FY 2018 Annual
Budget Report

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TSTC
Texas State Technical College™
TECHNICALLY BETTER.

Place More Texans in Great-Paying Jobs

CONTENTS

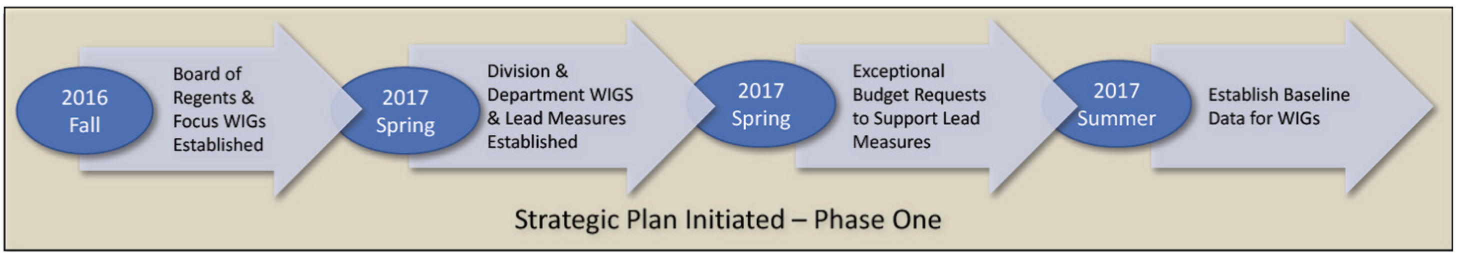
SITUATIONAL CONTEXT

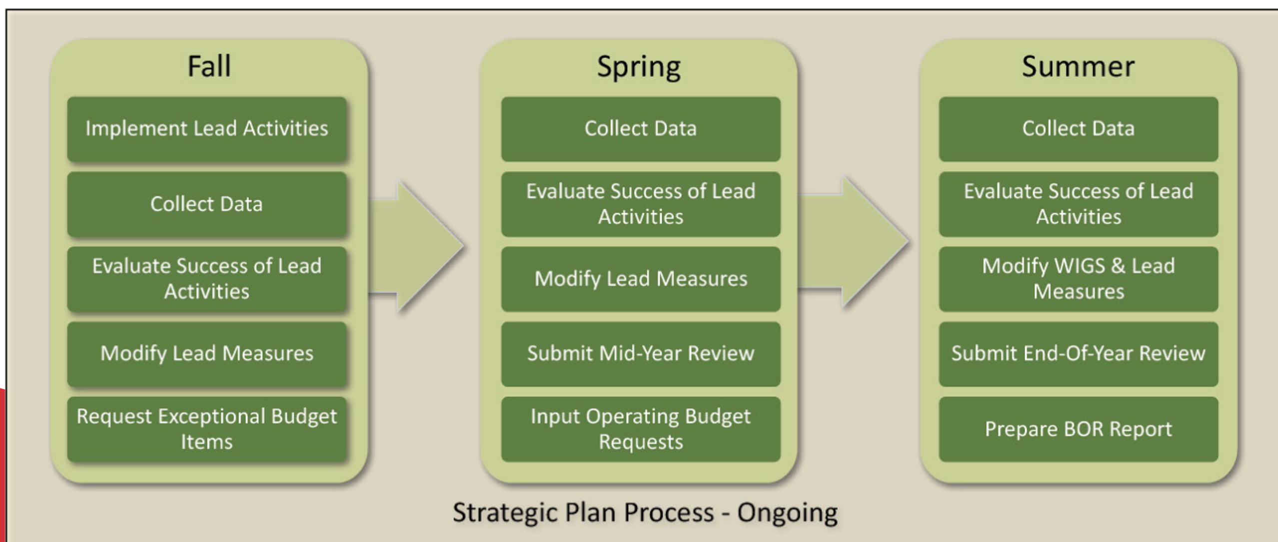
Strategic Plan

Texas State Technical College (TSTC) launched its first statewide strategic plan during fiscal year 2017. The process began in August 2016, when executive leadership and the Board of Regents immersed themselves in understanding the current landscape for higher education. This included focused sessions on the following topics:

- Labor market trends from economist Rich Froeschle;
- Innovations in Higher Education from Dr. Paul LeBlanc, president of the highly innovative and rapidly growing Southern New Hampshire University;
- New Technology, the Future and Education from innovator and thought leader Dr. Peter H. Diamandis; and
- The Texas Community College Landscape from Dr. Steven Johnson, Chief Operating Officer of the Texas Association of Community Colleges.

In November 2016, executive leadership facilitated a strategy workshop with the Board of Regents to identify essential areas of focus, later called Wildly Important Goals (or WIGs) defining TSTC's strategy. The following illustrates the initial and ongoing processes that followed to execute TSTC's strategic plan.





Wildly Important Goals - 2018 to 2021

Board of Regents Wildly Important Goal 1:

Increase the annual combined total wages of TSTC students entering the workforce by 60 percent by 2021.

TSTC's Board of Regents (BOR) first Wildly Important Goal (WIG), BOR WIG 1, defines the College's aspirations over the next four years for its traditional line of business, within the context of TSTC's rallying cry to Place More Texans in Great-Paying Jobs. The performance measure is consistent with TSTC's innovative, results-driven funding formula, which aligns the interests of students, employers and the College. Leadership identified the following two measures that will drive annual combined total wages of students:

- **FOCUS WIG 1a:** Increase the first-year average wages of TSTC students entering the workforce by 15 percent by 2021. (Sponsor: Elton Stuckly, Ed.D.)
- **FOCUS WIG 1b:** Increase the number of TSTC students who enter the workforce by 40 percent by 2021. (Sponsor: Jeff Kilgore)

In recent years, the College developed a scorecard for evaluating program performance within the above measures through a process called program vitality. The current year scorecard is illustrated on pages 44-45 of this document.

Board of Regents Wildly Important Goal 2:

Increase TSTC's total annual revenues from $55.5 million in fiscal year 2017 to $88.3 million in fiscal year 2021.

Recognizing TSTC's vulnerability under its historical dependency on state appropriations, TSTC's strategic plan directs the College to increase capacity for generating a diverse mix of revenues. To grow such capacities, TSTC's profit centers must generate sufficient margins to allow reinvestment and expand the base of capital that reduces this historical dependency on state appropriations. The College has defined goals for its profit centers in support of growing its revenue production capacity. Because these profit centers rely on support services across the enterprise, goals that measure the profit center's satisfaction of the support services have been defined as well. Due to the potential market for dual enrollment within the Career and Technology sector, the College also defined a single enterprise goal around establishing a dual enrollment line of business. Below are the formal goals that support BOR WIG 2:

- **FOCUS WIG 2a:** Increase Annual Contribution Margins from TSTC business lines (including traditional college) to $14.8 million by 2021. (Sponsor: Jonathan Hoekstra)
- **FOCUS WIG 2b:** Increase the Satisfaction Score of services provided to TSTC business line revenue centers from 3.4 to 4.0 by 2021. (Sponsor: Rick Herrera)
- **FOCUS WIG 2c:** Build a Dual Enrollment line of business. (Sponsor: Mike Reeser)

Board of Regents Wildly Important Goal 3:

Increase the score from 66% to 80% by 2021 on the question: "I would recommend TSTC to a friend as a great place to work" in the Survey of Employee Engagement.

TSTC seeks to constantly measure the health of the organization, with the knowledge that institutions with highly engaged workforces historically outperform institutions with lesser engaged workforces. This requires a focus on highly functioning teams, clarity surrounding TSTC's mission, vision, and related priorities, and strong communication links as well as systems and processes that reinforce this clarity. BOR WIG 3 will measure TSTC's efforts towards building organizational health. Other supporting measures in support of this wildly important goal include the following:

- **FOCUS WIG 3a:** Increase the Internal Communications score in the Survey of Employee Engagement from 341 to 400 by 2021. (Sponsor: Gail Lawrence)
- **FOCUS WIG 3b:** Increase the Employee Development score in the Survey of Employee Engagement from 365 to 385 by 2021. (Sponsor: Ray Rushing)
- **FOCUS WIG 3c:** Compensate TSTC employees at rates above market average by 2021. (Sponsor: Ray Rushing)

The above measures were identified as improvement opportunities in TSTC's 2016 Survey of Employee Engagement.

Funding Overview & Outlook

State Support

For the last decade, the level of public funding for Texas higher education has not grown at the rate of inflation and this trend was continued through the 85th Legislative session. The level of formula funding has actually declined on an inflation-adjusted basis over this period of time. Across the sectors of public higher education in Texas, institutions have increased funding from students through tuition increases to compensate for the decline in appropriations funding.

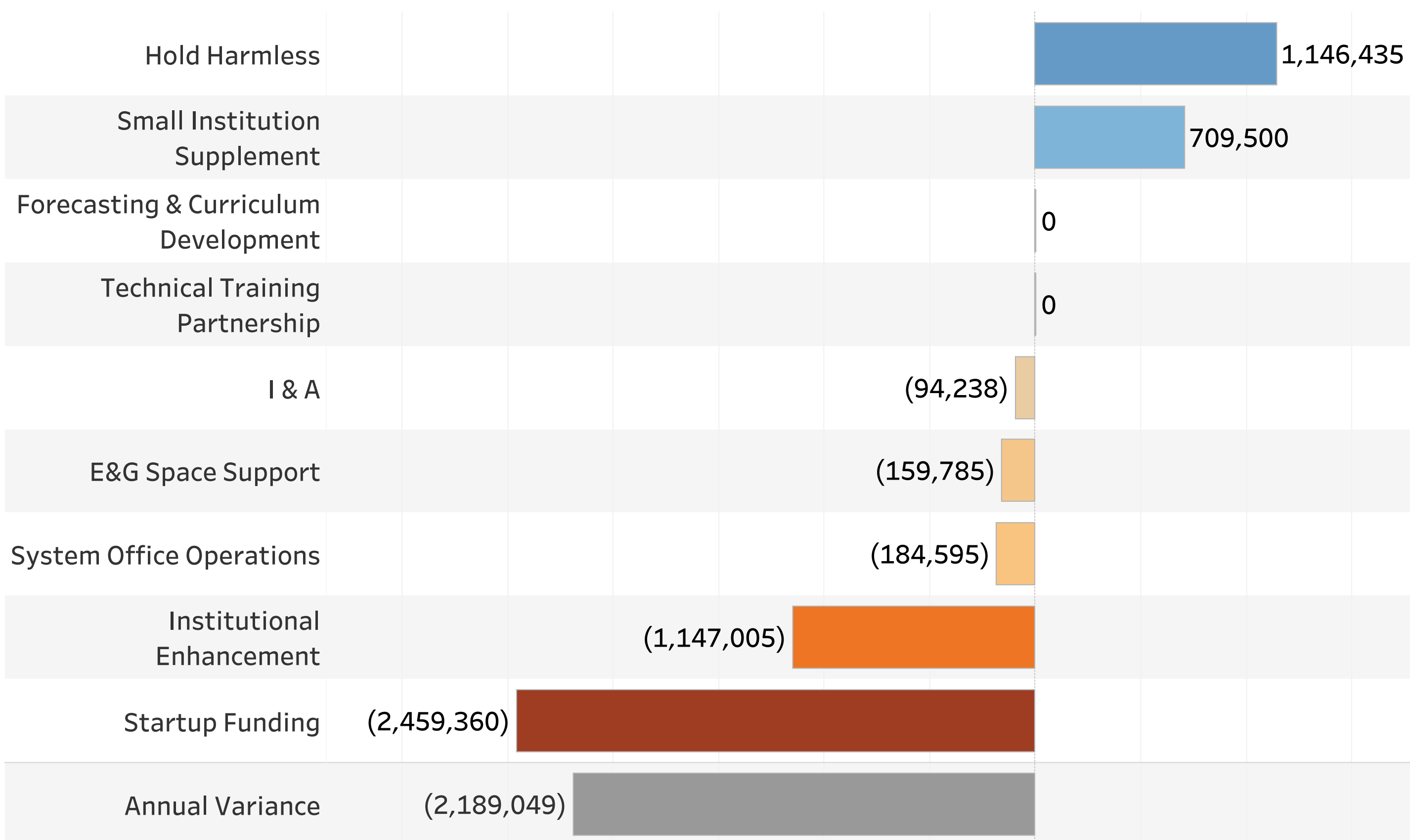
As an agency of the State of Texas, TSTC's largest source of funding is state appropriations. In fact, TSTC is the most dependent on general revenues as a portion of overall funding compared to all other higher education sectors.

Because of the anticipated pressures on the state budget and TSTC's vulnerability under such an environment, diversification of TSTC's funding mix is a critical strategy for sustainability of TSTC's mission.

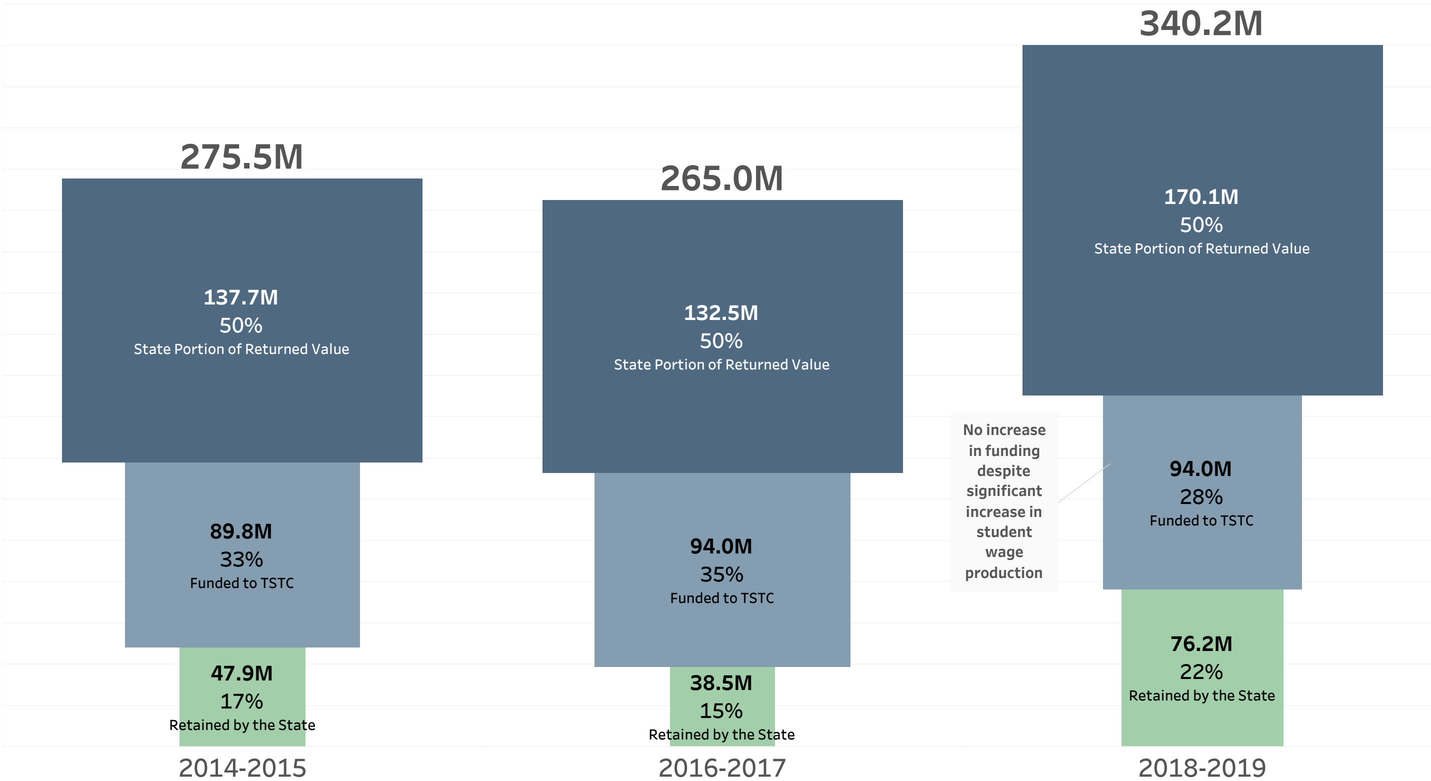
Results of the 85th Legislative Session

The 85th Legislative Session was a challenge with higher education facing deep cuts in the Senate in the early days of the Session. Following this challenging start, funding across most institutions of higher education was flat or down by Session's end. TSTC experienced an overall biennium loss of $4.6 million ($2.2 million for FY 2018), or a 3.4 % decrease, in general revenue appropriations, with the greatest impact occurring with a $4.9 million cut, or 28.9% decrease, in startup funding for its newest campuses.

Variance of FY 2018 General Revenue Appropriations to FY 2017



TSTC Student Wages vs. Returned Value Funding



Student Wages are calculated as the sum of five years average wages of students found working in the State of Texas by the Texas Workforce Commission.

Casual observers and even legislative members might conclude that TSTC's slight decrease in funding was a realistic result, considering the larger, overall effort by legislative members to reduce initially proposed higher education funding cuts and the politically charged environment of the 85th Legislature. The final funding determination, however, was a setback from a performance and accountability funding policy perspective. By holding funding amounts level for TSTC, the Legislature departed from the notion of paying for the College's unprecedented results. TSTC's funding rate decreased 20% for the 2018/2019 biennium within its returned value formula. TSTC's funding rate dropped to a 28% level ($93.8 million funded of $340.4 million earned) from the 35% funding rate ($93.9 million funded of $268.4 million earned) during the 2016/2017 biennium.

Essentially, by holding the funding amount flat, the funding rate was cut significantly. Had the funding rate stayed consistent (as other higher education formula funding rates did), TSTC would have received an additional $26,686,729 for the 2018/2019 biennium.

TSTC's funding rate decreased 20% for the 2018/2019 biennium within its returned value formula. TSTC's funding rate dropped to a 28% level from the 35% funding rate during the 2016/2017 biennium.

BUDGET PRESENTATION, ASSUMPTIONS & METHODS

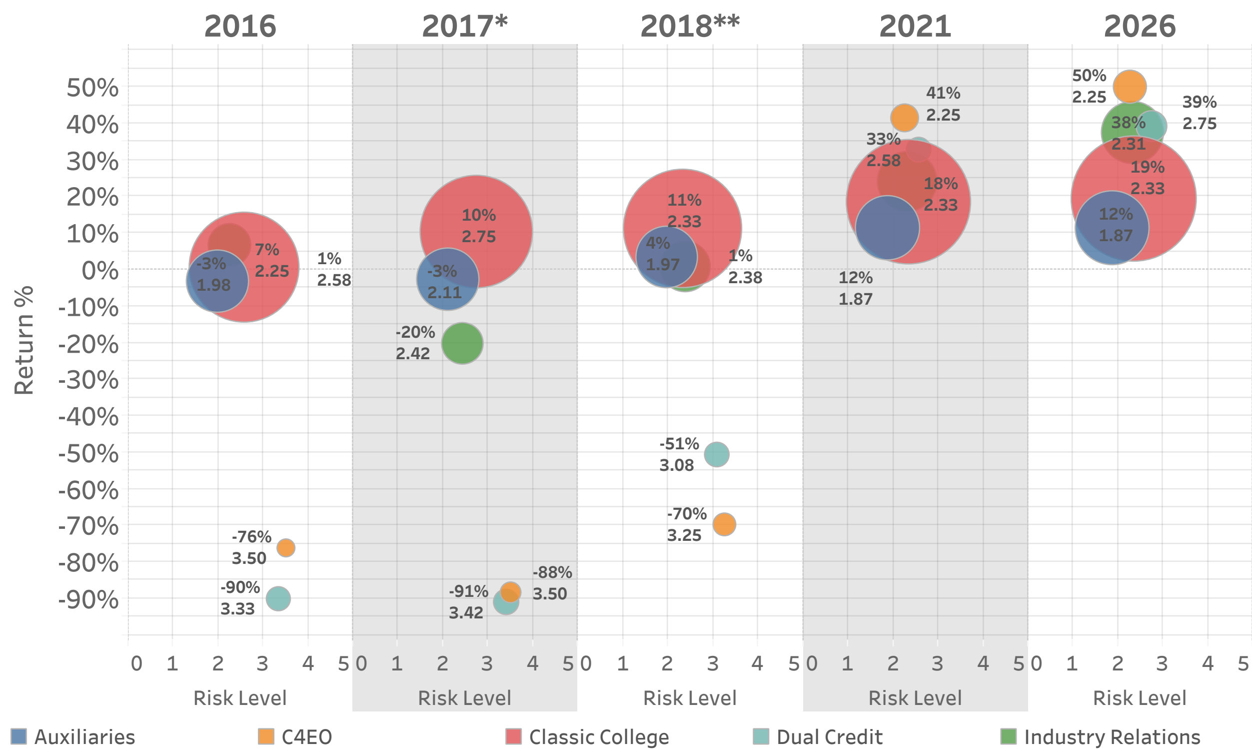
Budget Philosophy (Investment Plan)

As TSTC seeks to reduce its funding vulnerabilities through the process of creating diverse revenue/profit generating capacities, we are transforming our approach to resource evaluation and allocation. For many years, the College was flexible in its ability to shift capital and other resources across the organization to the greatest opportunities. This is uncommon for many traditional governmental and higher education organizations, whose budgeting processes significantly bias towards inertia and status quo. TSTC is augmenting resource allocation decisions by evaluating statewide resources as a portfolio of investments. Each investment is judged, considering risks and return expectations consistent with and supportive of their role in the organization's overall set of objectives and strategies.

Unique for this budget report is a segregation of different profit centers across the College. Board of Regents WIG 2 establishes profitability expectations for its different profit centers. Each of these business lines has supported its expectations with a business plan that provides supportive rationale and assumptions. With guiding, long-term imperatives such as Place More Texans and Grow and Diversify our Revenue Streams, categories of investments with varying expectations of profitability and contribution to the capital reserves of TSTC are emerging. TSTC will manage and leverage this diverse portfolio of investments in a portfolio approach as it develops capital investment strategies over time. Many of TSTC's business lines are actually portfolios of diverse profit centers whose cash flow investment time horizon and risk profiles vary and range from aggressive to moderate to conservative.

