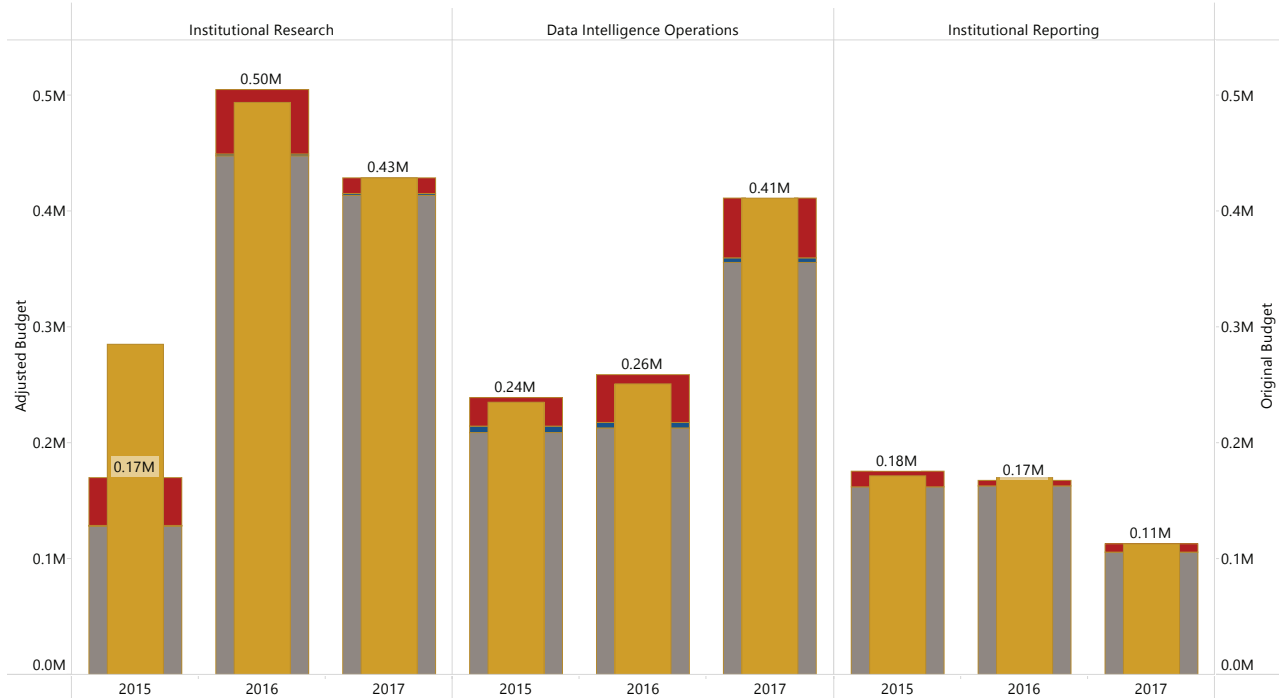
Business Intelligence

The Business Intelligence budget is projected relatively flat as a result of cost increases from additional employees shifting from Institutional Effectiveness offset by the savings from the reduction of personnel within Institutional Reporting and Institutional Research.