The figure below illustrates the risk and return profiles for TSTC's portfolios of profit centers:

Risk vs. Return - All



	2016	2017*	2018**	2021	2026
Return	-2,463,698	-229,747	3,510,791	14,771,876	20,614,025
Avg Return %	-15.9%	-17.8%	-5.2%	17.8%	21.1%
Avg Risk	2.337	2.448	2.250	2.087	2.106

Presentation

This report continues the following enhancements made to the budget presentation during the prior year to increase clarity and transparency:

- Inclusion of both budget and actual (forecast for current fiscal year) for evaluating budgets submitted.
- Providing both budget and adjusted budget information throughout narratives to support trend analysis provided.

Purpose

The annual budget report serves many purposes:

- facilitates the Board of Regents' 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.

Budget Management

The annual budget report is a starting point and the budget process endures a myriad of changes during the course of the 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 2018 Annual Budget:

- Appropriation revenues will be realized in accordance with the bill patterns established by the 85th Legislature;
- Tuition revenues will increase by 15 percent (enrollment goals targeted an 11 percent increase in enrollment);
- The College will realize significant, additional revenues not reflected in the budget to limit spending within realizable revenues; and
- The College will realize additional economies through its structural review of administrative functions that are not reflected in the budget proposal.

In general, the assumptions used were relatively conservative to implement budget and related spending controls for fiscal year 2018.

FISCAL YEAR 2018 ANNUAL OPERATING BUDGET

Budget Summary - Historical & Forecast

Budget Summary for Fiscal Years 2016, 2017 and 2018

	FY 2016 Budget	FY 2016 Actual	FY 2017 Budget	FY 2017 Forecast	FY 2018 Budget
Operating Revenues					
State Appropriations & HEAF	85,466,604	93,526,440	89,585,470	91,920,533	89,953,532
Tuition	37,819,050	33,443,343	36,864,480	39,695,062	44,962,573
Student Financial Assistance	28,000,000	23,894,584	31,034,146	23,454,791	25,221,085
Auxiliary Enterprises	13,422,345	13,325,223	12,121,911	12,701,594	12,837,787
Debt Service	2,131,482	2,142,053	5,306,880	5,394,432	4,827,151
Fees & Educational Sales	10,687,773	5,125,901	4,478,058	5,568,165	4,599,392
Industry Relations	6,813,269	6,049,937	3,947,613	5,202,019	8,946,250
Grants & Contracts	3,393,564	6,232,135	3,274,851	5,788,346	4,922,987
Other	1,726,120	647,758	114,500	114,713	35,619
Total Operating Revenues	189,460,207	184,387,374	186,727,909	189,839,655	196,306,376
Operating Reserves	-		2,895,333	2,095,333	2,361,131
Expenditures					
Salaries					
Operations	37,769,841	36,945,861	38,840,073	40,191,865	41,813,943
Integrated Marketing	16,392,039	16,168,456	16,184,300	14,910,731	15,328,067
Finance	12,838,716	12,706,977	12,985,697	12,931,126	13,439,249
Integration	4,662,927	4,811,955	4,745,033	4,519,384	5,011,756
Governance & Regulation	2,617,252	2,527,707	2,809,488	2,900,195	3,141,853
Office of the CEO	1,444,220	1,524,159	1,627,132	1,756,061	1,541,063
Policy	424,224	693,446	786,604	968,614	1,150,216
Total Salaries	76,149,219	75,378,561	77,978,327	78,177,974	81,426,147
Benefits	11,652,466	19,692,727	12,487,278	18,262,806	15,298,337
Operating & Capital					
Operations	10,512,037	11,854,035	10,207,741	9,945,900	13,717,074
Integrated Marketing	46,117,421	38,290,720	43,797,762	41,075,392	45,374,793
Finance	34,157,120	31,928,207	38,394,819	35,361,768	35,175,729
Integration	4,967,727	4,005,087	4,412,249	3,905,665	4,853,420
Governance & Regulation	1,366,963	1,346,032	1,310,478	1,340,580	1,585,145
Office of the CEO	498,000	448,644	454,785	442,971	451,793
Policy	594,981	511,677	579,803	566,314	785,069
Total Operating & Capital	98,214,249	88,384,402	99,157,637	92,638,590	101,943,023
Total Expenditures	186,015,934	183,455,690	189,623,242	189,079,370	198,667,507
Budget Margin (Deficit)	3,444,273	931,684	-	2,855,618	-
Capital Revenues					
Capital Reserves	-	40,066,760	46,921,805	21,056,693	23,460,000
Other	-	4,039		196,899	-
Total Capital Revenues	-	40,070,799	46,921,805	21,253,592	23,460,000
Capital Project Expenditures					
Carryforward Projects	3,444,273	2,844,530	1,600,000	165,015	-
HEAF Bond	-	1,814,428	24,871,805	10,445,839	10,930,000
TRB Projects	-	35,407,802	20,450,000	10,445,839	12,530,000
Total Capital Project Expenditures	3,444,273	40,066,760	46,921,805	21,056,693	23,460,000
Net Capital Projects	(3,444,273)	4,039	-	196,899	-
Budget Margin (Deficit)	-	935,723	-	3,052,517	-

Revenues

State Appropriations & HEAF

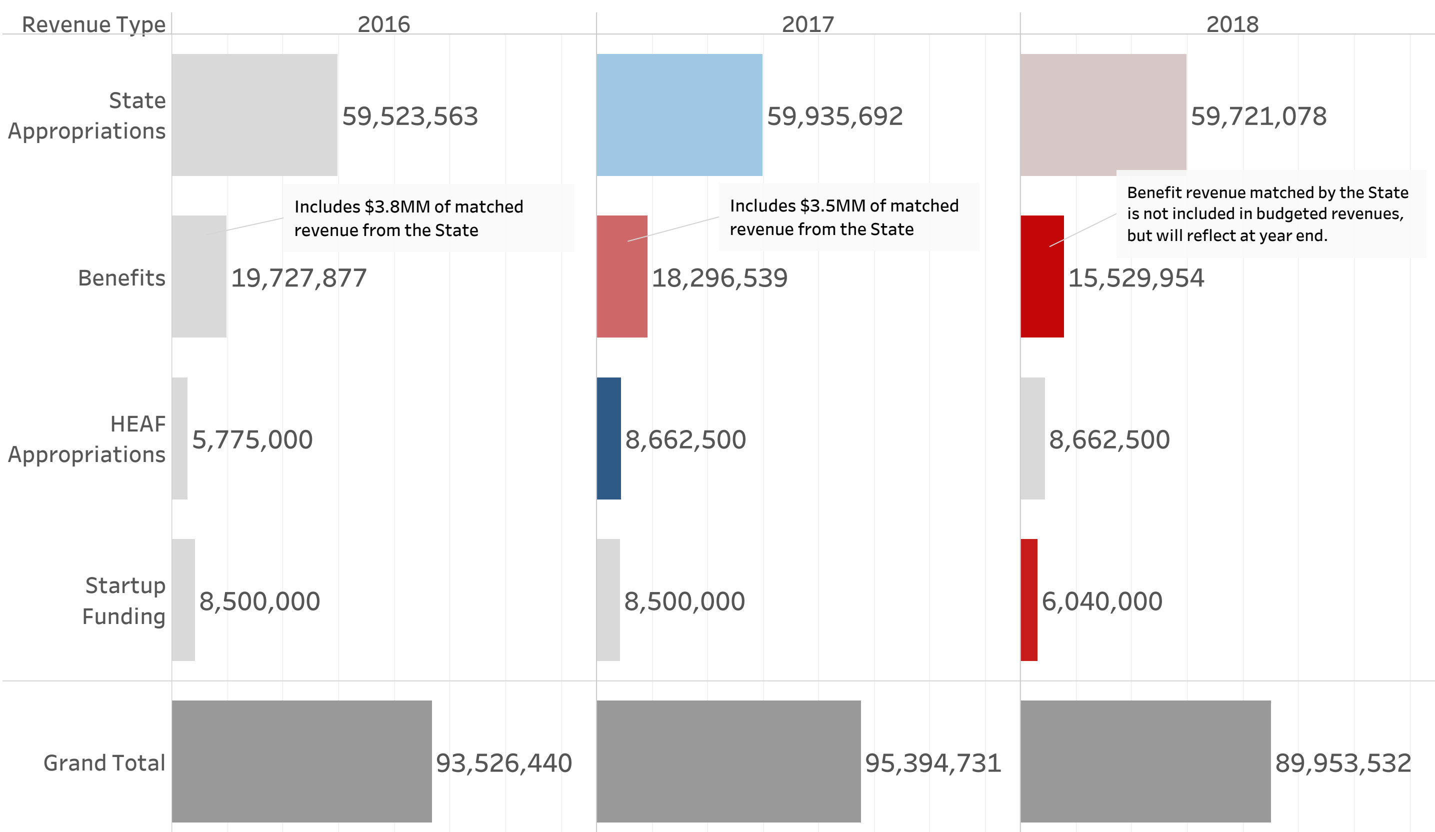
Overall, general revenue appropriations will decline during fiscal year 2018 by $2.2 million, or 3.3%, compared to the previous year. The greatest contributor of TSTC's loss in appropriations funding was the 85th Legislature's reduction of special item funding across higher education institutions. Included in the cuts was a 29% reduction in TSTC startup funding for its new campus operations (East Williamson County Higher Education Center, Fort Bend, and North Texas).

General revenue appropriations are largely determined by two funding formulas: TSTC's Returned Value formula and the Infrastructure formula. The amounts funded for each of these appropriation line items were relatively flat compared to the prior biennium but were far short of what the formulas indicated for TSTC. This treatment by the 85th Legislature was a significant departure from other sectors of higher education, whose rate of formula funding appropriated remained consistent with the prior biennium.

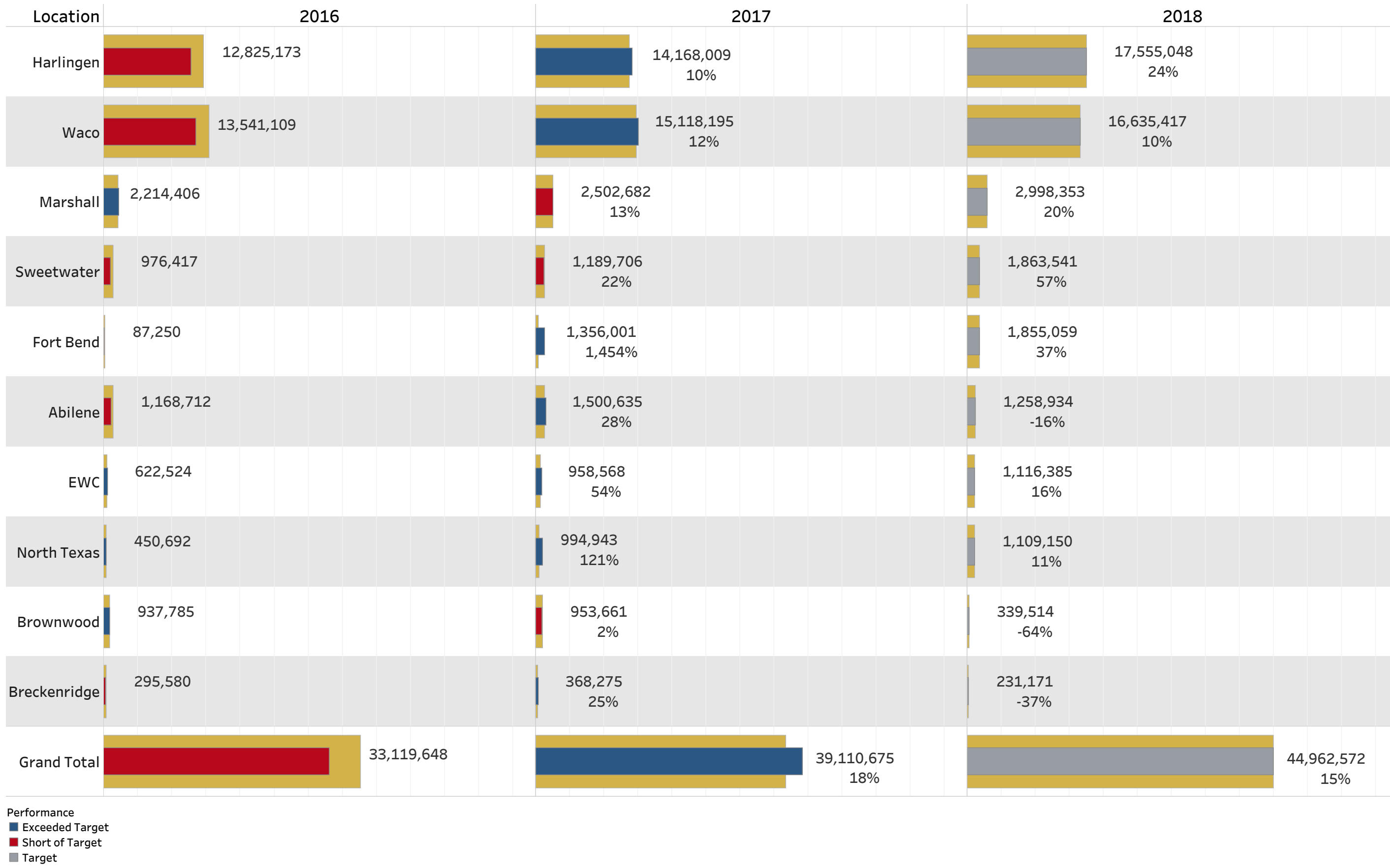
Institutional enhancement funding, a special item request, faced significant restructuring with half of the prior funded amount segregated as line item funding that will be phased out in future biennia.

Fiscal year 2018 funding under the Higher Education Assistance Fund (HEAF) Appropriation will be at the same level as fiscal year 2017.

State Appropriations & HEAF



Tuition Budget Performance



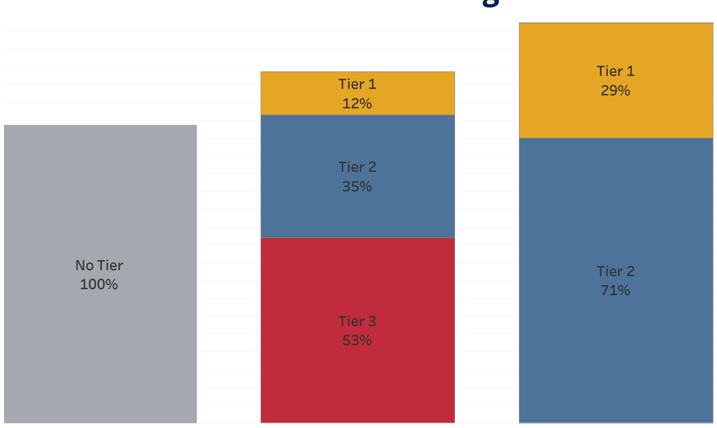
Tuition

TSTC exceeded its targeted level of tuition revenue during fiscal year 2017. While the budget estimated 7 percent growth, TSTC actually realized an increase of 18 percent in tuition revenues during this time. For fiscal year 2018, TSTC estimates tuition revenue will continue to grow at 15 percent over the prior year levels due to increases in enrollment and pricing policy changes. Enrollment gains (and a related 11% increase in semester credit hours, the driver for tuition revenue) are expected as a result of enrollment management improvements in recent years as well as increased capacity at TSTC's newest locations. Evolving approaches to market-based pricing as well as enhancements in dual enrollment pricing will drive revenue increases as well.

During fiscal year 2015, the Board of Regents approved the shift in pricing structure for semester credit hour programs from a conventional, cost-recovery model to a market-driven model in support of a comprehensive enrollment management strategy. This included a new, tiered pricing framework that segregated programs into different pricing tiers. This was implemented during the Fall 2016 semester and the tuition revenues for the fiscal year increased as a result. Additional movement of programs into pricing tiers is planned for the Fall 2017 semester.

Factors such as student demand, demand and wage trends for graduates, and program cost are considerations for program placement within the pricing tiers. TSTC's program vitality process also guides the determination of pricing tiers for programs. Pricing tier determinations will occur annually.

Tuition Tier Pricing



Dual Enrollment Pricing

Prior to TSTC's consolidation, pricing for dual enrollment varied significantly at the different dual enrollment partnerships throughout the state. When these operations were merged two years ago, the College implemented a single pricing structure which waived all state tuition earned under dual enrollment and added a small annual fee for participating high schools. In addition, TSTC began implementing a new Career and Technology pathway focus for determining its dual enrollment offerings.

Several changes are reflected in the expectations that support the fiscal year 2018 budget. Beginning with the Fall 2017 semester, TSTC is increasing pricing to better align with the value of its dual enrollment offerings and reduce losses incurred from dual enrollment partnerships. Despite significant projected losses of enrollment anticipated from academic core offerings (general academic courses not included in a direct career and technical pathway), related tuition revenues will increase significantly with the increase in dual enrollment pricing.

TSTC continues to incur losses on its dual enrollment offerings since there is no state appropriations funding for this type of training under TSTC's returned value funding formula. Increasing the legislature's understanding of this issue and correcting this funding deficiency was a major strategy during the 85th Legislative session. Administration is confident that this issue will be resolved between the 85th and 86th Legislative sessions.

Auxiliary Enterprises and Industry Relations

A comprehensive discussion of both Auxiliary Enterprises and Industry Relations is offered in the Profit Center section found later in this report. Within these sections, a description of the profitability expectations for fiscal years 2018 through 2021 is offered in support of TSTC's strategic plan and consequently, their budget request for fiscal year 2018.

Debt Service

TSTC receives funding through appropriations as well as through joint venture partners that assist with ongoing debt service. During fiscal year 2018, the appropriation for debt service on state tuition and revenue bonds will decrease by $473,571 related to the reduced allocation of funding necessary due to refinancing of tuition and revenue bonds, which reduced the state's debt service requirements under past issuances.

Fees & Educational Sales

Fees and educational sales relate to charges to students that are not tuition-related. A significant contributor to this revenue line item are incidental costs related to flight instruction for pilot training, simulator fees, and aircraft use. These fees are approved by TSTC's Board of Regents.

Grants

Grant revenues included in the budget are awarded grants. Related revenues and budgeted expenditures are only recorded upon award. As demonstrated on the budget summary, the actual revenues during the course of the year will increase substantially over the amount in the budget submitted for Board approval since additional awards will be made during the course of the year.

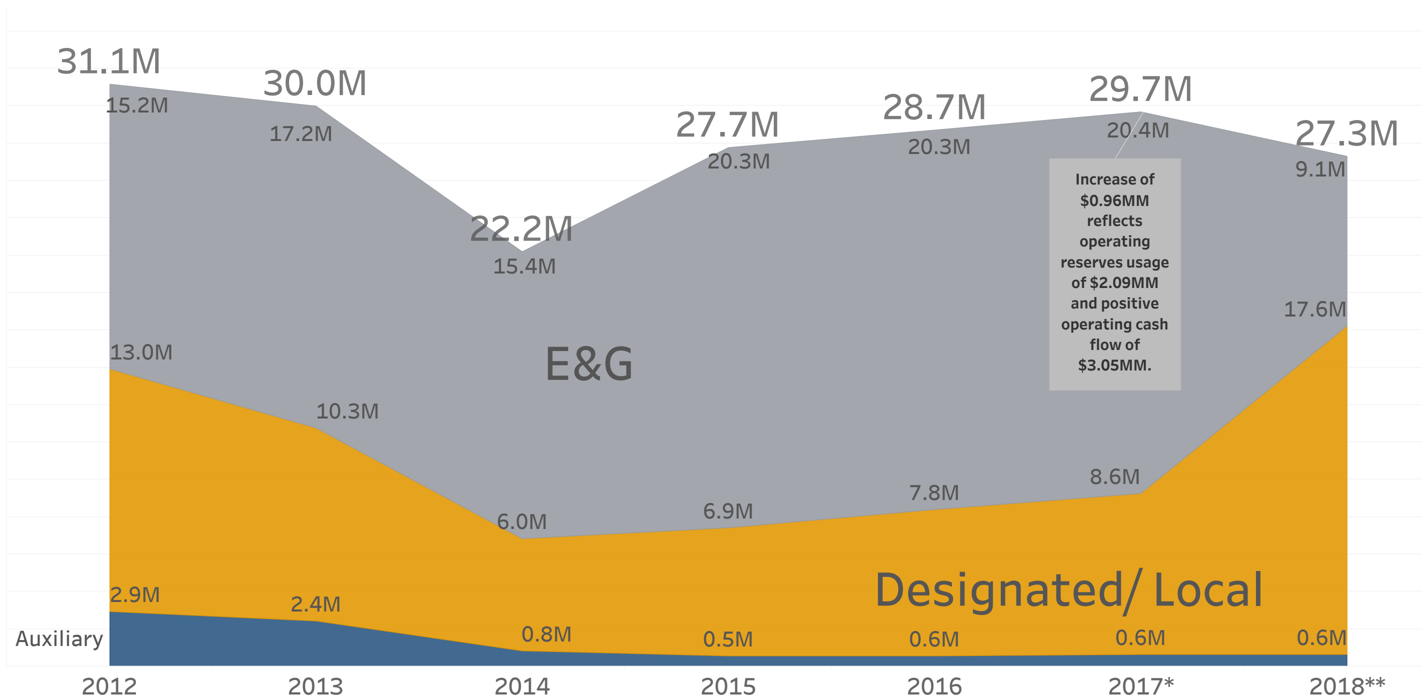
Reserve Allocation Plan

Maintaining adequate reserves is essential to establishing TSTC's financial stability. Indeed, the level of unrestricted net assets of a college is reviewed by the Southern Association of Colleges and Schools Commission on Colleges as part of the fiscal component of the accreditation process. Fiscal year 2013 ended with an unrestricted operating reserve of $30 million.

By the end of fiscal year 2015, after two consecutive years of tuition revenue and state funding shortfalls, unrestricted operating reserves dropped to $22.2 million. This decrease primarily occurred within the category of funds called designated funds and occurred largely at TSTC in Harlingen. As TSTC built its budget for fiscal year 2016, leadership stated it would manage cash flows as one of the financial priorities critical to the development of that year's budget. This effort continued with the fiscal year 2017 budget process and during that time, TSTC estimates that it will have grown unrestricted operating reserves to $29.7 million by year's end.