Orig Budget Variance - Functional View - Business Intelligence Total



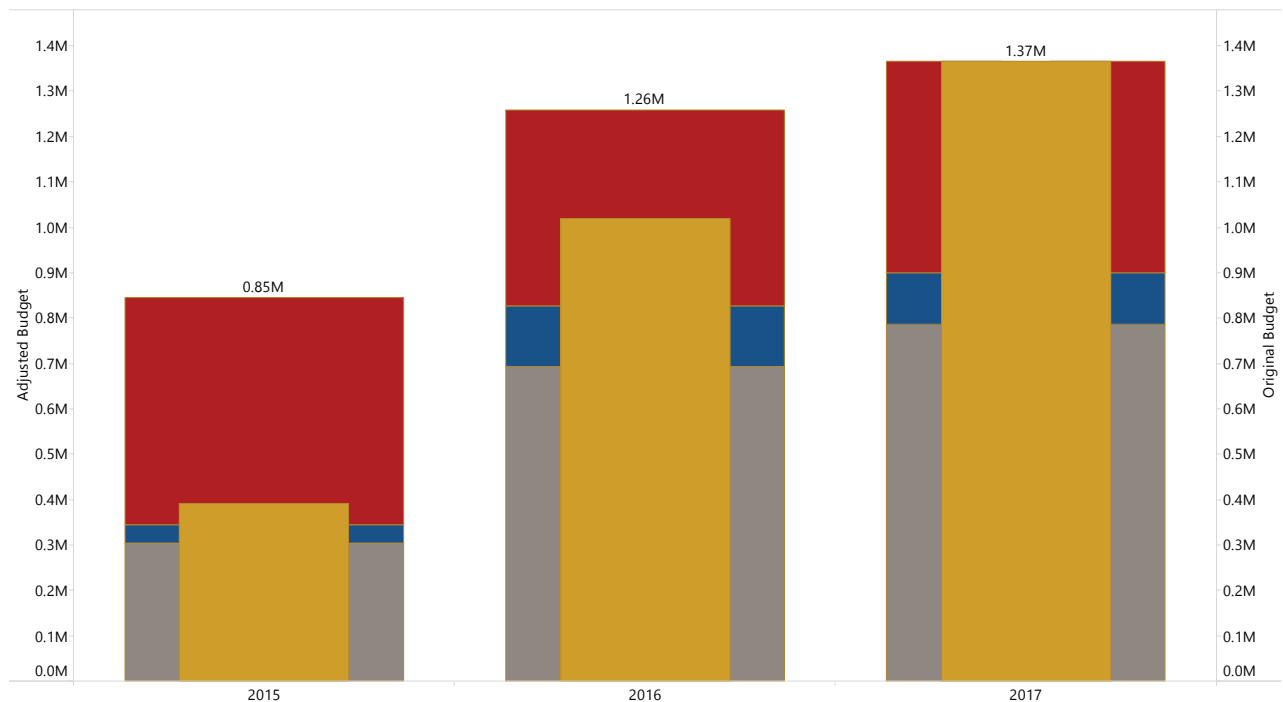
Orig Budget Variance by Division - Business Intelligence - All