TSTC Fund Balances Over Time

E&G, Designated & Auxiliary

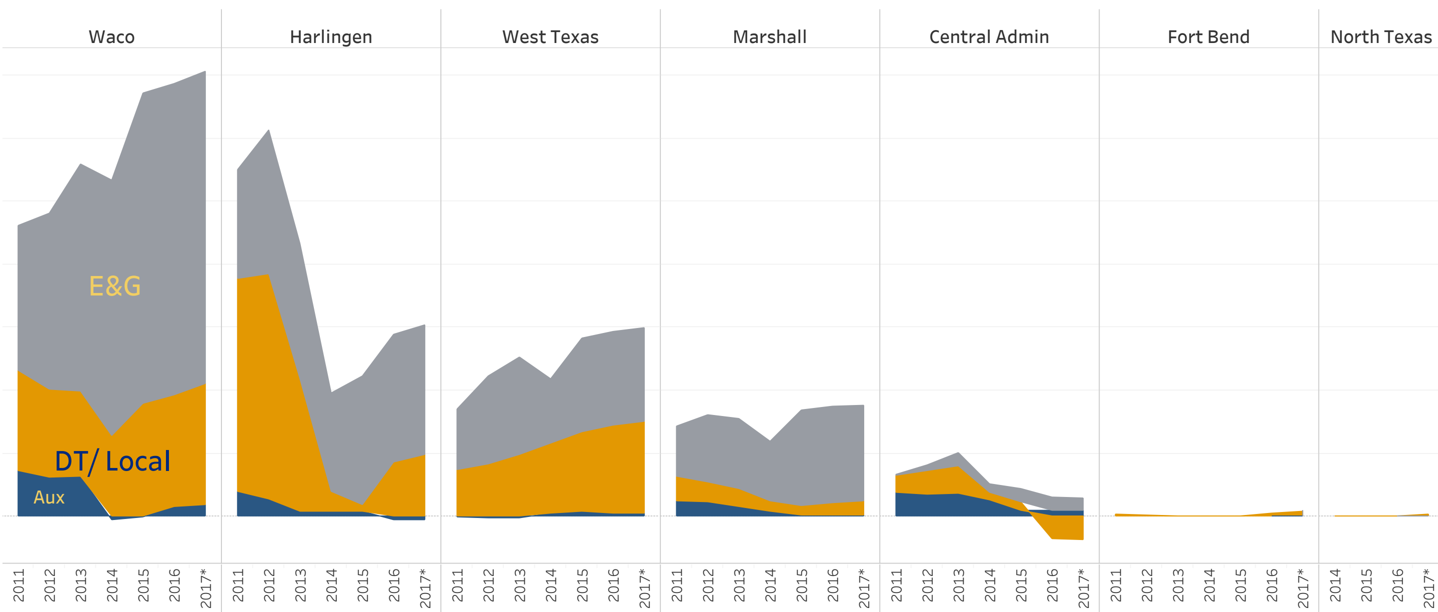


Annual balances reflect the results of that fiscal year.
TPEG balances are not included, as they are reserved for student aid.
*FY 2017 fund balances are forecasts only, and will be updated at year end close.
**FY 2018 only reflects the budgeted reserves usage, and conservatively does not reflect anticipated positive cash flows.

For fiscal year 2018, the proposed budget seeks to invest a portion of the reserves accrued during the previous two fiscal years in support of the following strategic initiatives:

- Online curriculum development;
- Investment in customer relationship management platform to enhance recruitment efforts; and
- Investment in profit centers (e.g. C4EO).

TSTC Fund Balances Over Time by Campus
E&G, Designated & Auxiliary



Annual balances reflect the results of that fiscal year.
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EXPENDITURES

The fiscal year 2017 budget included approximately $46.9 million in capital costs, of which $21.1 were expended. In comparison, fiscal year 2018 includes $23.5 million in the original budget. After excluding capital costs, total budgeted expenditures for fiscal year 2018 are $198.7 million compared to $189.1 million in fiscal year 2017. The increase expected in fiscal year 2018 relates to a continued expectation of higher tuition receipts, a full year worth of compensation adjustments approved in the prior year, and various other strategic initiatives. Although fiscal year 2017 reflected higher tuition receipts, the governor's hiring freeze mandate resulted in reduced salary and operating expenditures above the norm.

In the following comparison of original 2017 budgets to the proposed budgets for fiscal year 2018, the adjusted budget is shown in the gold bar chart and the original budget elements are reflected in various colors that show the following expense categories:

LEGEND

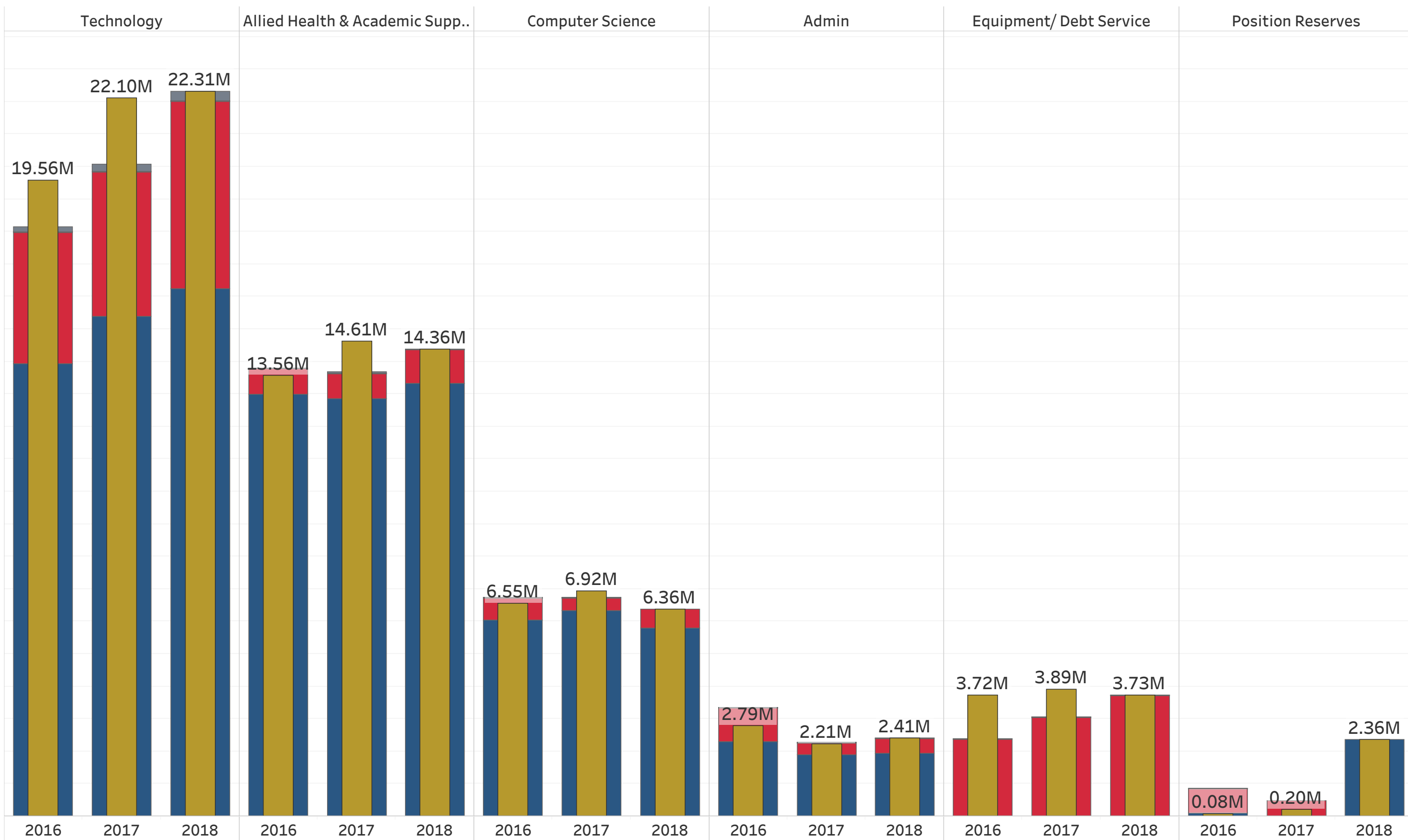
Expense Categories

- Operating & Capital
- Salaries
- Benefits
- Adjusted Budget

Operations

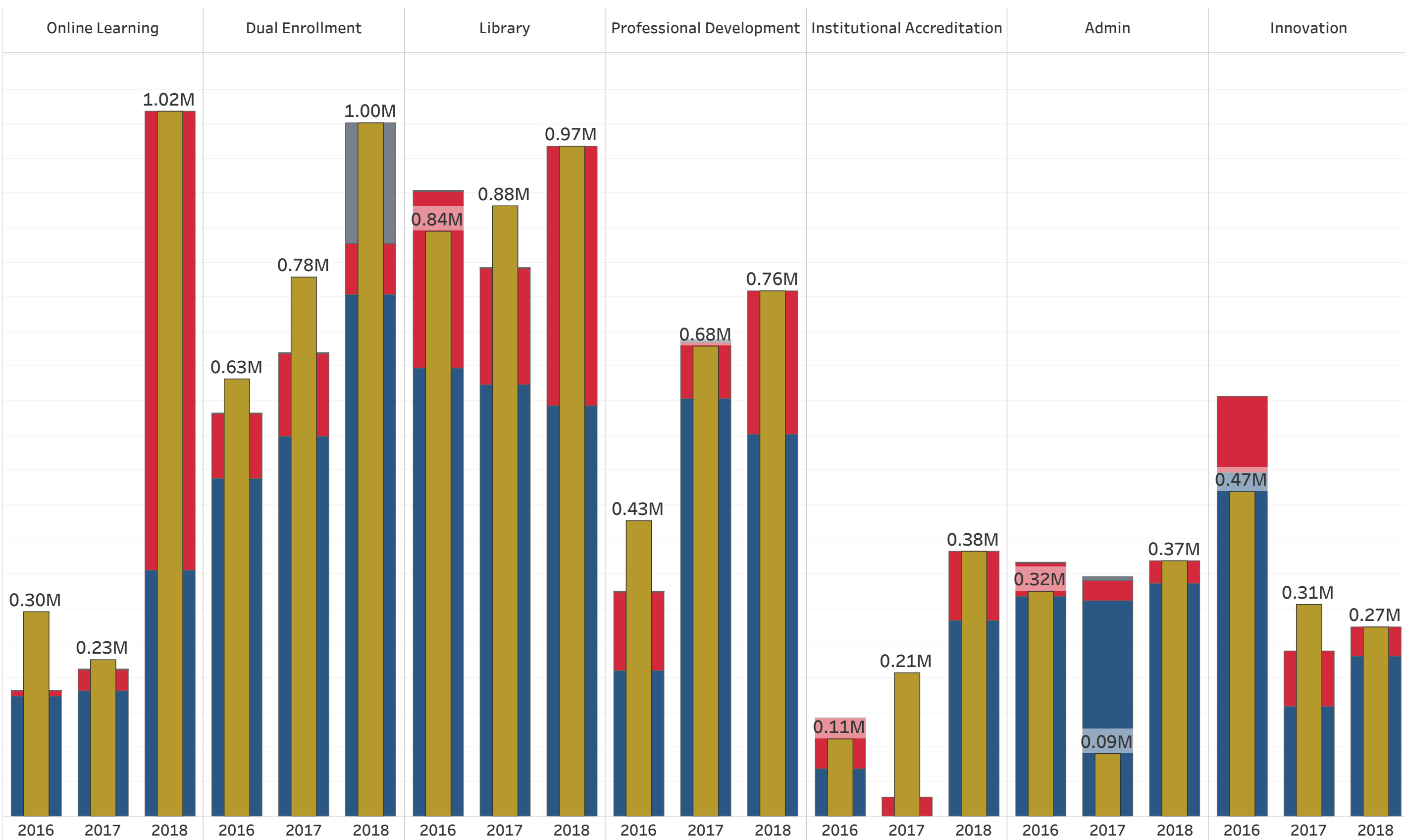
The Operations function represents the core educational activities of the College under the classic model for "Placing More Texans," and continues to be the largest investment of the College. The growth in the core operations budget relates to positions reserves established to respond to needs for faculty as supply for course demand is filled. Other budgets within core operations are relatively flat for fiscal year 2018.

Original Budget Variance by Division - Operations - Core Operations



In addition to core operations, the Operations function includes the Instructional Support divisions featured in the chart below. TSTC increased planned expenditures within the Instructional Support divisions related to several significant initiatives. The budget for Online Learning increased to support contracted services for developing curriculum and online delivery modalities in support of new learning delivery innovations and the potential scale up of Dual Enrollment offerings across the state. Increased investments in Professional Development were identified as necessary and in support of TSTC BOR WIG 3 within the strategic plan. Lastly, additional costs in support of Institutional Accreditation are anticipated as TSTC ramps up efforts associated with accreditation reaffirmation efforts.

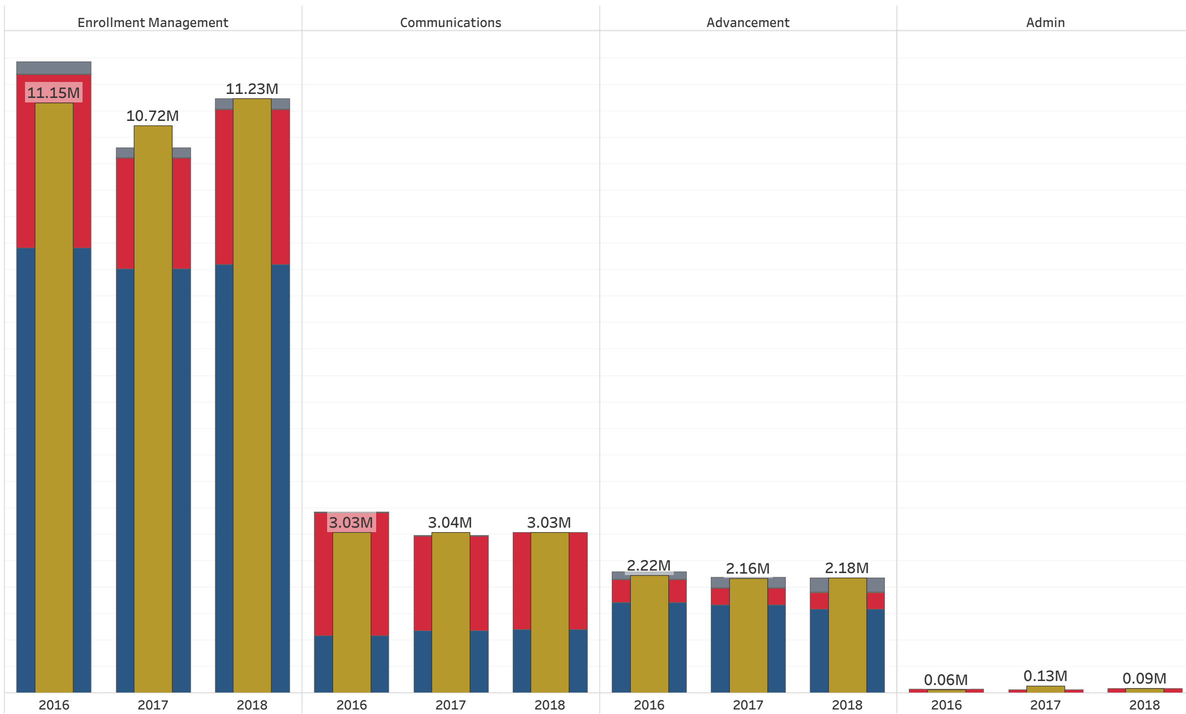
Original Budget Variance by Division - Operations - Instructional Support



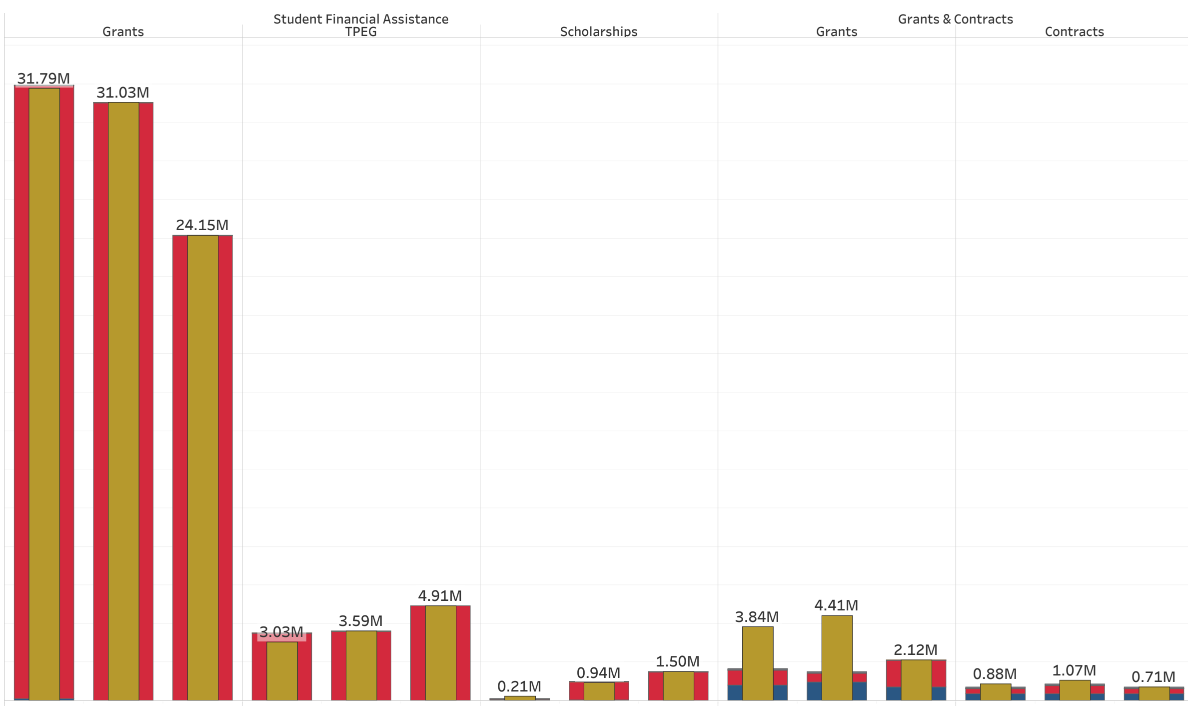
Integrated Marketing

Integrated marketing budgets were relatively flat across each division. Enrollment management did increase planned operating expenses related to $150,000 of implementation costs for a customer relationship management platform aimed at improving the conversion process of prospect to enrolled student. In addition, and additional $400,000 was planned for accommodation services for students with disabilities.

Original Budget Variance by Division - Integrated Marketing - Core Operations



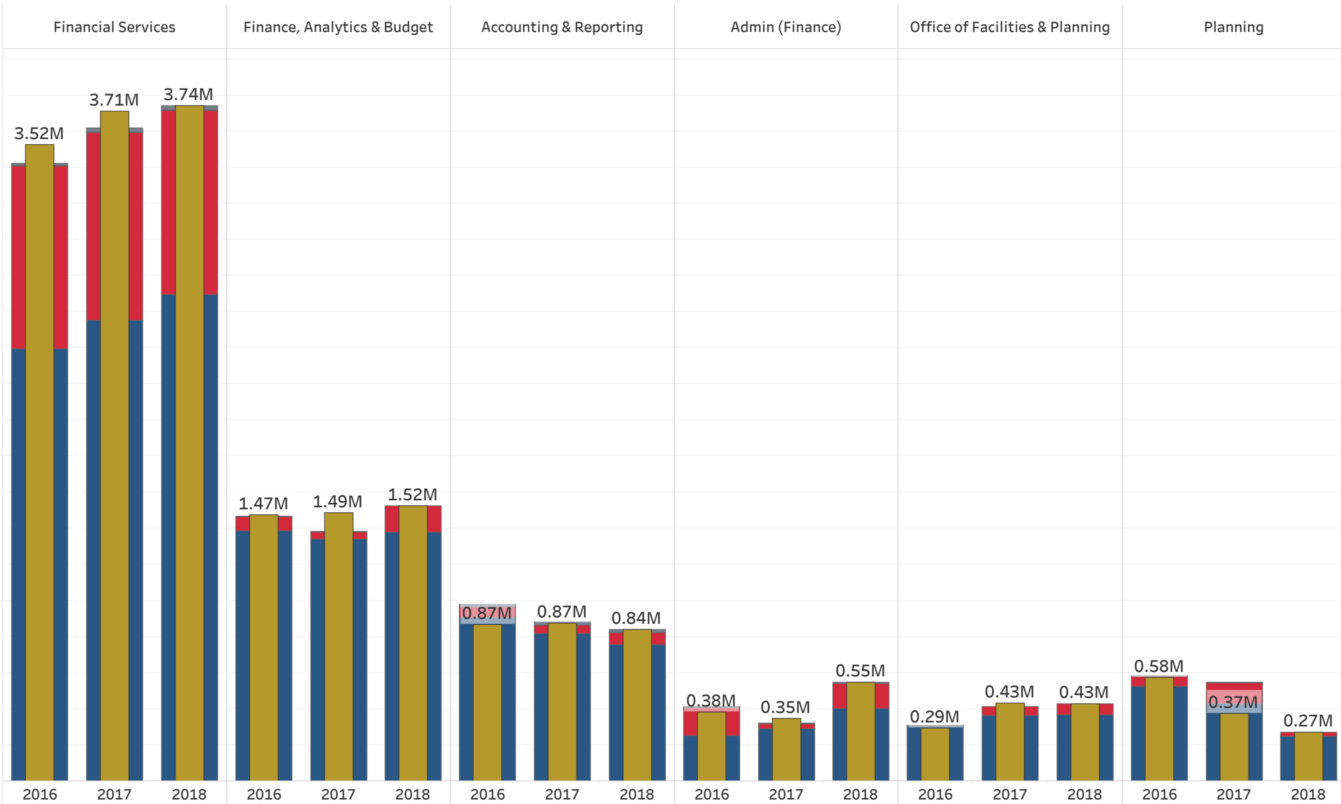
Original Budget Variance by Division - Integrated Marketing - Other



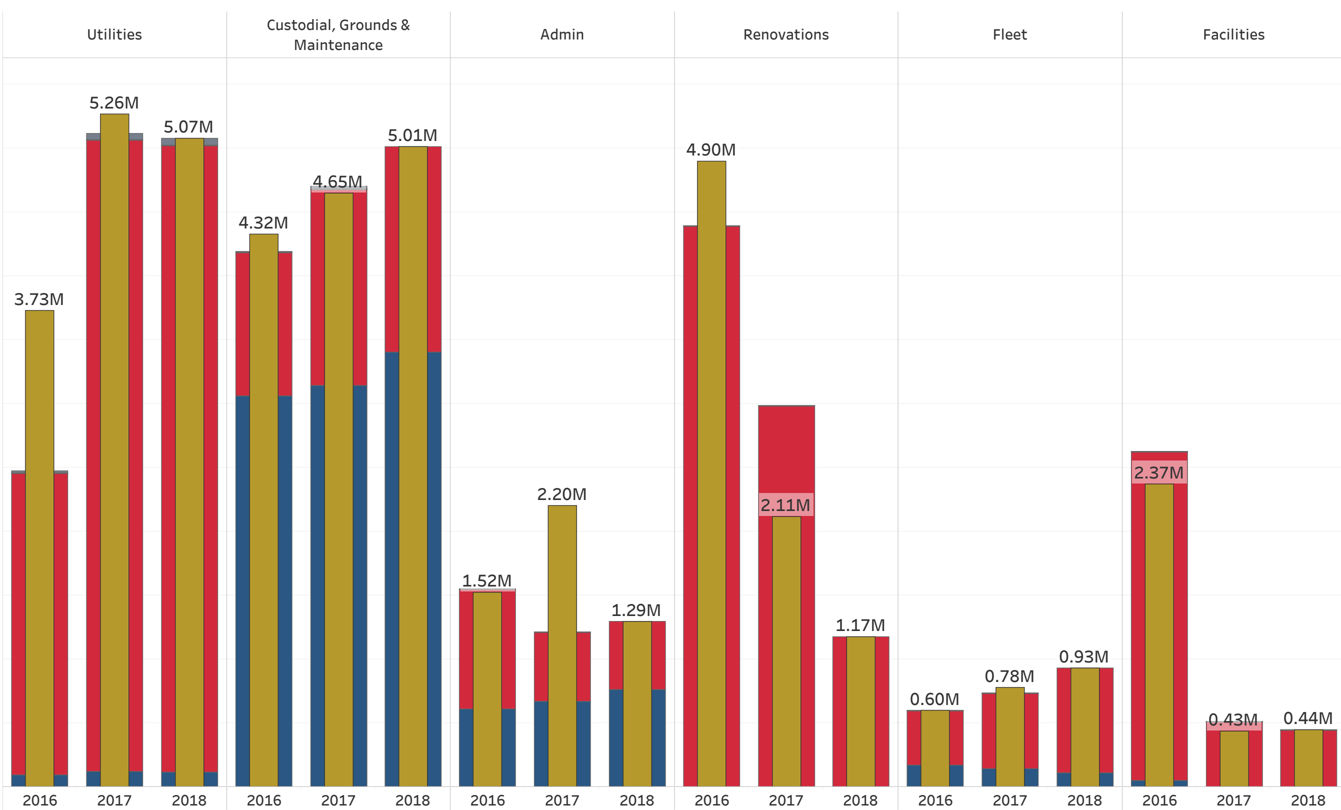
Finance

Planned Finance expenditures for fiscal year 2018 should not vary much from fiscal year 2017 levels.

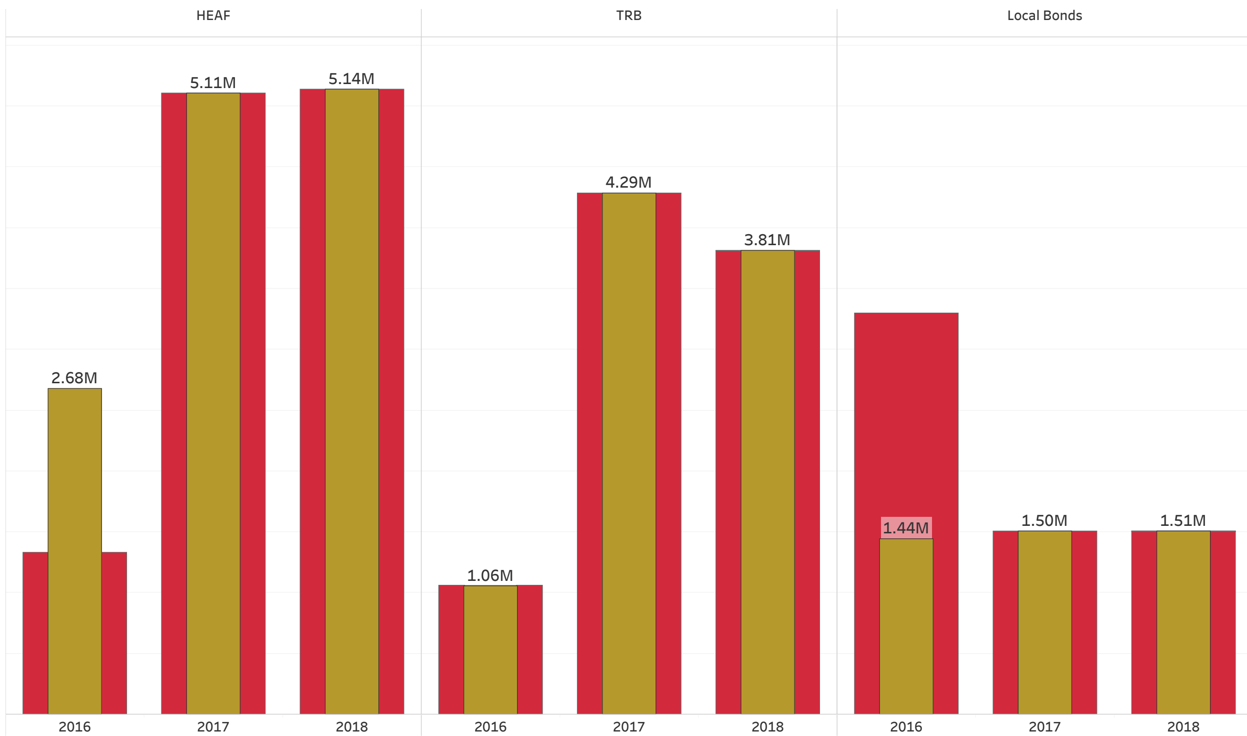
Original Budget Variance by Division - Finance - Core Operations



Original Budget Variance by Division - Finance - Facilities & Physical Plant

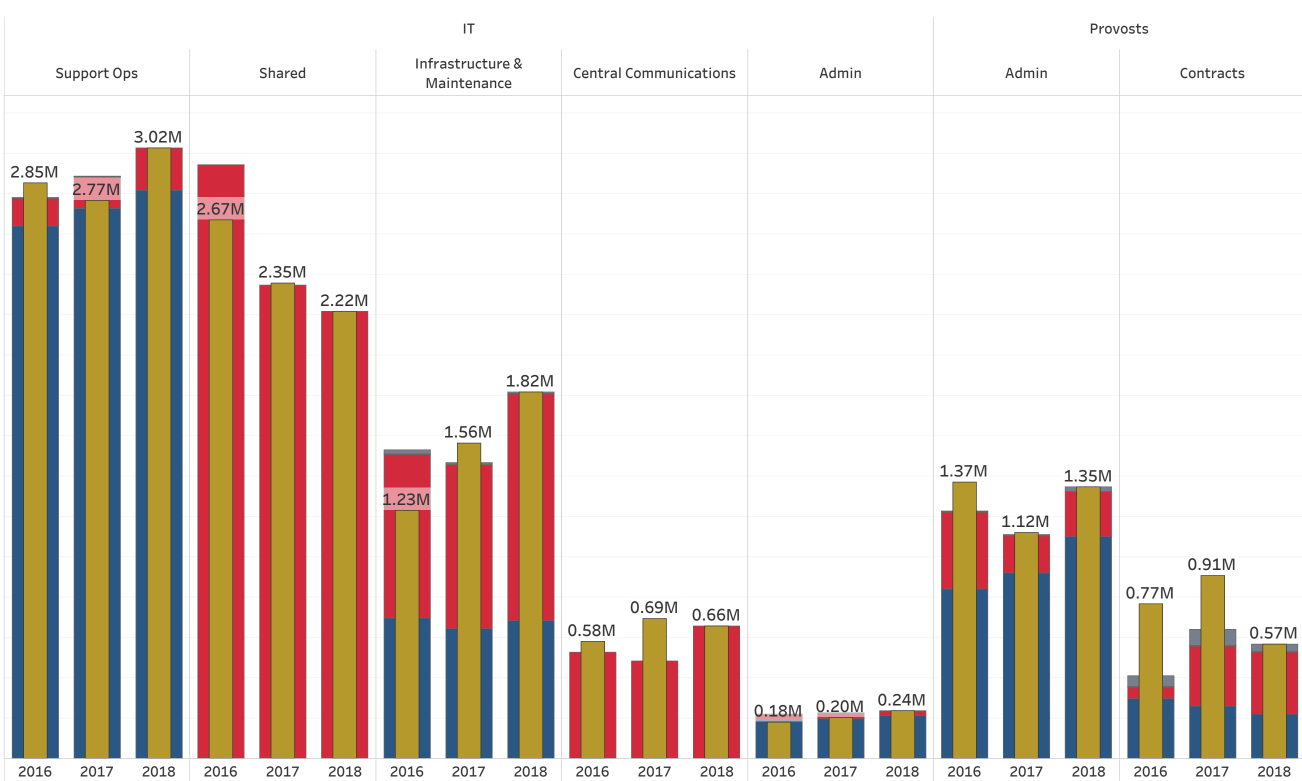


Original Budget Variance by Division - Finance - Debt Service



Information Technology/Integration

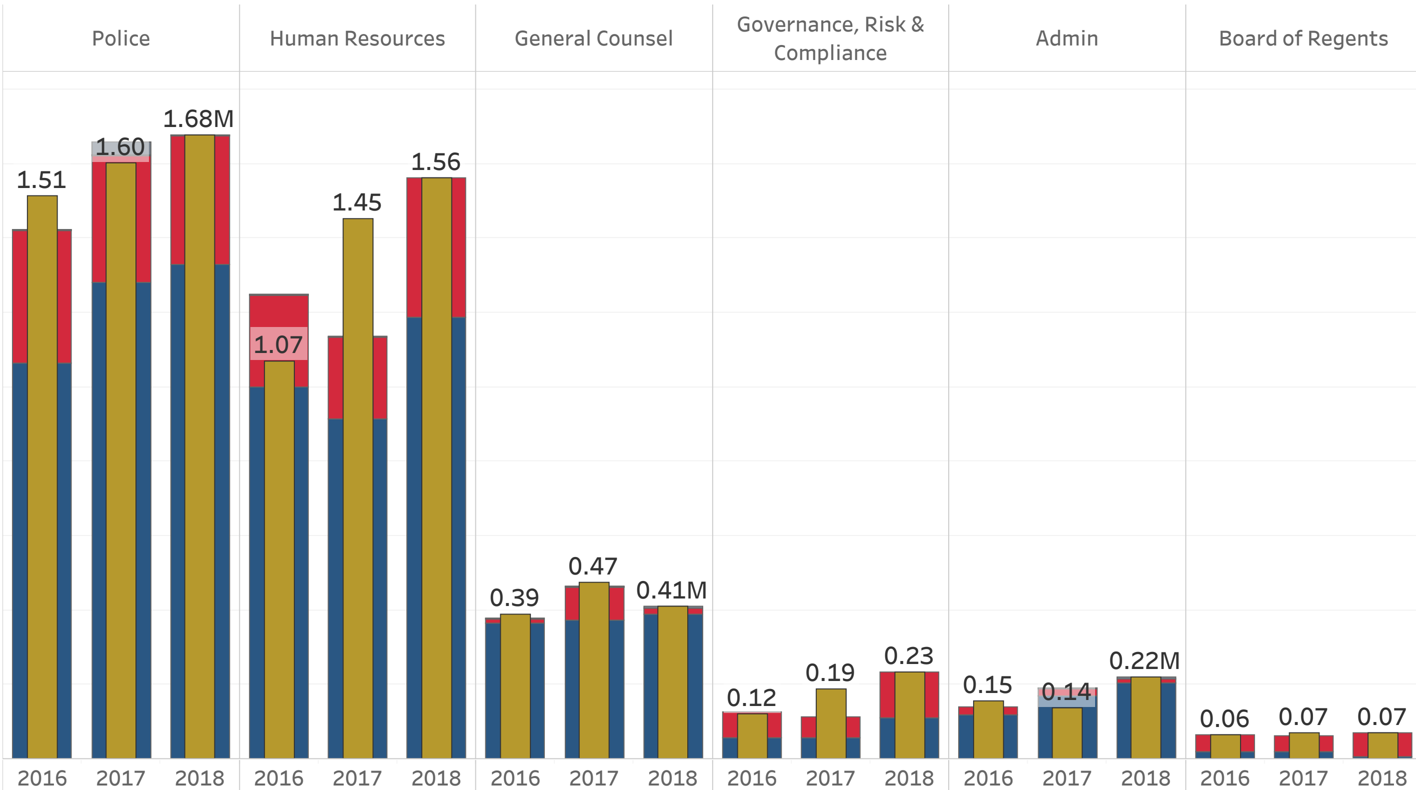
Original Budget Variance by Division - Integration - All



Governance & Regulation

Fiscal year 2018 expenditures for divisions within governance and regulation budgets are generally budgeted at fiscal year 2017 levels.

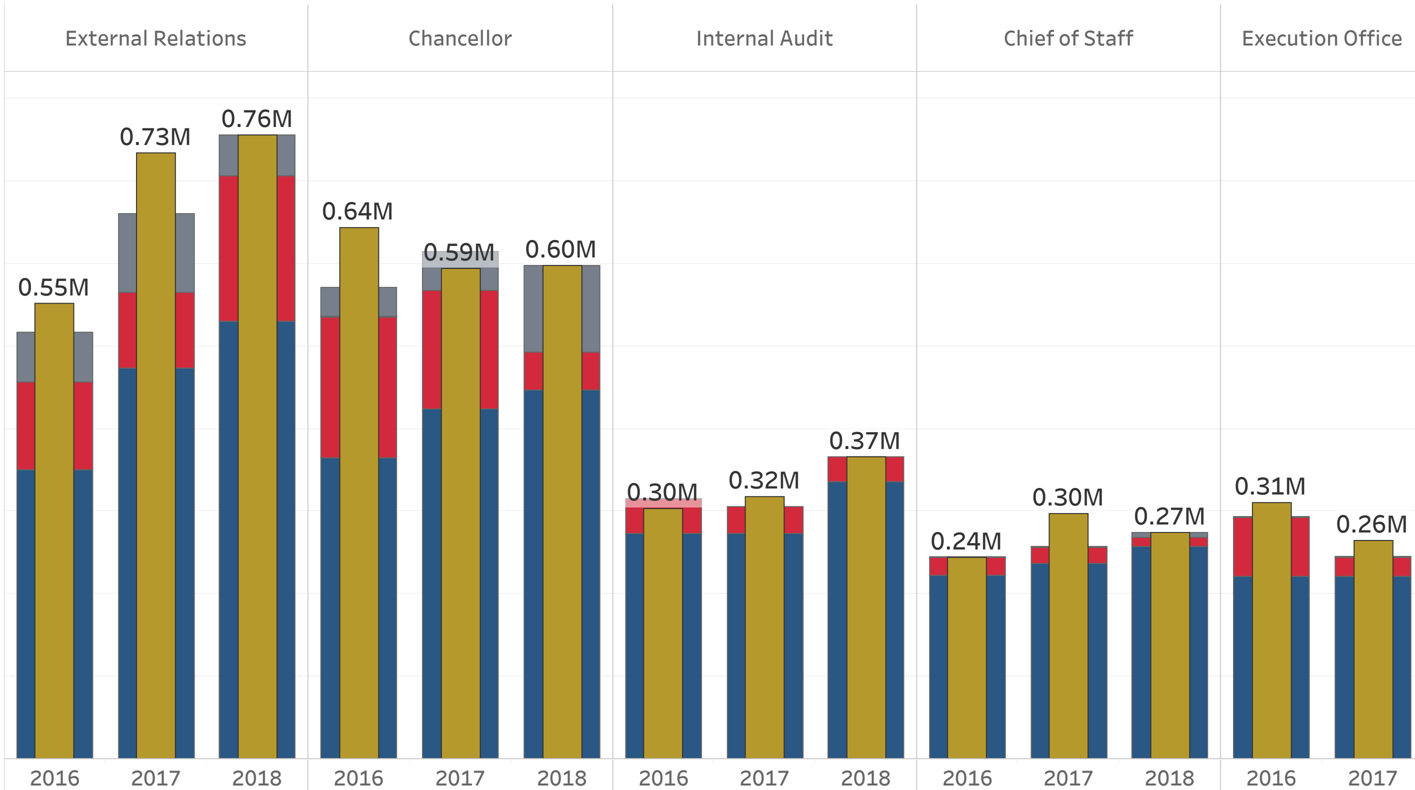
Original Budget Variance by Division - Governance and Regulation - Core Operations



Office of the CEO

Relatively flat budgets are expected across the division of the Office of the CEO. The Execution Office was eliminated during fiscal year 2017 as a measure aimed at streamlining the Executive team structure; consequently, related costs are not reflected in the 2018 budget.

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



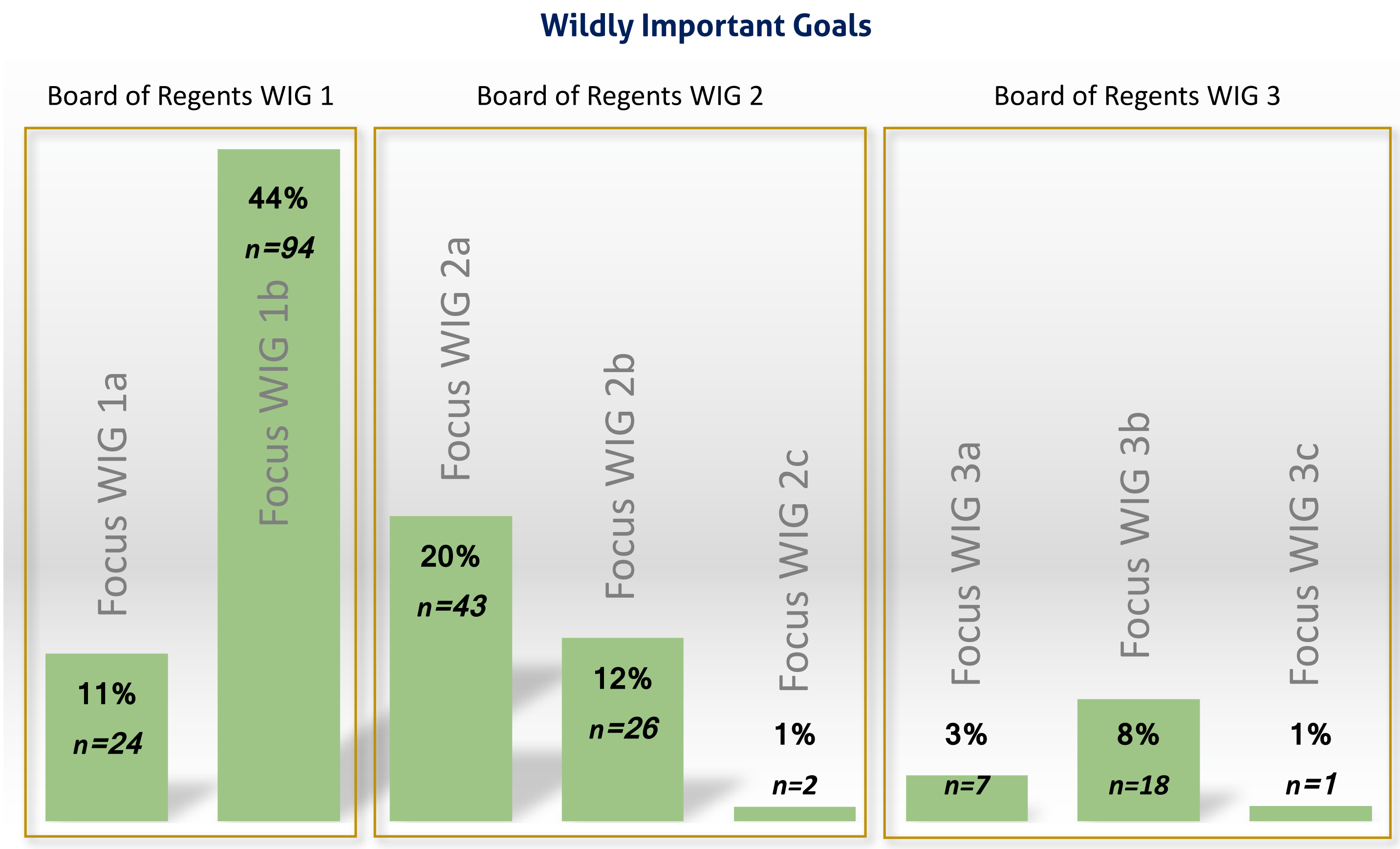
Policy

The Policy function includes TSTC's forecasting effort as well as the Center for Employability Outcomes (C4EO). Within C4EO is SkillsEngine, an Austin-based internal startup created to build solutions that enable instructional leaders, faculty, and industry to efficiently identify marketable skills so students are more prepared for the workforce. A comprehensive description of the new product line and related profit expectations is offered in the Profit Center Section.