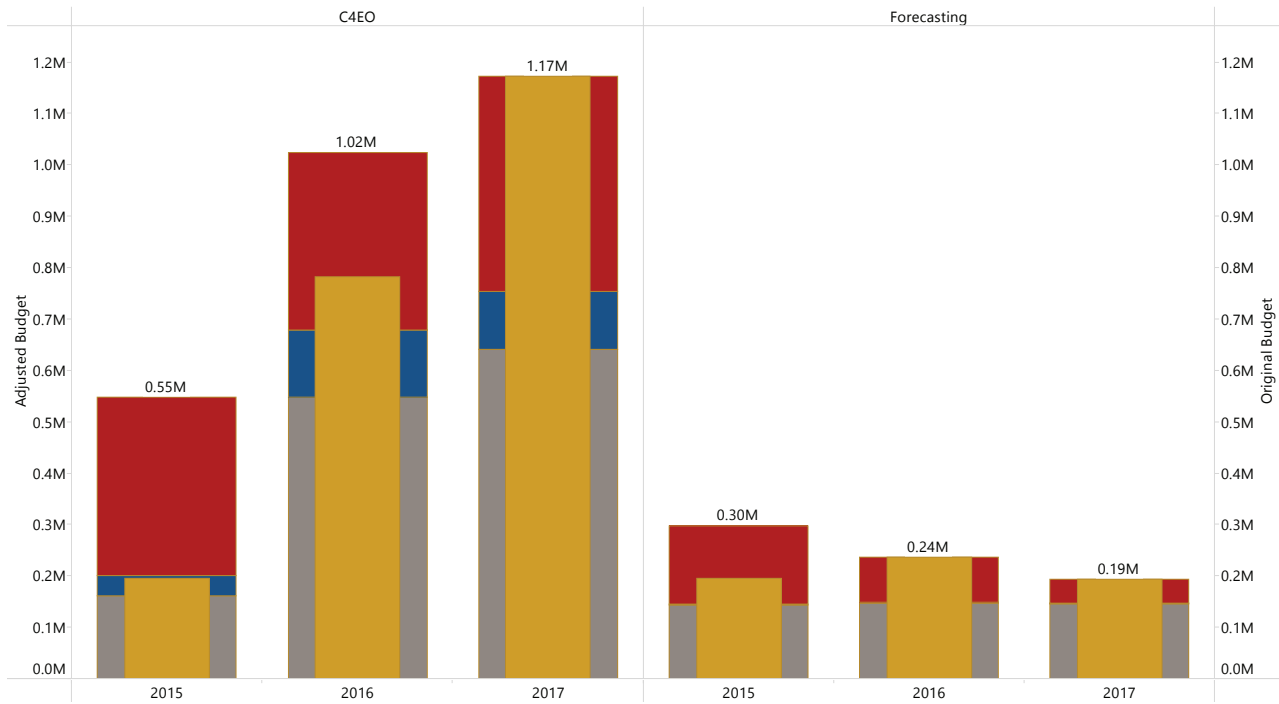
Policy

The Policy function includes TSTC’s forecasting effort as well as the Center for Employability Outcomes (C4EO). The overall increase in the fiscal year 2017 relates to additional personnel required to develop and commercialize new software services and customer-facing applications designed to close skill gaps. TSTC has conservatively budgeted for this entrepreneurial effort with respect to anticipated revenues; however, contracts are currently under development and indicators of significant interest in the product are becoming manifest as the product launch approaches.

Orig Budget Variance - Functional View - Policy Total



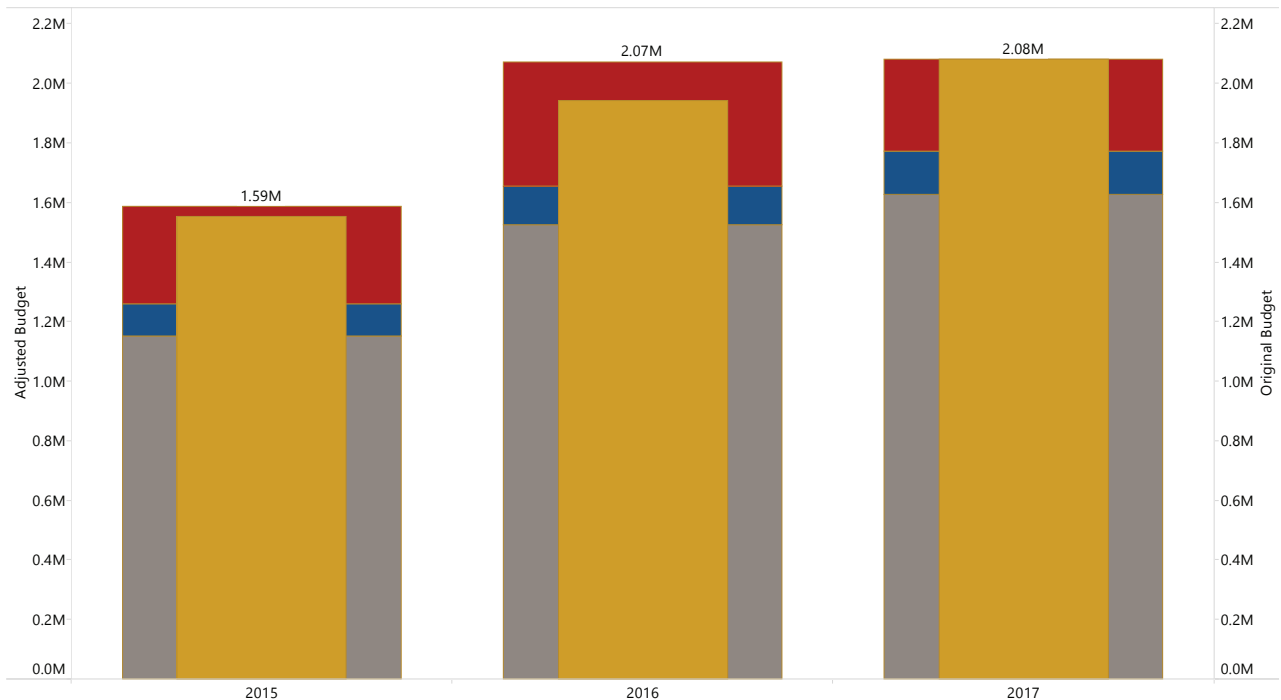
Orig Budget Variance by Division - Policy - All



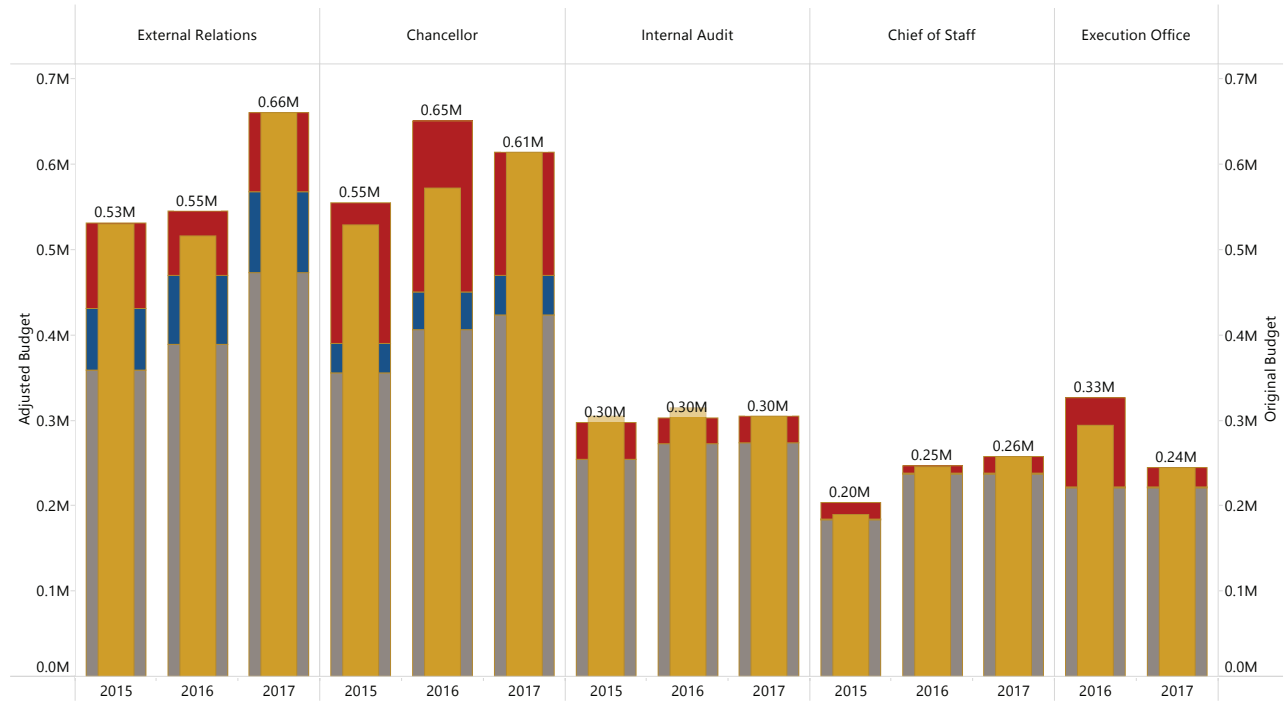
Office of the CEO

Overall expenses within the divisions that comprise the Office of the CEO will remain relatively flat. Increases anticipated in the External Relations are due to a shift in resources towards the Harlingen governmental and external relations efforts. This increase is offset by reductions in Execution office operating costs.

Orig Budget Variance - Functional View - Office of the CEO Total



Orig Budget Variance by Division - Office of the CEO - All



FISCAL YEAR 2017 OPERATING BUDGET REPORTS

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

TSTC Operating Budget FY 2017 by Function - Operations

Division (group)	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Instructional Operations	36,980,055	8,919,593	289,236	307,708	361,132	46,857,724
Instructional Support	1,405,938	249,484	0	3,053	33,474	1,691,949
Admin (Operations)	383,564	76,795		5,729	43,255	509,343
Innovation	158,544	33,930	21,000		25,100	238,574
Grand Total	38,928,101	9,279,802	310,236	316,490	462,961	49,297,590

TSTC Operating Budget FY 2017 by Function - Integrated Marketing

Division	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Student Development	7,025,200	36,125,453	20,000	189,017	168,682	43,528,352
Industry Relations	3,045,651	2,461,331	86,755	525,431	149,041	6,268,209
Communications	1,461,820	1,935,819		2,335	46,501	3,446,475
Recruitment	1,543,291	326,068	0		274,905	2,144,264
College Readiness	1,230,487	589,663	40,000	116,389	57,873	2,034,412
Office of Sponsored Programs	985,603	247,853		46,111	22,050	1,301,617
Provosts	1,177,989	395,244	22,590	83,446	68,840	1,748,109
Field Development	649,720	49,594	0	101,048	15,177	815,539
Advancement Ops	363,548	209,712	0	72,666	14,500	660,426
Admin (Integrated Marketing)		56,123			4,500	60,623
Grand Total	17,483,309	42,396,860	169,345	1,136,443	822,069	62,008,026