WIGS AND MAJOR INITIATIVES

During this first year of strategic planning, goal setting related to TSTC's strategic plan happened simultaneous to budgeting. In future years, we anticipate planning will precede budgeting. Departments statewide contributed goal statements that supported the budget requests comprising this budget report.

The breakdown of goals across the enterprise is illustrated below:



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Examples of related budget requests follow:

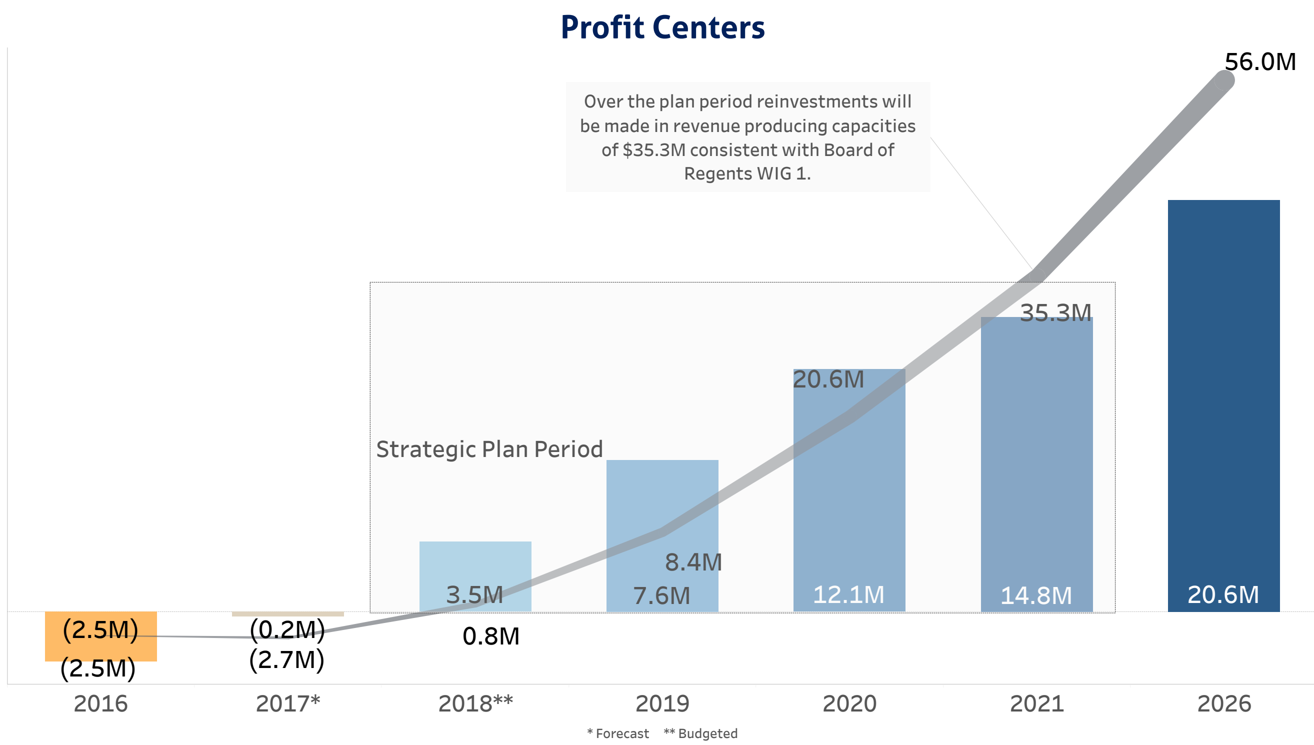
- $750K for online curriculum development requested to accelerate efforts in Focus WIG 1b which increases the number of students TSTC places in the workforce and Focus WIG 2c, TSTC's dual enrollment expansion. This online curriculum development effort will allow for learning delivery in different modalities that will appeal to various customers.
- $400K for instructional related equipment directly tied to Focus WIG 1b, increasing the number of students TSTC places in the workforce.
- $478K for technology infrastructure to ensure technology stability and security - requested under Focus WIG 2b - Increasing the satisfaction score of services provided to TSTC business line revenue centers.

PROFIT CENTERS - VALUE CREATION

Growing and diversifying the revenue base is TSTC's second Wildly Important Goal identified in its strategic plan.

Consequently, TSTC created profitability goals for each of its major profit centers from fiscal year 2018 through 2021. The following section provides an overview of each major profit center with accompanying targets for risk and return during the same period. The figure below shows the targets for the consolidated group of profit centers.

While overall profit would be ideal to measure, TSTC's systems and data structures are not yet mature to achieve a level of cost allocation at that level. Consequently, goals surrounding profitability will focus on contribution margin as a key indicator. Contribution margin is revenue minus variable cost and describes the institution's ability to cover variable, or direct, costs with revenue.



Contribution margins or returns described below represent expectations at the production line level and do not include appropriations earned and related overhead allocations. TSTC will frequently monitor realized margins, relative to forecasted profits. Budget controls will limit authorized expenses to the level revenue prospects are likely to be realized or in line with budgeted expectations.

Profit Centers Annual Activity

Bus Line	Component	2016	2017* Forecast	2018	2019	2020	2021
Auxiliary Enterprises	Revenues	12,235,910	11,943,052	12,786,415	13,938,410	14,799,500	15,164,200
	Costs	(12,234,263)	(12,294,416)	(11,958,778)	(12,428,474)	(12,768,165)	(13,033,541)
	Total	**1,647**	**(351,364)**	**827,637**	**1,509,936**	**2,031,335**	**2,130,659**
	Annual ROI %	0%	-3%	7%	12%	16%	16%
	Cumulative for 18-21			**827,637**	**2,337,573**	**4,368,908**	**6,499,567**
Industry Relations	Revenues	6,049,937	5,202,019	8,946,250	11,034,500	12,664,250	13,994,000
	Costs	(5,738,701)	(5,459,595)	(8,032,720)	(9,608,158)	(10,611,099)	(11,336,285)
	Total	**311,236**	**(257,576)**	**913,530**	**1,426,342**	**2,053,151**	**2,657,715**
	Annual ROI %	5%	-5%	11%	15%	19%	23%
	Cumulative for 18-21			**913,530**	**2,339,872**	**4,393,023**	**7,050,738**
C4EO	Revenues	239,172	160,522	491,497	1,428,971	2,524,367	3,456,954
	Costs	(1,005,831)	(1,356,237)	(1,628,877)	(1,989,194)	(2,205,435)	(2,444,385)
	Total	**(766,659)**	**(1,195,715)**	**(1,137,380)**	**(560,223)**	**318,932**	**1,012,569**
	Annual ROI %	-76%	-88%	-70%	-28%	14%	41%
	Cumulative for 18-21			**(1,137,380)**	**(1,697,603)**	**(1,378,671)**	**(366,102)**
Classic College	Revenues	37,861,113	43,472,677	48,262,661	51,088,685	54,063,877	57,200,371
	Costs	(38,197,182)	(40,023,978)	(44,274,089)	(45,167,845)	(47,016,928)	(48,945,997)
	Total	**(336,069)**	**3,448,699**	**3,988,572**	**5,920,840**	**7,046,949**	**8,254,374**
	Annual ROI %	-1%	9%	9%	13%	15%	17%
	Cumulative for 18-21			**3,988,572**	**9,909,412**	**16,956,361**	**25,210,735**
Dual Credit	Revenues	149,551	158,423	819,621	539,550	2,312,851	2,639,400
	Costs	(1,823,404)	(2,026,128)	(1,901,189)	(1,224,093)	(1,626,987)	(1,922,841)
	Total	**(1,673,853)**	**(1,867,705)**	**(1,081,568)**	**(684,543)**	**685,864**	**716,559**
	Annual ROI %	-92%	-92%	-57%	-56%	42%	37%
	Cumulative for 18-21			**(1,081,568)**	**(1,766,111)**	**(1,080,247)**	**(363,688)**
Grand Total	Revenues	56,535,683	60,936,693	71,306,444	78,030,116	86,364,845	92,454,925
	Costs	(58,999,381)	(61,160,354)	(67,795,653)	(70,417,764)	(74,228,614)	(77,683,049)
	Total	**(2,463,698)**	**(223,661)**	**3,510,791**	**7,612,352**	**12,136,231**	**14,771,876**
	Annual ROI %	-4%	0%	5%	11%	16%	19%
	Cumulative for 18-21			**3,510,791**	**11,123,143**	**23,259,374**	**38,031,250**

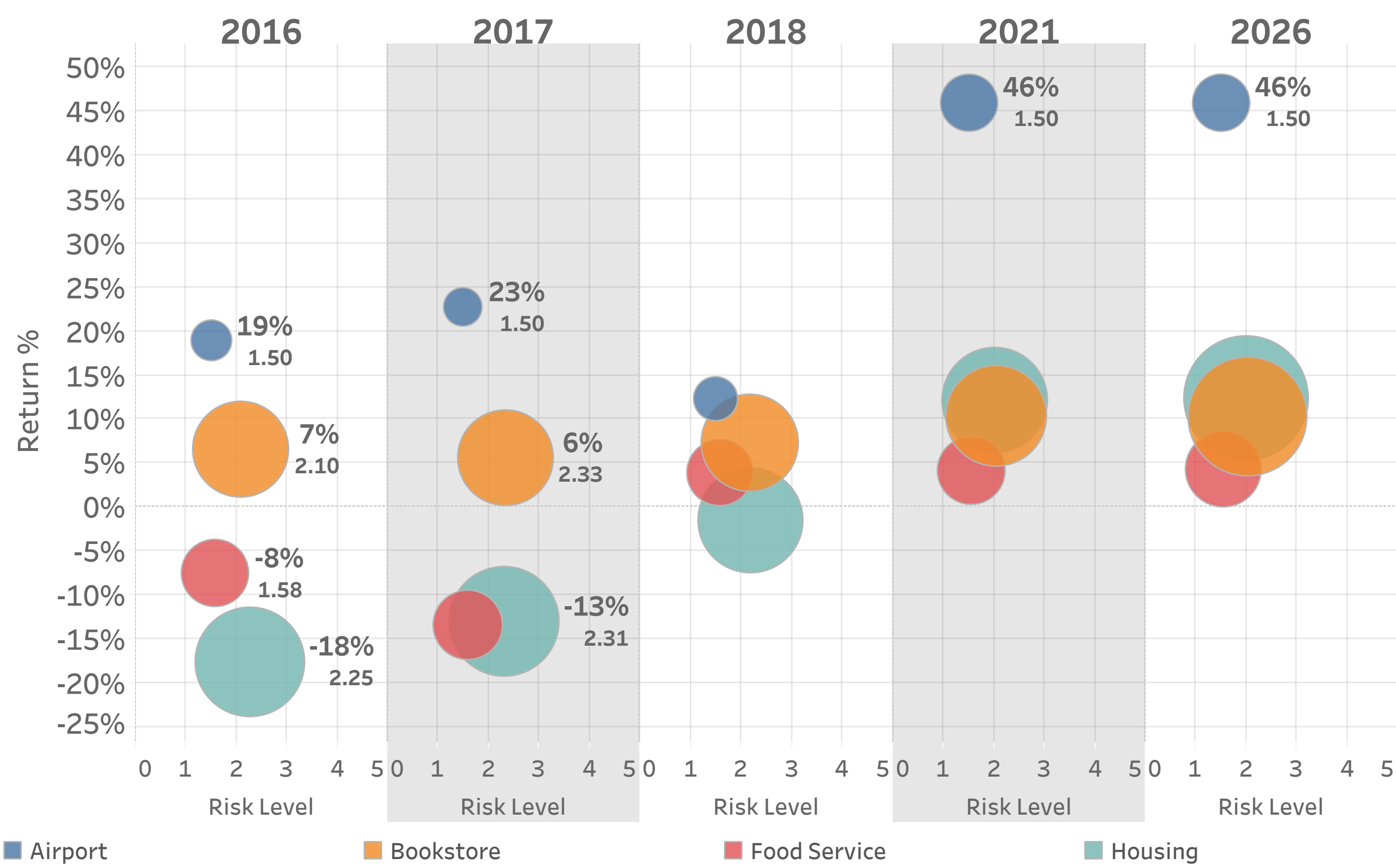
Auxiliary Enterprises

TSTC's Auxiliary Enterprises division includes the following profit centers:

- Retail Operations that include Campus Stores and Food Service Operations
- Housing (both student, family, and other short-term housing)
- Airport operations (in Waco)

Increased margins are anticipated across the divisions of Auxiliary Enterprises despite mixed profitability during recent fiscal years. During fiscal years 2016 and 2017, contribution margins varied statewide in TSTC's retail and housing operations as the different auxiliary operations departments adopted sound business practices. The shift to higher margins, however, is not an overnight proposition. In addition, many of the underlying assets have diminished value from historical deferred maintenance, poor historical tenant oversight, and supply/demand mismatch. A mix of strategies will be required to generate sufficient yields from TSTC's significant investment in auxiliary assets ranging from incremental improvements in management practices to significant capital injections to innovative repurposing in certain cases.

Risk vs. Return - Auxiliaries



	2016	2017	2018	2021	2026
Return	1,647	-357,450	872,637	2,130,659	3,663,820
Avg Return %	-3.2%	-2.6%	4.4%	11.6%	11.5%
Avg Risk	1.981	2.107	1.967	1.867	1.867

Retail Operations

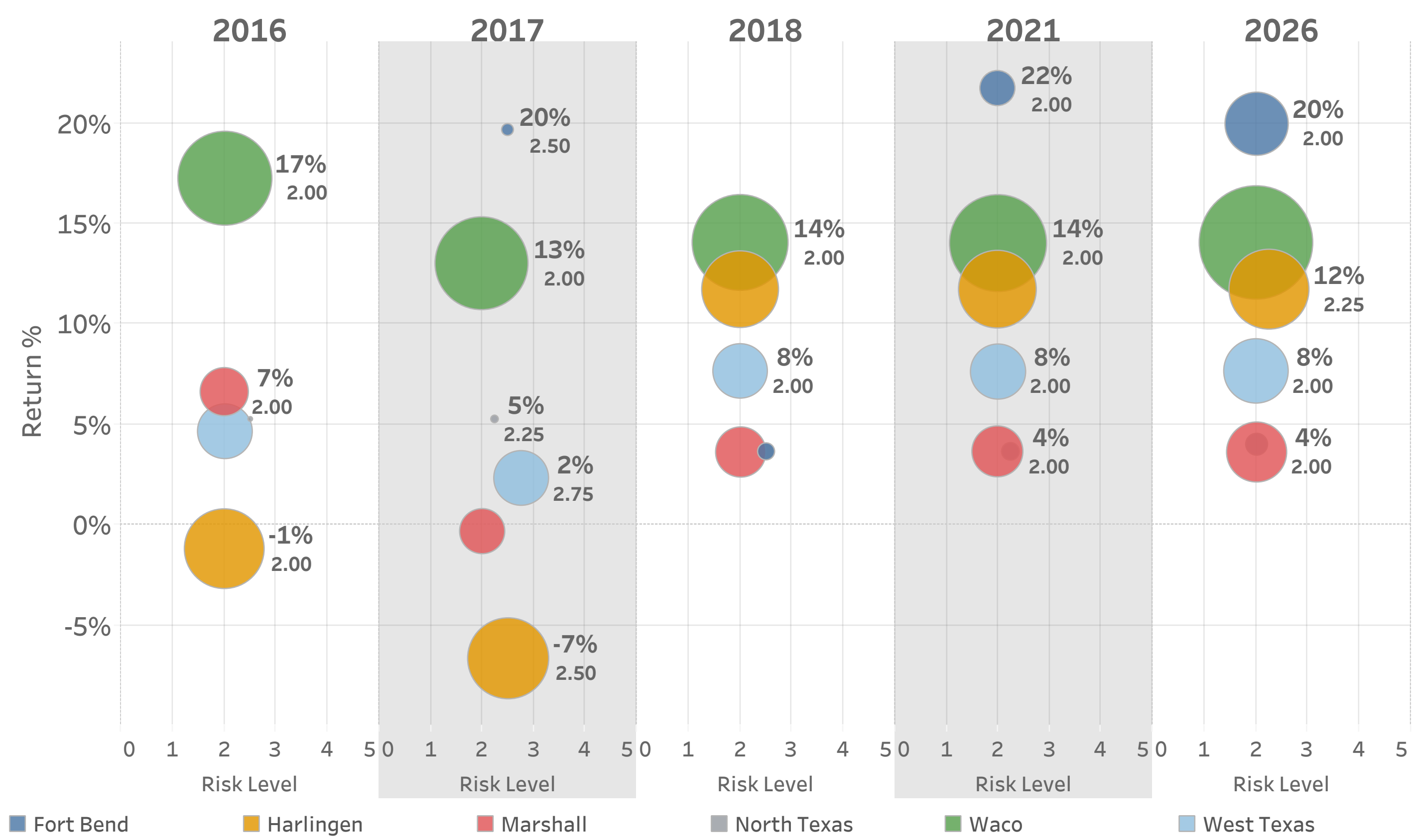
TSTC conducts two essential retail operations that directly serve the students of the traditional college operations: food service and campus stores (traditionally, books and other merchandise). Under the ideal student service model, full service operations would be available at all locations; however, a business/profit-oriented perspective suggests a different approach.

The operational footprint, breadth of services, and margin opportunities of retail operations are directly tied with the levels of enrollment at the respective locations. Across the state, performance of retail product lines vary with fair margins at certain locations and losses at others. Bookstores losses incurred during fiscal year 2017 stem from mark downs of slow moving inventory that accumulated in prior years. Food service losses in West Texas and Harlingen relate to oversized operations/offerings, relative to campus demand. Right-sizing the footprint and related services to the market opportunities is a critical step to improving retail profitability. Waco's food service loss related to non-recurring, non-capitalized renovations made in the dining facility.

Creating a better mix of merchandise to meet market demand, continued improvement of inventory management and pricing, increasing the conversion of TSTC's captive market demand, and enhancing the online retail experience will improve TSTC's performance of retail operations in future years.

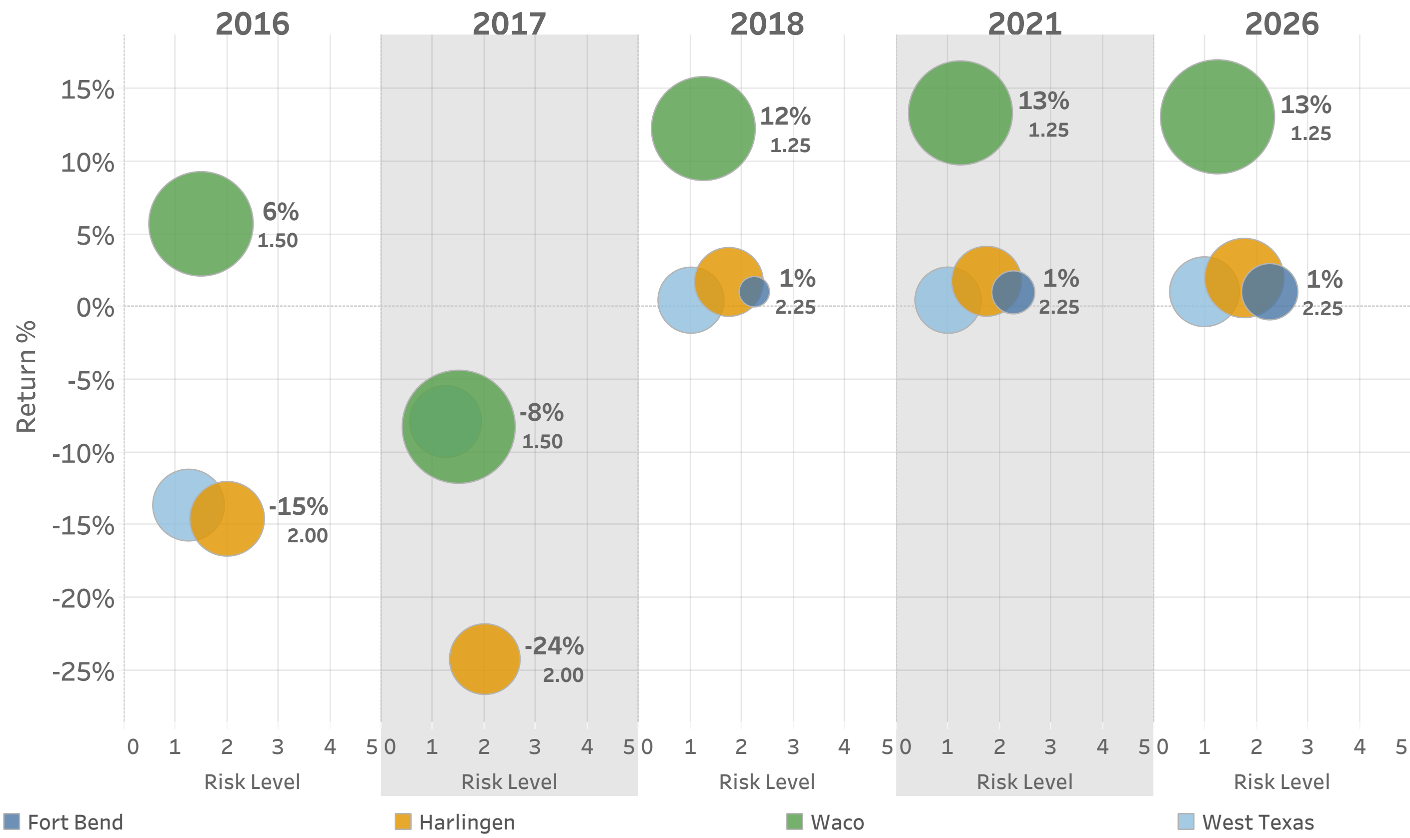
Assuming a steady increase in student enrollments, TSTC expects retail operations to contribute $2.5 million in contribution margin between fiscal years 2018-21.