TSTC Operating Budget FY 2017 by Function - Finance

Division (group)	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Office of Facilities & Planning	4,482,996	9,263,427	47,253,597	78,310	25,100	61,103,430
Benefits		895,669		18,678,754		19,574,423
Accounting & Reporting	815,176	11,547,841	0	18,250	13,900	12,395,167
Auxiliary Services	2,880,082	6,818,101	433,508	1,060,876	32,370	11,224,937
Financial Services	2,551,368	1,013,174	0	23,814	29,725	3,618,081
Financial Analysis	821,476	10,055			8,740	840,271
Admin (Finance)	227,380	363,977		1,102	15,636	608,095
Grand Total	11,778,478	29,912,244	47,687,105	19,861,106	125,471	109,364,404

TSTC Operating Budget FY 2017 by Function - Information Technology

Division	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Shared		2,347,746				2,347,746
Support Ops	2,002,548	79,340			27,636	2,109,524
Infrastructure	629,000	676,119	100,000		11,000	1,416,119
App Development	724,696	34,723		2,823	10,524	772,766
Central Communications		484,708				484,708
Admin (IT)	197,324	17,575		2,902	8,675	226,476
Income Producing	13,476	25,787		7,289	3,000	49,552
Grand Total	3,567,044	3,665,998	100,000	13,014	60,835	7,406,891

TSTC Operating Budget FY 2017 by Function - Governance and Regulation

Division	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Police	1,279,116	334,257	0	34,261	9,900	1,657,534
Human Resources	914,600	181,507		1,321	37,811	1,135,239
Governance, Risk & Compliance	178,808	496,489			12,230	687,527
General Counsel	371,856	89,050		1,102	2,500	464,508
BOR	18,756	30,700			13,300	62,756
System Support	59,364					59,364
Grand Total	2,822,500	1,132,003	0	36,684	75,741	4,066,928

TSTC Operating Budget FY 2017 by Function - Business Intelligence

Division (group)	Salaries	Operating	Benefits	Travel	Grand Total
Institutional Research	413,640	3,525	1,725	10,126	429,016
Data Intelligence Operations	355,392	42,500	4,035	9,500	411,427
Institutional Reporting	105,816	4,425		2,200	112,441
Grand Total	874,848	50,450	5,760	21,826	952,884

TSTC Operating Budget FY 2017 by Function - Policy

Division (g..	Salaries	Operating	Benefits	Travel	Grand Total
C4EO & Policy	640,204	401,890	112,728	17,908	1,172,730
Forecasting	146,400	31,175	1,102	15,000	193,677
Grand Total	786,604	433,065	113,830	32,908	1,366,407

TSTC Operating Budget FY 2017 by Function - Office of the CEO

Sub Division	Salaries	Operating	Capital	Benefits	Travel	Grand Total
Chancellor	423,696	131,553		46,421	12,250	613,920
External Relations	472,724	75,899	0	95,108	17,000	660,731
Internal Audit	273,128	20,800			11,000	304,928
Chief of Staff	236,796	15,050		1,102	4,500	257,448
Execution Office	220,788	14,500		1,102	8,500	244,890
Grand Total	1,627,132	257,802	0	143,733	53,250	2,081,917

EXHIBITS

EXHIBIT A: Strategic Plan

TSTC Strategic Plan

TSTC's RALLYING CRY: "PLACE MORE TEXANS"

GOAL 1: Grow as the Perpetually-Relevant, Innovative, Go-To, Statewide Technical Education Source for Texas

Objective 1.1: Enhance the delivery of student related products and services

Strategies:

1.1.1.1 Expansion.

Stand up and expand start-up operations at TSTC's newest locations.

Performance Indicator(s): (form & content to be developed)

- 1.1.1.1.1 – Hutto location annual assessment report
- 1.1.1.1.2 – Red Oak location annual assessment report
- 1.1.1.1.3 – Ft. Bend county location annual assessment report

1.1.1.2 Skill Mastery.

Provide students with learning experiences required to achieve relevant levels of technical skill mastery leading to successful employment or advancement.

Performance Indicator(s): (form & content to be developed)

- 1.1.1.2.1 Competency-based instruction annual assessment report
- 1.1.1.2.2 Continuous improvement of learning assessment report
- 1.1.1.2.3 Curricula update annual assessment report
- 1.1.1.2.4 Annual program facilities assessment report
- 1.1.1.2.5 Annual percent of students achieving course-level mastery (to be defined and methodology of assessment developed)
- 1.1.1.2.6 Annual number of former TSTC students found working in the Texas economy
- 1.1.1.2.7 Average annual wages of former TSTC students found working

1.1.1.3 Innovation.

Accelerate innovation in delivery of technical training, including competency-based learning, and badges to increase speed of workforce supply to Texas' industry.

Performance Indicators: (definitions & methodologies TBD)

1.1.3.1 – Percent of programs offering competency-based instruction options

1.1.3.2 – Percent of programs offering badges

1.1.3.3 – Number of students earning badges annually

1.1.3.4 – AAS Graduate average time to complete

1.1.3.5 – Certificate Graduates average time to complete

1.1.4 Veteran Services.

Enhance and improve student support services for veterans.

Performance Indicators:

1.1.4.1 – Number of staff and annual budget devoted to Veterans Services

1.1.4.2 – Annual unduplicated number of veterans served

1.1.4.3 – Placement rate for Veterans exiting TSTC

1.1.4.4 – Average annual salaries for placed veterans

1.1.5 The Student Experience.

Enrich the student experience through integrated, accessible and responsive services that enhance learning for each TSTC student.

Performance Indicator:

1.1.5.1 – Selected items on the Annual Survey of Student Satisfaction (to be selected)

Objective 1.2: Broaden the market appeal of TSTC's Products and Services

Strategies:

1.2.1 Branding.

Inspire and activate loyalty to TSTC by its current and prospective customers.

Performance Measures:

1.2.1.1 – Marketing Engagement Report

1.2.2 Industry Relations.

Deepen our relationships with Texas employers to enrich their supply of job-ready technicians and ensure their workforce maintains a technical edge.

Performance Measures:

1.2.2.1 – Number of Texas employers who hire former TSTC students annually

1.2.2.2 – Industrial Career Day report

1.2.2.3 – Job Star Data report

1.2.2.4 – Equipment Donation report

1.2.3 C4EO.

Expand the Common Skills Language project for aligning skill-based language to validate learning outcomes for relevancy and curriculum alignment

Performance Measures:

- 1.2.3.1 – Percent of TSTC programs for which curricula is validated or updated using the CSL project process annually

1.2.4 Partnerships.

Continue working cooperatively with Texas community colleges and other partners to address Texas industry’s training needs regardless of their location in the state.

Performance Measures:

- 1.2.4.1 – Number and list of active partnerships
- 1.2.4.2 – Number of students served in active partnerships

Objective 1.3 Provide essential services and leadership in support of operations

Strategies:

1.3.1 Single Accreditation.

Merge the four TSTC college accreditations into a single, statewide accreditation to provide an efficient structure for increased instructional capacity, innovation, sustainability, quality, consistency, and flexibility to respond to the growth opportunities that lie ahead.

Performance Measures:

- 1.3.1.1 – SACSCOC votes to approve TSTC’s merger, June 2015
- 1.3.1.1 – TSTC Compliance report submitted Nov. 2015
- 1.3.1.2 – SACSCOC Site Visit, end of Jan. 2016
- 1.3.1.3 – TSTC addresses any outstanding recommendations, Apr. 2016
- 1.3.1.4 – SACSCOC accepts TSTC’s actions on any recommendations, June 2016

1.3.2 Optimization.

Employ reasonable means to leverage and extend the entire system’s resources for greater operating efficiency, including statewide integration of administrative and operational functions.

Performance Measures: (Content and format TBD)

- 1.3.2.1 – Student Learning annual status report
- 1.3.2.2 – Student Development annual status report
- 1.3.2.3 – Finance Division annual status report
- 1.3.2.4 – Business Intelligence annual status report
- 1.3.2.4 – Marketing/Development annual status report
- 1.3.2.5 – Facilities/Auxiliary Services annual status report

- 1.3.2.6 – IT Services annual status report

- 1.3.2.7 – Organizational Development annual status report

- 1.3.2.8 – Technology Enhancement annual status report

- 1.3.2.9 – OPM annual report

1.3.3 Program Vitality.

Further develop the economic model, tools, and strategies for evaluating programs within the framework of TSTC’s new funding formula as well as other factors, including current and future market demand and program cost

Performance Measures: (Content & format TBD)

- 1.3.3.1 Annual Status of Educational programs report

1.3.4 Service.

Exceed expectations of customers with a sense of warmth, friendliness, and individual pride.