Risk vs. Return - Auxiliaries - Bookstore



	2016	2017	2018	2021	2026
Return	350,080	156,595	464,222	528,117	890,970
Avg Return %	6.5%	5.5%	7.4%	10.4%	10.2%
Avg Risk	2.10	2.33	2.17	2.04	2.04

Risk vs. Return - Auxiliaries - Food Service



	2016	2017	2018	2021	2026
Return	-84,470	-249,508	133,848	146,542	201,600
Avg Return %	-7.6%	-13.4%	3.9%	4.1%	4.3%
Avg Risk	1.58	1.58	1.56	1.56	1.56

Housing Operations

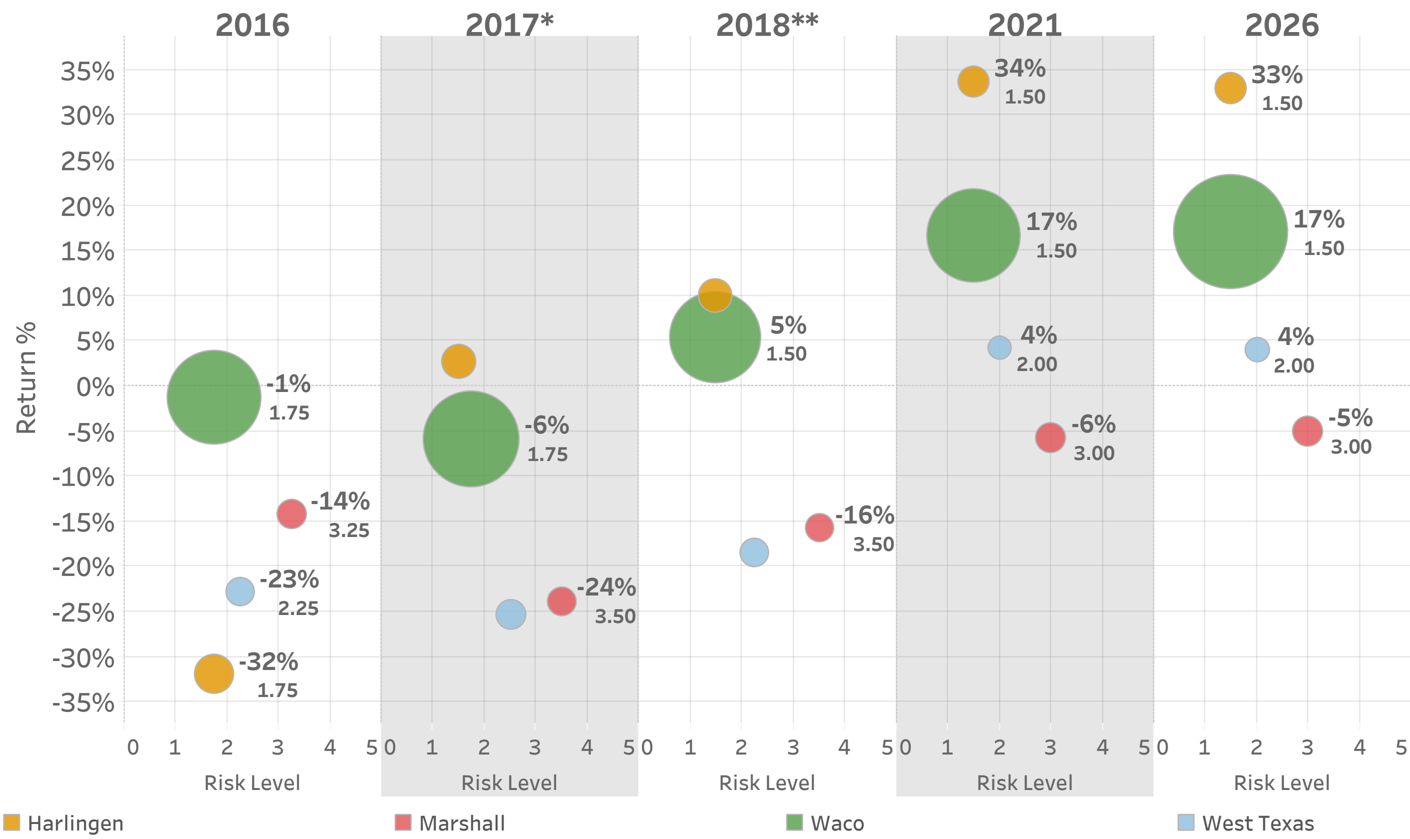
TSTC has four residential campuses across the state. These operations include on-campus, individual-lease housing for students in residence hall, suite, or apartment style facilities. Generally, the performance of these operations is directly tied to enrollment trends for the respective campus. In addition, the Waco campus includes the Brazos Community, which is comprised of 754 houses and duplex units that were formerly military housing.

Key performance measures in housing are rate, occupancy and maintenance costs. In two locations (Marshall and Sweetwater), there is a supply of housing that has exceeded the demand resulting in low occupancy of units. These units struggle to break even with their low occupancy and debt service obligations. In addition, for many years, TSTC failed to adequately maintain its housing facilities. Compounding the condition was a trend of low accountability and increasing repair costs.

Scheduled maintenance, increased inspections with follow-up mechanisms, and improvements in management information will support profitability increases in the housing operations.

Based on its current capacity, TSTC anticipates the housing operations will contribute $2.1 million in contribution margin to the College between fiscal years 2018-21; however, an injection of capital could significantly increase the profit contributing capacity.

Risk vs. Return - Auxiliaries - Housing



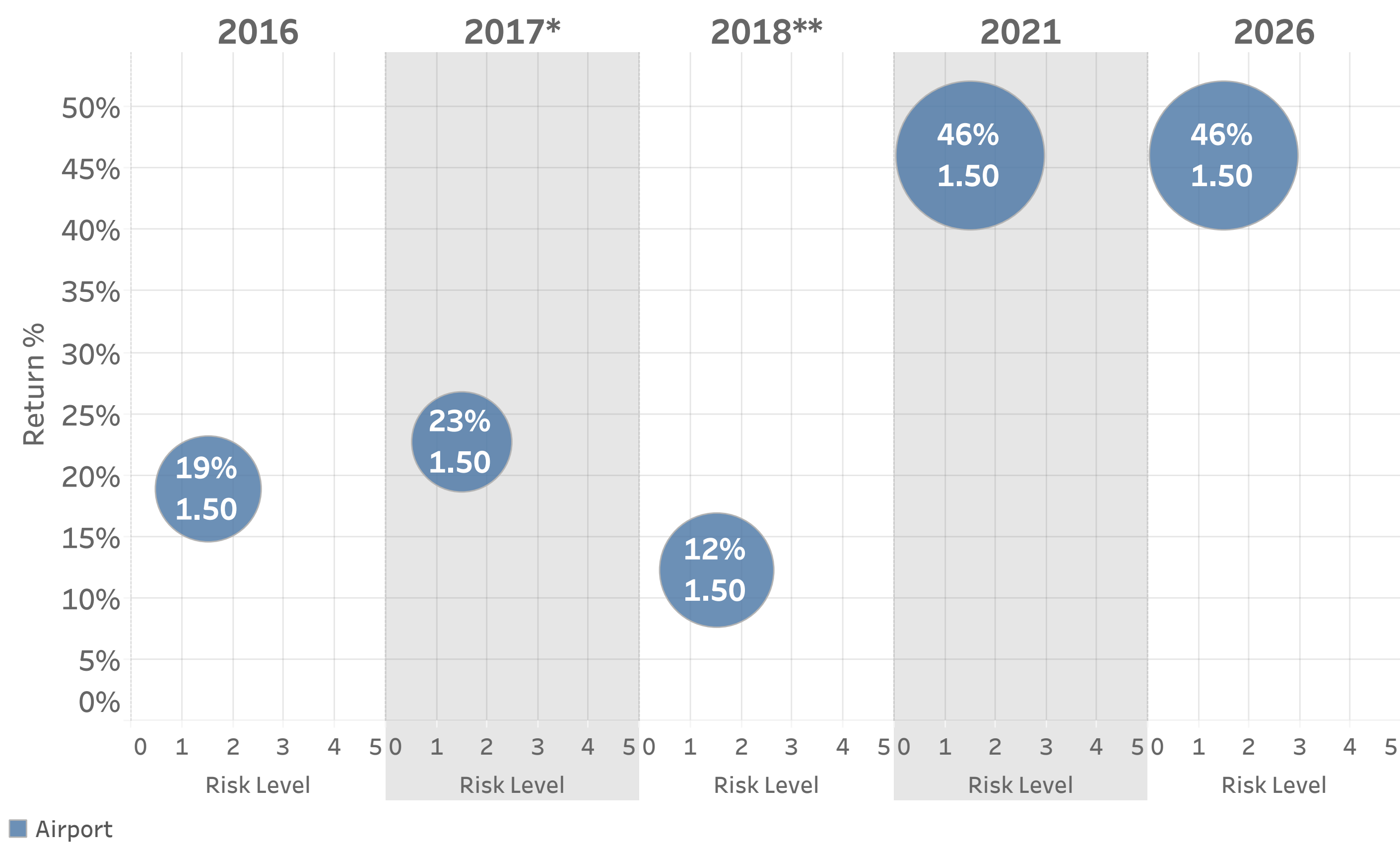
	2016	2017*	2018**	2021	2026
Return	-404,600	-415,637	123,567	781,000	1,396,250
Avg Return %	-17.6%	-13.1%	-4.7%	12.2%	12.3%
Avg Risk	2.25	2.31	2.19	2.00	2.00

Airport Operations

TSTC possesses a unique asset in the TSTC Waco Airport, a general aviation airport with a focus on commercial and industry partnerships either involved in the Aerospace industry or other commercial activities aligned with other curriculum taught by the College. The 1,000 acre property with a little over 100 acres of ramp space represents a significant asset and business/economic development tool for both TSTC and the Central Texas region.

Profits generated by airport operations are restricted to sustain future investment into the airport.

Risk vs. Return - Auxiliaries - Airport



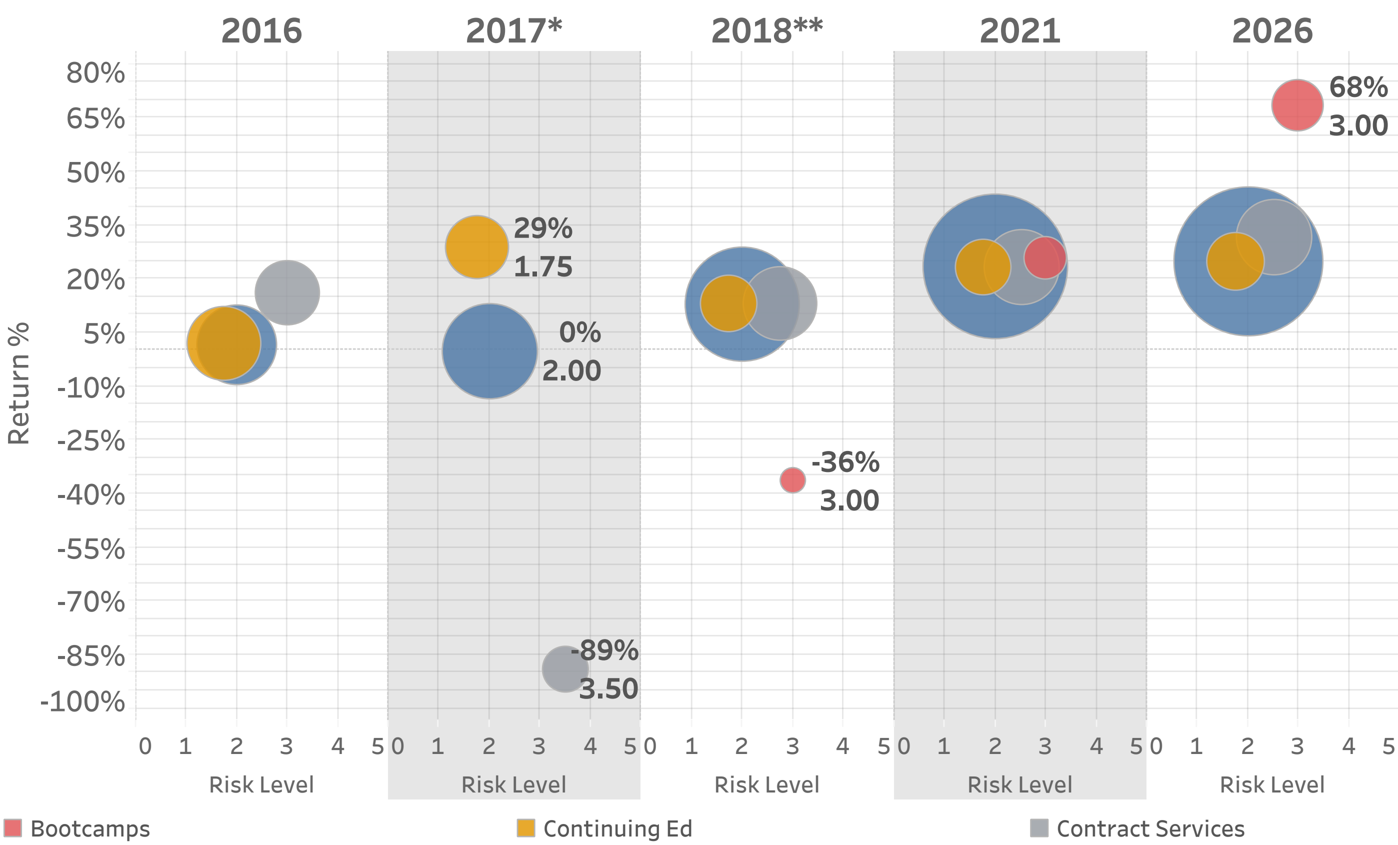
	2016	2017*	2018**	2021	2026
Return	140,637	151,100	106,000	675,000	1,175,000
Avg Return %	18.9%	22.7%	12.3%	46.1%	46.1%
Avg Risk	1.500	1.500	1.500	1.500	1.500

Industry Relations

Industry relations is TSTC's most mature business-to-business profit center and is on the threshold of viability as a successful, for-profit business unit. TSTC is positioned to emerge as a statewide market leader in workforce placement, training and continuing education

Industry relations aims to earn $7.1 million in contribution margin for the College between fiscal years 2018-21. While TSTC incurred an overall loss from Industry Relations in fiscal year 2017, management believes the profit expectations in future years are realistic. As the College merged the operations under industry relations during fiscal year 2016, it restructured people and practices towards a more sustainable financial model. Losses incurred during these years include non-recurring, non-capitalized equipment purchased to support ongoing training capacity under workforce programs. The loss for fiscal year 2017 included approximately $700k in ongoing costs related to an anticipated contract under the Contract Services line of businesses. These costs were incurred to maintain capacity to deliver on the related contract in subsequent years. The College expects to recover that investment as the contract materializes and has hedged the investment in this training capacity by diversifying into Agricultural Aviation programs.

Risk vs. Return - Industry Relations



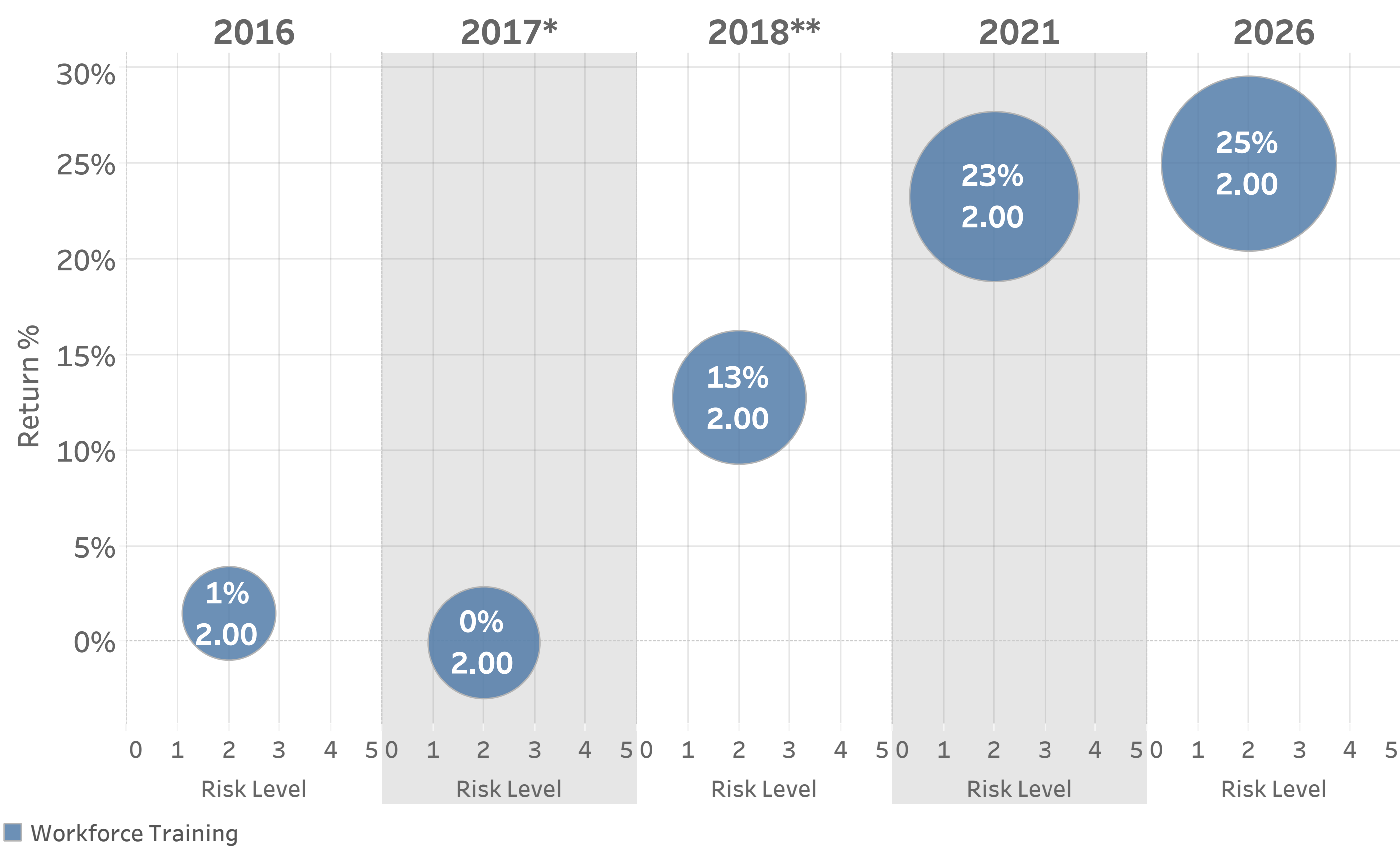
	2016	2017*	2018**	2021	2026
Return	311,236	-257,576	913,530	2,657,715	3,600,000
Avg Return %	6.5%	-20.0%	0.5%	23.9%	37.5%
Avg Risk	2.250	2.417	2.375	2.313	2.313

Workforce Training

This line of business provides training to incumbent workers. The College typically targets manufacturing, distribution, and warehouse companies for these offerings. Workforce training is substantially supported by grant revenue models and works with the College's office of sponsored programs to pursue and monitor grants. The sales cycle is longer than most of the College's product lines.

A business development protocol guides improvements on close rates of business development prospects. Building strong partnerships is key to gaining additional market share and adequately serving the needs of prospective communities.

Risk vs. Return - Industry Relations - Workforce Training

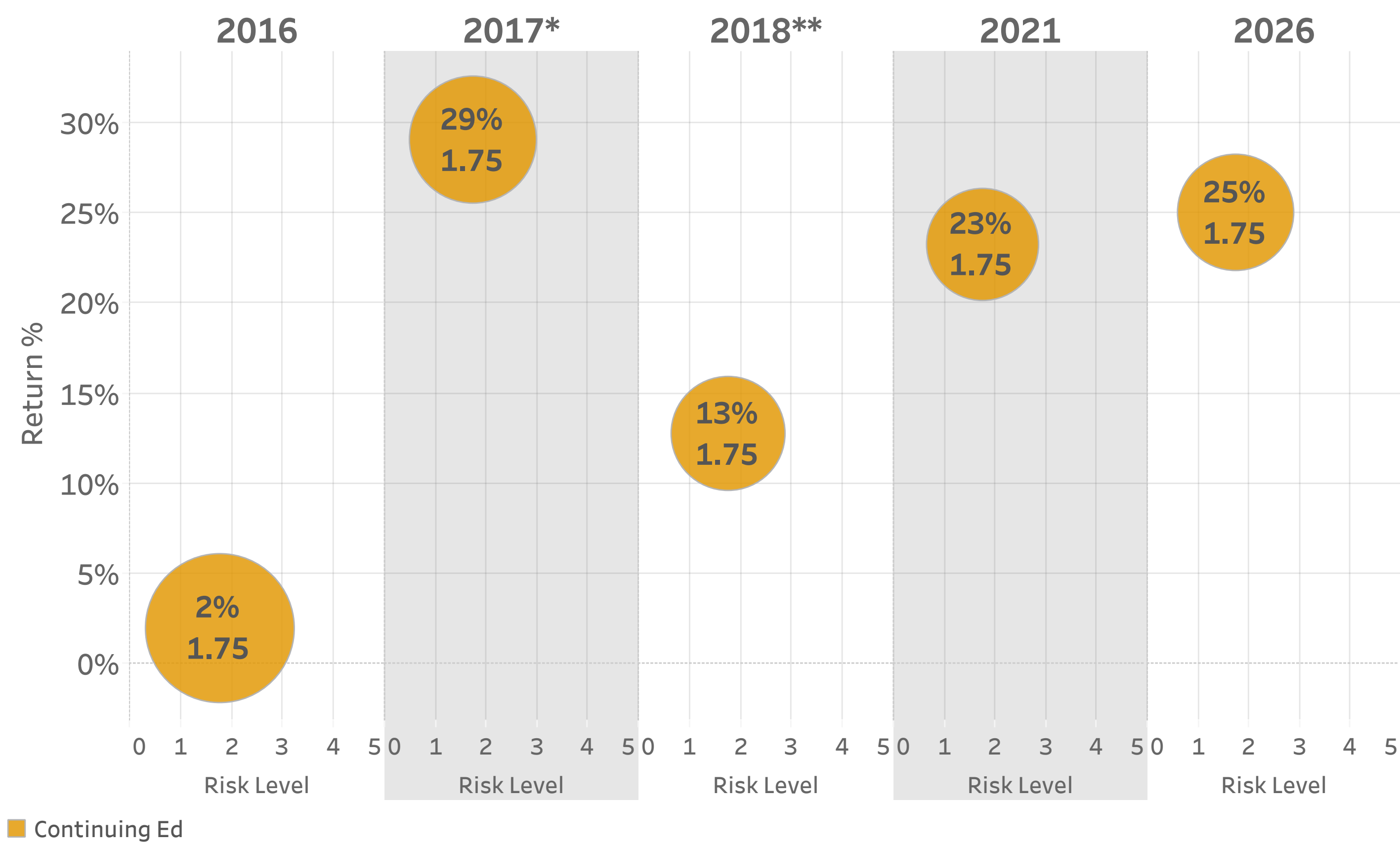


	2016	2017*	2018**	2021	2026
Return	33,787	-1,613	600,285	1,757,480	2,000,000
Avg Return %	1.5%	-0.1%	12.8%	23.3%	25.0%
Avg Risk	2.000	2.000	2.000	2.000	2.000

Continuing Education

Continuing education is a mature line of business at TSTC and is, for the most part, only offered at TSTC in Harlingen. This is a business-to-consumer profit center. Opportunity for continuing education is limited with no plans for the product line to increase substantially.