Performance Measures:

- 1.3.4.1 – Selected responses on annual student satisfaction survey (TBD)
- 1.3.4.2 – Student focus group outcomes (TBD)

GOAL 2: Build a Top Shelf Fundraising Capacity That Provides Consistent & Meaningful Financial Resources

Objective 2.1 Advancement: Build financial resources for the College

Strategies:

2.1.1 Culture of Philanthropy. Build the unified case for support, impassioned volunteer leadership, and equipped sales force for long-term fundraising success. Performance Measures:

- 2.1.1.1 – Annual Development report
- 2.1.1.2 – Number of annual donors to TSTC and The TSTC Foundation
- 2.1.1.3 – Alumni Report
- 2.1.1.4 – Number of Individuals and Organizations Engaged Annually

GOAL 3: Make TSTC a Great(er) Place to Work

Objective 3.1 Organization Development: Shape the culture of the college to maximize success for all

Strategies:

3.1.1 Employee Engagement.

Provide the tools, resources, and support necessary to ensure success of all employees

Performance Measures:

- 3.1.1.1 – Report of Employee Satisfaction results
- 3.1.1.2 – Compensation Progress report

EXHIBIT B: TSTC Fund Accounting Guide

TSTC FUND ACCOUNTING EXPLAINED

Definitions

Fund – A sum of money saved or made available for a particular purpose.

Fund Accounting – The accounting for funds that serve different or separate purposes. In effect, accounting for various funds can be compared to accounting for different companies or different divisions of a company. All transactions are separately accounted for to keep the fund balances separate, even though actual cash from some of the funds may be co-mingled in local bank accounts.

Fund Accounting Equation –

Beginning Balance + Revenues – Expenditures = Ending Balance

TSTC Funds – See attached list.

Budget – An expenditure plan.

Unit – An account code that is associated with a department or unique purpose. Any number of units make up a TSTC Fund.

Summary

TSTC Budgets are essentially Expenditure Plans. TSTC Expenditure Plans must be balanced against Revenues for each fund, including use of prior revenues included in a fund balance.

TSTC establishes budgets at the UNIT level. Once Budgets are established, TSTC maintains fiscal control by monitoring Expenditures against the Budget.

The Board adopts an Original Budget for each fiscal year. During the year, the budget is adjusted to account for any necessary changes, including new gifts, grants and other revenue sources as they occur. Some budget changes require Board approval (\$250,000 or over/\$500,000 or over for Construction projects), but smaller ones do not.

TSTC Funds

Fund NO.

1. **Education & General (E&G)** – Appropriated by State of Texas, kept in State Treasury, expended

from State Treasury. Includes State tuition collected by TSTC (Fund 237) and General Revenue of the state (Fund 001) for the purpose of instruction, student development, administration, operating and maintenance of plant, employee benefits, and other authorized uses.

2. **Loan Funds** – Gifts and tuition set-asides for student loans. Not budgeted. Kept in TSTC local bank accounts.
3. **Designated Funds** – Funds for instruction, administration, operating and maintenance of plant, capital improvements, student services, and other college uses. These funds are kept in TSTC local bank accounts.
4. **Auxiliary Funds** – Includes funds related to TSTC operations that charge for services provided, such as bookstores, food service, housing, airport, and lease of property. These funds kept in TSTC local bank accounts.
5. **Endowment Funds** – Includes gifts or funds raised for providing long-term revenue for the college, from which only earnings are expendable. These funds are generally transferred to another fund prior to expenditure, not budgeted in Fund 5. These funds kept in TSTC local bank accounts.
6. **Restricted Funds** – Gifts and Grants to be used for specific purposes defined by the external originating source: federal, state and local governments, or private sources. Kept in TSTC local bank accounts, but most operate on a reimbursement basis.
7. **Agency Funds** – Funds which are other peoples' money; administered by TSTC acting as custodian, such as for student organizations, The TSTC Foundation, etc. These funds are kept in TSTC local bank accounts. Budgets are set by the organization served.
8. **Plant Funds** – Funds set aside for construction, renovation, repairs and debt service. Plant funds are unique in that they generally originate in the other funds and are then moved into plant funds through the budgeting process. Includes both funds held in the State Treasury as well as funds in TSTC local bank accounts.
9. **Balance Sheet Accounts** – This fund is a repository for all TSTC Balance Sheet Accounts including Assets, Liabilities and Net Assets.

EXHIBIT C: LAR Base Reduction Request Letter



STATE OF TEXAS

DAN PATRICK
LIEUTENANT GOVERNOR
P.O. Box 12068
AUSTIN, TEXAS 78711-2068
(512) 463-0001

GREG ABBOTT
GOVERNOR
P.O. Box 12428
AUSTIN, TEXAS 78711-2468
(512) 463-2000

JOE STRAUS
SPEAKER OF THE HOUSE
P.O. Box 2910
AUSTIN, TEXAS 78768-2910
(512) 463-3000

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.

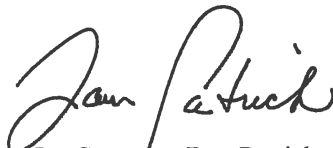
Funding requests that exceed the adjusted baseline spending level may not be included in the baseline request, but these additional funding requests may be submitted as Exceptional Items. The Exceptional Items schedule now includes required fields for information on potential contract, information technology 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.

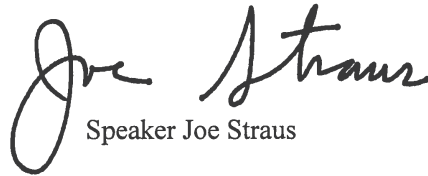
Thank you for your service to the State of Texas, and we look forward to working with you in preparation for the 85th Legislative Session.



Governor Greg Abbott



Lt. Governor Dan Patrick



Speaker Joe Straus

EXHIBIT D: Program Vitality Template

Vitality Template

Program Name: _____ **Location:** _____

Drivers:
 * Mission Statement - Demand + Economic Development
 * NFF - Placement & Earnings
 * Goal - "Place More Texans"

Lead Measures								
* Ranked by Degree of Control								
* Weighted by Importance to Goal								
	Current Year	Previous Year	3 Year Average	Weight	Current Year	Score	Fail-Safe	
1) Enrollment Capacity _____ & _____%				30% <small>* Relation to Tuition & Fees * Auxiliary Services</small>				
2) Retention				15% <small>* Placement already is the goal.</small>				
3) Placement				30%				
4) First-year Income				25%				
Total Score								
Comments:								

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Vitality Template

Key Questions

1.0) What is the program's ROI based on the applicable lead indicators?

Comments: _____

1.5) What is the assessment of the FTEs and teaching load in relation to the ROI?

Comments: _____

2.0) Which lead indicators show to have the most significant impact on improving the ROI?

Comments: _____

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Vitality Template

2.25) How much would an identified indicator or lead measure have to improve in order to attain a satisfactory ROI?

Comments: _____

2.5) Will operating at 100% Program Capacity diminish the return on other items, such as quality of instruction and student satisfaction?

Comments: _____

3.0) Were any fail-safes triggered by the ROI analysis (red flags raised)?

Comments: _____

4.0) Are any internal or external factors significantly affecting program performance? Such as:

- Marketing
- Recruiting
- Equipment Needs
- Community Expectations
- Student Engagement
- Industry Engagement (Inclusive of Advisory Board Meeting)
- Occupational Growth Rate

Comments: _____

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Vitality Template

4.5) If so, how do they directly affect the overall goal and how controllable are they in the near term?

Comments: _____

5.0) If the program is excelling, are there best practices that can be extrapolated for training purposes? Conversely, if the program is performing poorly are there opportunities to train for improvement? For example: Unit Action Planning

Comments: _____

Summary: _____

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Texas State Technical College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award Associate of Applied Science degrees and Certificates of Completion. Contact the Commission on Colleges at 1866 Southern Lane, Decatur, Georgia 30033-4079 for questions about the accreditation of TSTC.

Equal opportunity shall be afforded within Texas State Technical College to all employees and applicants for admission or employment regardless of race, color, gender, religion, national origin, age, disability, genetic information or veteran status. TSTC complies with the Texas Equal Opportunity Plan. The person designated to coordinate compliance activities is the Dean of Students, James Fickens. He can be reached at james.fickens@tstc.edu.