Risk vs. Return - Industry Relations - Continuing Education



	2016	2017*	2018**	2021	2026
Return	38,974	416,497	147,240	259,843	300,000
Avg Return %	2.0%	29.1%	12.8%	23.3%	25.0%
Avg Risk	1.750	1.750	1.750	1.750	1.750

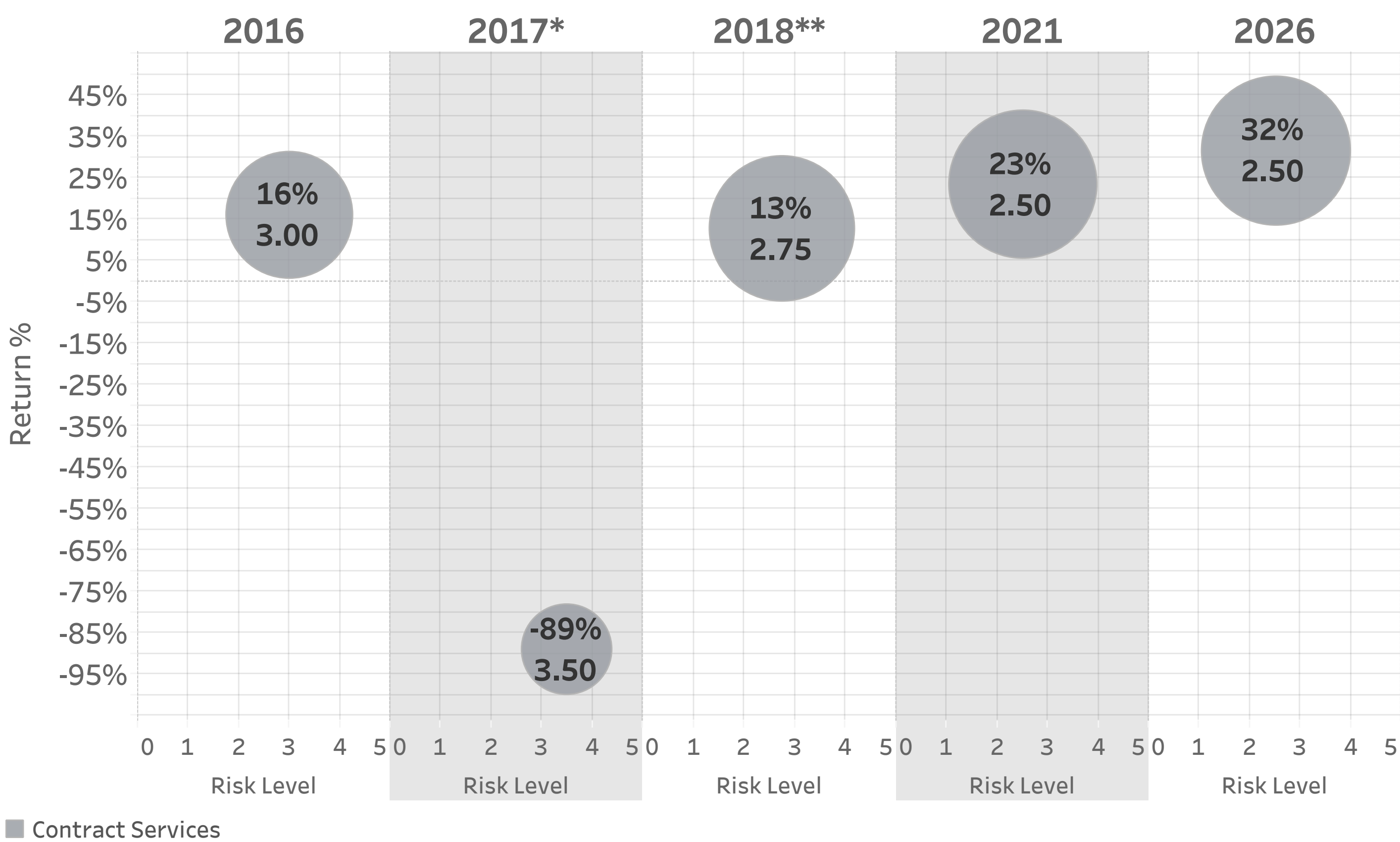
Contract Services

Contract services is a business-to-business product line providing customized curriculum and training under specific contracts. TSTC's greatest momentum and investment in contract services relates to a partnership with Air Tractor and L3 Integrations. TSTC's role in this contract is the go-to trainer for the Air Tractor aircraft used as a low-cost solution for a light-attack, search and reconnaissance.

Other contract services opportunities include an agricultural aviation training program and emerging opportunities with Lockheed-Martin. Leveraging the fleet used in the Air Tractor program, TSTC has developed a curriculum to fill a critical need for agricultural aviators and is positioning itself to be an industry leader in this space.

TSTC's contract service opportunities with Lockheed-Martin relate to the immense workforce needed to support the F-35 program. This partnership is still forming; however, the opportunity would leverage capacities from across TSTC's statewide operations and would build capacity/infrastructure for future training opportunities while securing profits in the near term.

Risk vs. Return - Industry Relations - Contract Services



	2016	2017*	2018**	2021	2026
Return	238,475	-672,460	249,175	472,440	650,000
Avg Return %	16.1%	-89.1%	12.8%	23.3%	31.7%
Avg Risk	3.000	3.500	2.750	2.500	2.500

Accelerated Training

Industry relations will launch two types of accelerated learning programs during fiscal year 2018: IT certification bootcamps and Intensive, Industrial Training bootcamps. Both efforts are startup efforts. The IT bootcamps are consumer focused with training towards a specific industry credential (e.g., CompTIA A+) as the value proposition. The launch of Industrial Training bootcamps would be directed at businesses with a compact, marketable skill (e.g., troubleshooting) as the deliverable.

Industry relations will launch these efforts in a specific market as a pilot. A loss is expected in the first year (fiscal year 2018) as we enter this market space.

Risk vs. Return - Industry Relations - Bootcamps

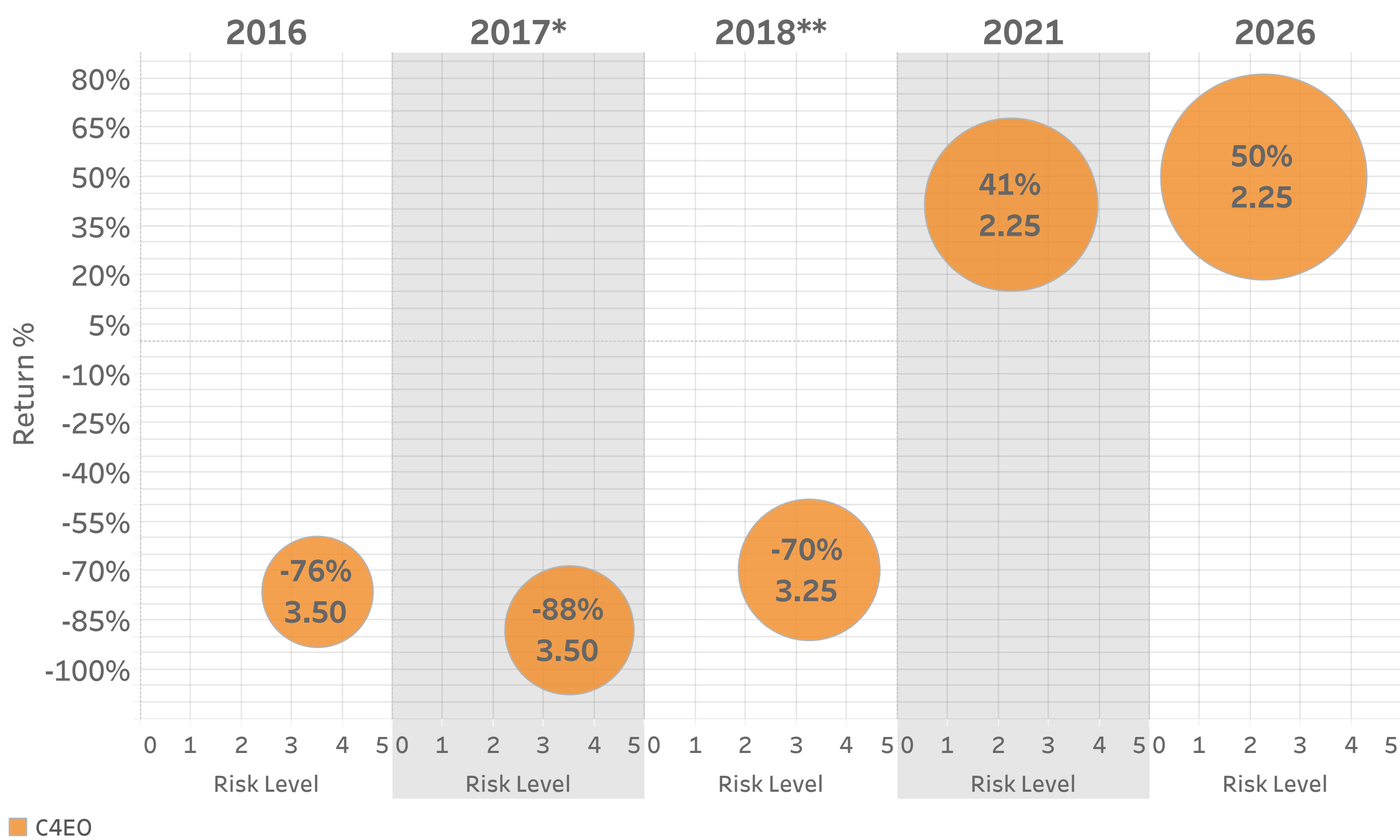
	2018**	2021	2026
Return	-83,170	167,952	650,000
Avg Return %	-36.3%	25.8%	68.4%
Avg Risk	3.000	3.000	3.000

SkillsEngine

SkillsEngine is an Austin-based internal startup within the Center for Employability Outcomes (C4EO) at Texas State Technical College. Since 2002, TSTC has conducted research to forecast and inform recommendations surrounding anticipated skill requirements of Texas industries to align college offerings with market needs. This research revealed limitations in the language surrounding workforce skills shared between employers and educators. Through this research, a value proposition emerged surrounding skill alignment. SkillsEngine exists to ensure what is taught in our classrooms aligns with what employers need on the job.

SkillsEngine is applying new advances in artificial intelligence to quickly glean meaningful insights from large volumes of unstructured data. This technology is applied at the intersection of education and the job market. Our solutions solve two customer problems: (1) the educator's need to identify marketable skills and (2) employer's need for more qualified applicants. The goal is to improve student employability and close regional skill gaps through skill alignment.

Risk vs. Return - C4EO



	2016	2017*	2018**	2021	2026
Return	-766,659	-1,195,715	-1,137,380	1,012,569	3,456,954
Avg Return %	-76.2%	-88.2%	-69.8%	41.4%	50.0%
Avg Risk	3.500	3.500	3.250	2.250	2.250

Data Services

Work began with field testing early concepts with partner colleges. The initial year of software development focused on team build out and architecting core technology. Several data service products were brought to market to generate early stage revenue, gain market awareness, and obtain additional training data to inform our underlying algorithms.

Calibrate

These data services power our flagship product Calibrate. In its initial version, Calibrate translates curriculum into marketable skills, detects relevant occupations, conducts a gap analysis, and generates a detailed skill profile for use in curriculum development. The Calibrate launch strategy is to get to market as quickly as possible with a minimally functional product to secure brand awareness and market share as the firm perfects and validates the second wave of features.

Curate

As users interact with Calibrate and use SkillsEngine data services, our underlying skill libraries and algorithms become smarter and more expansive. New skills data will be curated from these interactions and new data models trained, which will improve the overall intelligence of our core data services and the applications they power. The tools we are building to manage this growing data set will also become commercializable products for the human capital management sector with a focus on state and federal labor market planners.

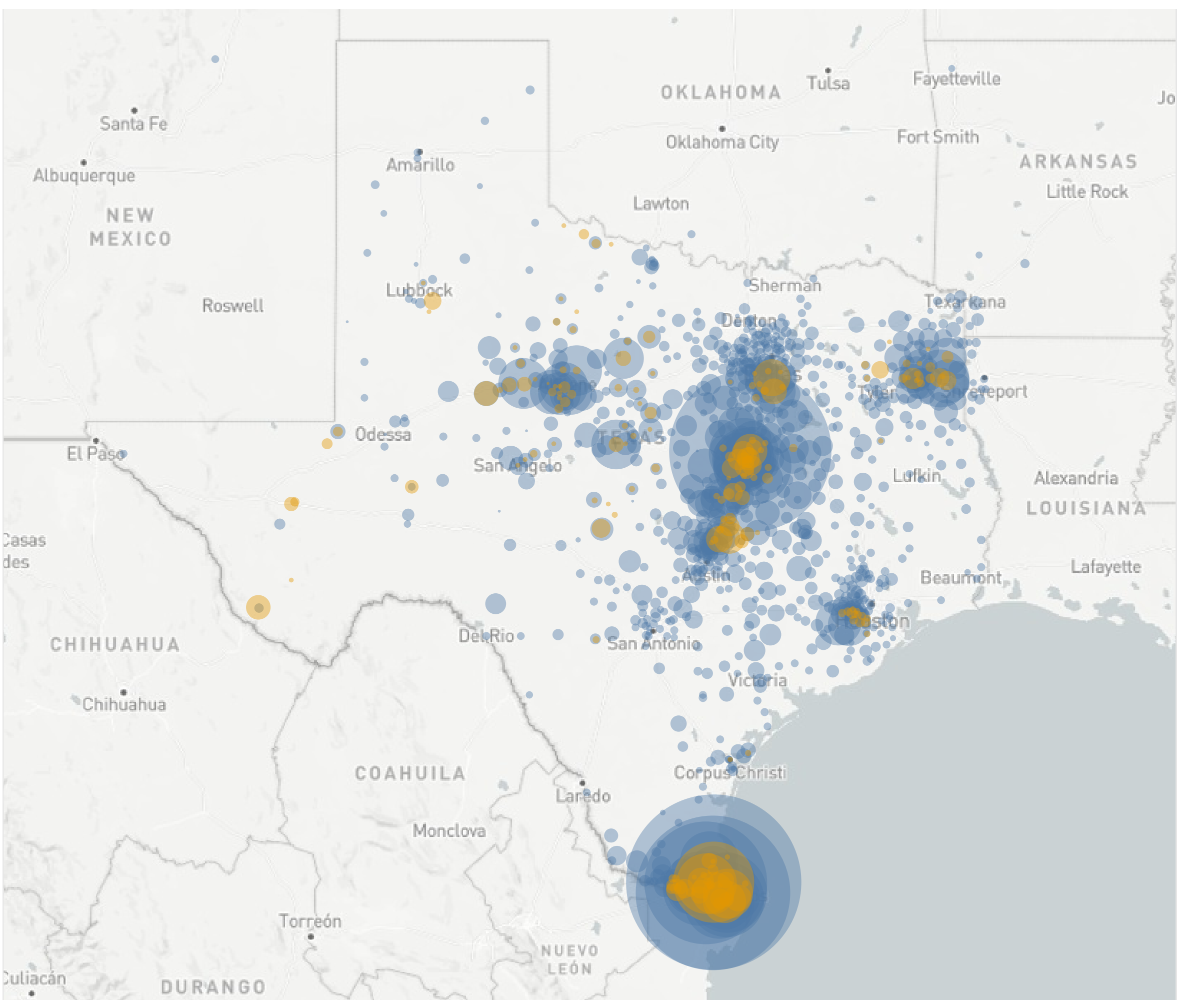
Dual Credit

After years of operating dual enrollment as an outreach and recruiting effort, TSTC has transitioned dual enrollment operations into a line of business. Further, the division is undergoing a significant shift in offerings to a refined focus on technical dual enrollment. Dual enrollment across the state has seen exponential growth. From 2000-2015 there has been a 650% increase in high school student participation (THECB/RAND Study). In 2015, over 130,000 students were participating in Dual Enrollment. However, only about 7% of those students were participating in technical dual enrollment. Narrowing TSTC's focus on high quality delivery of technical dual enrollment aligns with the TSTC mission and pursues a market with less competition and increased barriers to entry for other providers. During the last year, TSTC received significant interest in dual enrollment partnerships that signaled a significant opportunity for the College to emerge as the premium provider of technical dual enrollment in Texas beyond the substantial footprint it already has across the State::

Pricing

TSTC's approach to dual enrollment pricing varied significantly across the state pre-merger. Following the merger, a uniform pricing policy was established with a full waiver of tuition and a new, nominal fee imposed for all dual enrollment students. This small fee was insufficient to cover costs and TSTC incurred losses from dual enrollment operations to avoid the loss of business and the related local, political fallout. Prior to this, a majority of dual enrollment students did not pay anything for TSTC dual enrollment. This approach allowed for a single pricing structure without the loss in business.

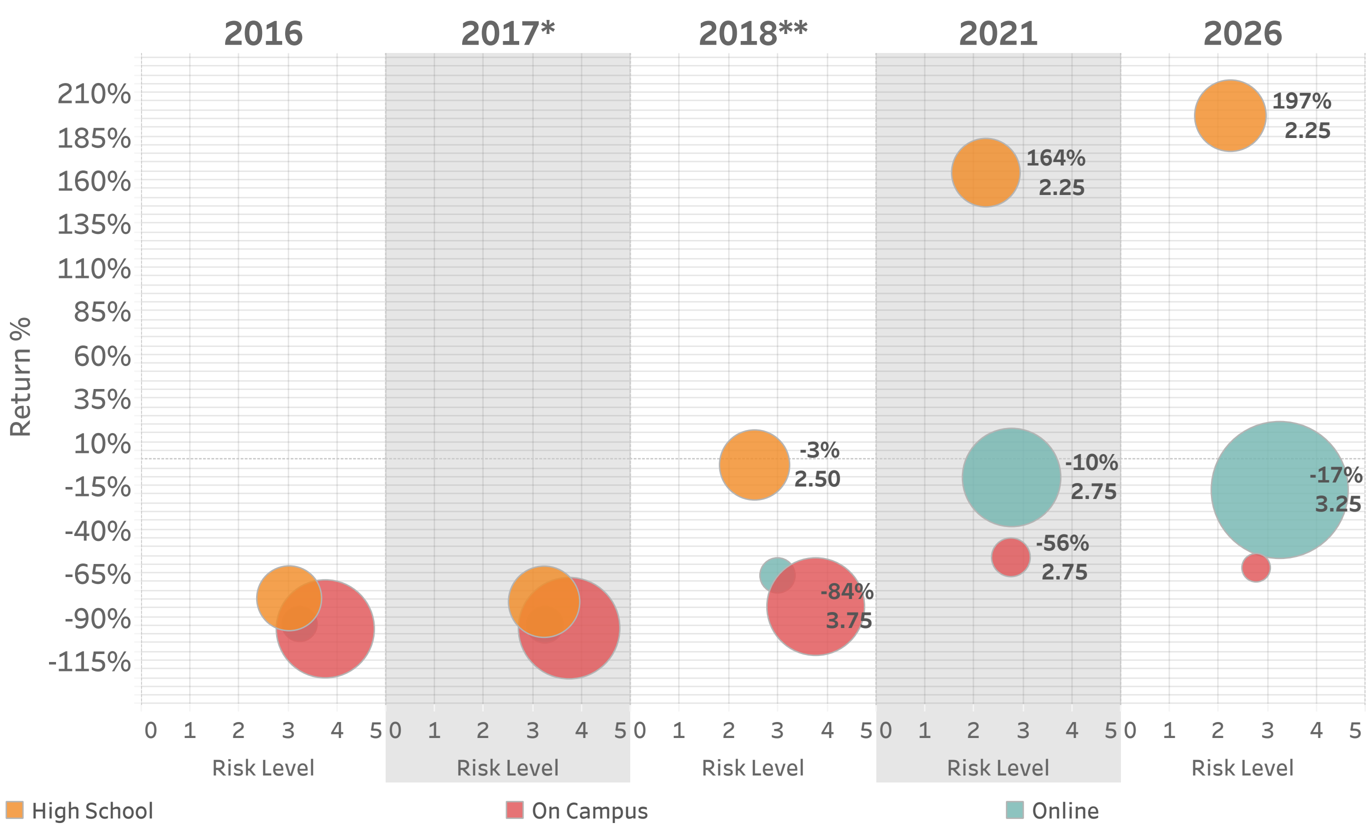
TSTC notified its partners during fiscal year 2017 about the refined focus on technical dual enrollment and the change in pricing policy to a more sustainable model. Indeed, TSTC's largest volume partner chose a different higher education partner who will offer the courses at an extremely low cost (this institution receives contact hour funding for these courses). This was anticipated and a necessary shift away from a perpetual losing proposition.



Dual Credit
Traditional

Students' home ZIP codes utilized for data points. Color indicates the Student Types (Dual Credit and Traditional Students). Size indicates the total semester credit hours as of census dates.

Risk vs. Return - Dual Credit



	2016	2017*	2018**	2021	2026
Return	-1,673,853	-1,867,705	-1,081,568	716,559	759,868
Avg Return %	-90.1%	-91.0%	-50.9%	32.7%	39.1%
Avg Risk	3.333	3.417	3.083	2.583	2.750

We anticipate that new partnerships in the pipeline will restore this volume of business within the necessary pricing model required for technical dual enrollment offerings.

State Funding

With the switch to the new funding formula, which is driven by the placement and earnings of former TSTC students, the formula advisory committee (which includes TSTC) elected to exclude dual enrollment from the new, innovative formula. Dual enrollment operations have a slightly different mission and, consequently, the results in a placement and earnings funding formula were unreliable. TSTC, however, continued to operate its dual enrollment partnerships while the formula advisory committee monitored/studied the issue.

Beginning with the 85th Legislative Session, TSTC highlighted the need for a separate funding model for dual enrollment especially considering the substantial demand for technical dual enrollment and related requests from prospective school district partners.

Growth Prospects

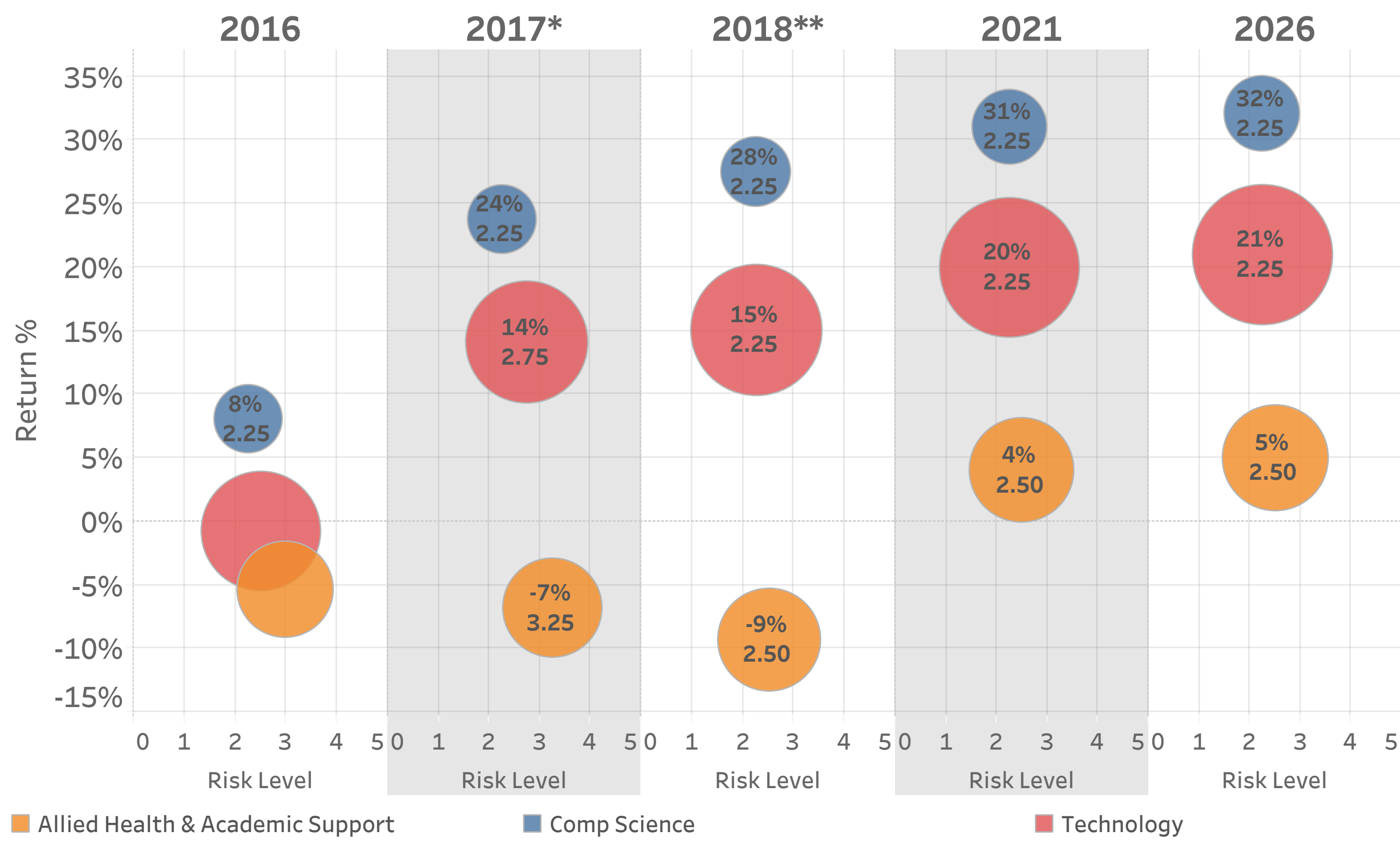
Several large independent school districts have reached out to TSTC to become the partner for technical dual enrollment programs. In certain cases, entire campuses are either in concept, under construction, or in place with a focus entirely on technical dual enrollment. The growth potential is substantial so TSTC is establishing capacities for this type of delivery that can scale the volume anticipated with a pricing and funding model that will allow self-sufficiency and ultimately a positive return to the College. Our focus is to increase visibility, improve engagement and build the image of TSTC'S Dual Enrollment to become a premium technical dual enrollment (TDE) provider in the state.

Classic College

Within the strategic plan, TSTC set profit aspirations for its profit centers. This included TSTC's traditional line of business of Placing More Texans in Great-Paying Jobs "...by offering occupationally oriented programs...for certificates or associate degrees." This line of business constantly serves two customers: the under-skilled student and employers in need of a skilled workforce.

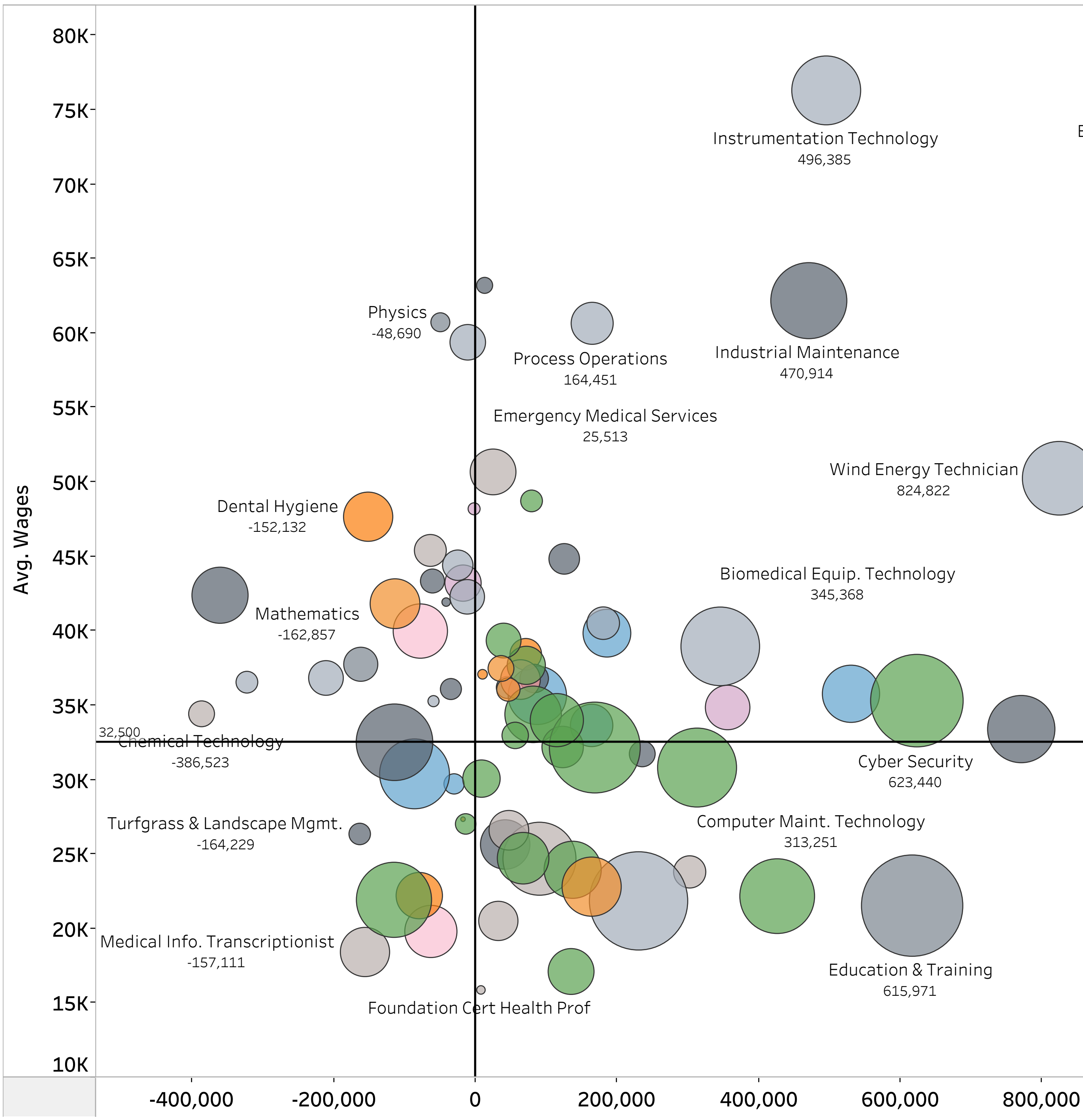
With respect to the traditional college, Focus WIG 1a targets the wages earned by former TSTC students and Focus WIG 1b is concerned with ensuring a higher number of students are placed in good jobs. Focus WIG 2a is concerned with the most profitable execution of 1a and 1b. These are integrated and complementary efforts requiring enterprise focus and resources for achievement.

Risk vs. Return - Classic College



Return	-336,069	3,448,699	3,988,572	8,254,374	9,133,383
Avg Return %	0.6%	10.3%	11.1%	18.3%	19.3%
Avg Risk	2.583	2.750	2.333	2.333	2.333

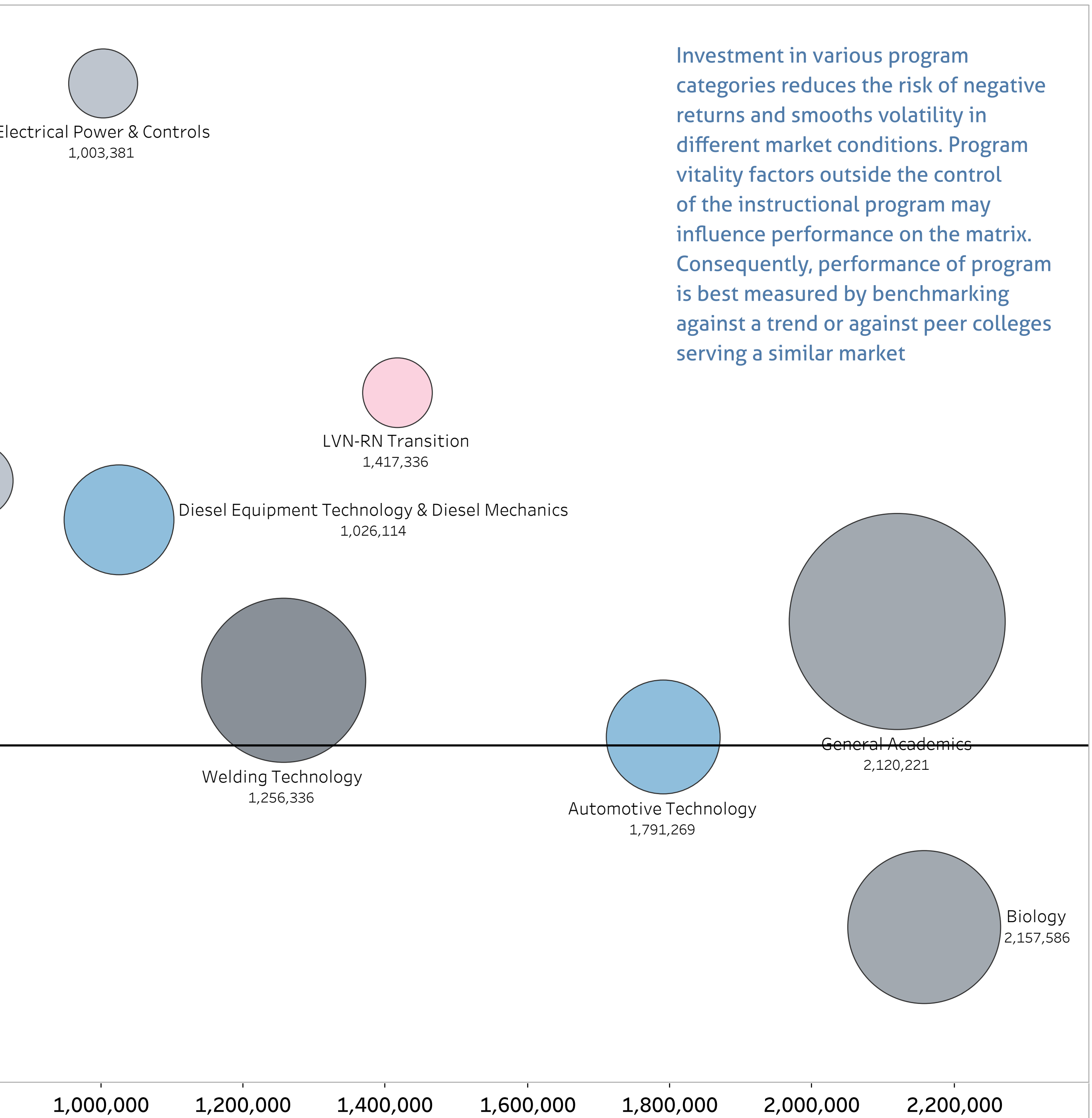
The following chart describes the performance of programs within the traditional college. It ranks on a matrix the level of wages of former students and the immediate cash flows earned from the same programs. Many variables impact a program's placement on the matrix. A program might navigate from left to right on the matrix (earn a higher overall contribution margin) through increased enrollments, increased pricing, or lower direct expense of the program. Navigating up and down on the matrix is dependent on the average earnings of a program's former students. Curriculum changes and placement efforts are two examples of tactics that might increase the earnings performance of a program.



Net Contribution Margin (Revenues - Expenses)

Exhibit III provides an example of the program vitality framework applied to a specific program. This scorecard provides insights into the past performance of a program. TSTC developed an annual process for evaluating programs and insights from this activity are used to develop multi-functional responses to optimize performance.

TSTC expects to grow contribution margin within the traditional college from $3,988,572 in fiscal year 2018 to $8,254,374in fiscal year 2021.



Investment in various program categories reduces the risk of negative returns and smooths volatility in different market conditions. Program vitality factors outside the control of the instructional program may influence performance on the matrix. Consequently, performance of program is best measured by benchmarking against a trend or against peer colleges serving a similar market

*Assessment will be updated at Fiscal Year-end. Amounts are not yet final

FISCAL YEAR 2018 OPERATING BUDGET REPORTS

TSTC Operating Budget FY 2018 - Revenues and Transfers

Fund	Revenues	Carryforward Balances	Net Transfers	Total Budgeted Revenues
E & G	94,820,399	11,218,126	(6,987,346)	99,051,179
Auxiliary	12,771,687	135,078	(745,282)	12,161,483
Designated/ Local	54,389,483	(8,992,073)	(8,693)	45,388,717
Plant	4,827,151	23,460,000	7,741,321	36,028,472
Restricted	29,497,656	0	0	29,497,656
Grand Total	196,306,376	25,821,131	0	222,127,507

TSTC Operating Budget FY 2018 - Expenditures by Fund

Fund	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
E & G	71,701,317	8,202,643	737,869	15,144	18,394,206	99,051,179
Auxiliary	3,139,052	7,695,524	187,600	38,525	1,100,782	12,161,483
Designated/ Local	7,221,254	32,919,356	1,118,766	1,718,862	2,410,479	45,388,717
Plant		11,751,272	24,277,200			36,028,472
Restricted	1,454,233	27,383,901	619,875	39,647		29,497,656
Grand Total	83,515,856	87,952,696	26,941,310	1,812,178	21,905,467	222,127,507

TSTC Operating Budget FY 2018 - Expenditures by Function

Function	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
Finance	13,562,389	29,503,765	23,134,346	191,065	19,581,750	85,973,315
Integrated Marketing	16,260,006	41,614,658	119,399	697,612	1,236,031	59,927,706
Operations	42,721,673	10,743,132	1,714,975	652,206	474,185	56,306,171
Integration	5,030,956	4,076,046	1,972,590	116,759	68,825	11,265,176
Governance and Regulation	3,220,753	1,403,339	0	93,786	9,120	4,726,998
Office of the CEO	1,569,863	216,006		47,050	159,937	1,992,856
Policy	1,150,216	395,750		13,700	375,619	1,935,285
Grand Total	83,515,856	87,952,696	26,941,310	1,812,178	21,905,467	222,127,507

TSTC Operating Budget FY 2018 - Expenditures by Function - Operations

Division	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
Instructional Operations	40,184,763	9,443,836	1,706,975	506,614	469,185	52,311,373
Instructional Support	1,686,340	1,190,204	8,000	81,792	5,000	2,971,336
Admin (Operations)	619,400	87,214		43,800		750,414
Innovation	231,170	21,878		20,000		273,048
Grand Total	42,721,673	10,743,132	1,714,975	652,206	474,185	56,306,171

TSTC Operating Budget FY 2018 - Expenditures by Function - Integrated Marketing

Division	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
Student Development	6,310,379	32,579,691	16,500	281,206	187,393	39,375,169
Industry Relations	4,356,774	4,757,824		169,350	727,090	10,011,038
Communications	1,195,944	1,776,040		60,100		3,032,084
Office of Sponsored Programs	1,245,424	1,406,355	82,501	31,307	17,085	2,782,672
Recruitment	1,308,773	391,196	20,398	67,528		1,787,895
College Readiness	798,352	375,689		45,971	55,691	1,275,703
Field Development	709,940	68,742		17,900	176,706	973,288
Advancement Ops	334,420	176,521	0	19,750	72,066	602,757
Admin (Integrated Marketing)		82,600		4,500		87,100
Grand Total	16,260,006	41,614,658	119,399	697,612	1,236,031	59,927,706

TSTC Operating Budget FY 2018 - Expenditures by Function - Finance

Division	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
Office of Facilities & Planning	4,752,371	8,736,415	22,826,746	47,300	49,947	36,412,779
Benefits					18,387,241	18,387,241
Auxiliary Services	3,337,096	8,547,161	307,600	42,525	1,100,782	13,335,164
Accounting & Reporting	754,730	10,510,580		11,900	14,642	11,291,852
Financial Services	2,692,808	987,027	0	38,600	23,666	3,742,101
Finance, Analytics & Budget	1,377,356	123,550		23,650		1,524,556
Admin (Finance)	401,604	116,382		21,590	5,472	545,048
Reserves		464,000				464,000
Planning	246,424	18,650		5,500		270,574
Grand Total	13,562,389	29,503,765	23,134,346	191,065	19,581,750	85,973,315

TSTC Operating Budget FY 2018 - Expenditures by Function - Integration

Division	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
IT	3,711,336	3,610,419	1,950,000	73,224	5,121	9,350,100
Provosts	1,319,620	465,627	22,590	43,535	63,704	1,915,076
Grand Total	5,030,956	4,076,046	1,972,590	116,759	68,825	11,265,176

TSTC Operating Budget FY 2018 - Expenditures by Function - Governance and Regulation

Division	Salaries & Wage	Operating	Capital	Travel	Benefits	Grand Total
Police	1,328,671	336,309	0	10,900		1,675,880
Human Resources	1,185,258	325,363		50,356		1,560,977
Governance, Risk & Compliance	313,468	683,422	0	10,030	3,648	1,010,568
General Counsel	387,356	8,750		7,500	5,472	409,078
BOR	6,000	49,495		15,000		70,495
Grand Total	3,220,753	1,403,339	0	93,786	9,120	4,726,998

TSTC Operating Budget FY 2018 - Expenditures by Function - Policy

Division	Salaries & Wage	Operating	Travel	Benefits	Grand Total
C4EO	983,612	384,000	13,700	375,619	1,756,931
Forecasting	166,604	11,750			178,354
Grand Total	1,150,216	395,750	13,700	375,619	1,935,285

TSTC Operating Budget FY 2018 - Expenditures by Function - Office of the CEO

Sub Division 1	Salaries & Wage	Operating	Travel	Benefits	Grand Total
Chancellor	447,060	34,790	11,050	105,217	598,117
Chief of Staff	257,100	5,165	6,000	5,472	273,737
External Relations	529,807	157,301	19,000	49,248	755,356
Internal Audit	335,896	18,750	11,000		365,646
Grand Total	1,569,863	216,006	47,050	159,937	1,992,856

EXHIBITS

EXHIBIT I: TSTC Fund Accounting Explained

Definitions

Contribution Margin – Revenue minus variable cost. Describes the institution's ability to cover variable or direct costs with revenue.

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 II: Risk Level Definitions

Risk Level Definitions

Grade	Business Maturity Track record of line of business and the performance in a particular market.	Competitive Risk Risk of competition outperforming profit center or beating TSTC to market	Funding Durability Risk Fragility of the anticipated funding source	Magnitude of Loss Worst one-year loss in the past five years.
1	Established business line with reliable cash flow history	Competition is nonexistent or minimal	Cash flows are immediately realizable before or during the transaction.	< $250K
2	Established business line with new developments/ products			< $500K
3	Established business line with new location	Competition exists but firm possesses differentiating characteristics or unique competitive advantage.	Cash flows are realized after a duration of activity and investment by the firm.	< $1MM
4	New business line in established location			< $1.5MM
5	No track record, no history of returns	Multiple competitors exist and have begun to reduce profits	Cash flows are realized years after transaction and realizability is speculative.	< $2MM

EXHIBIT III: Program Vitality Fact Sheet

Program Vitality Report - Wind Energy Technician
April 2017

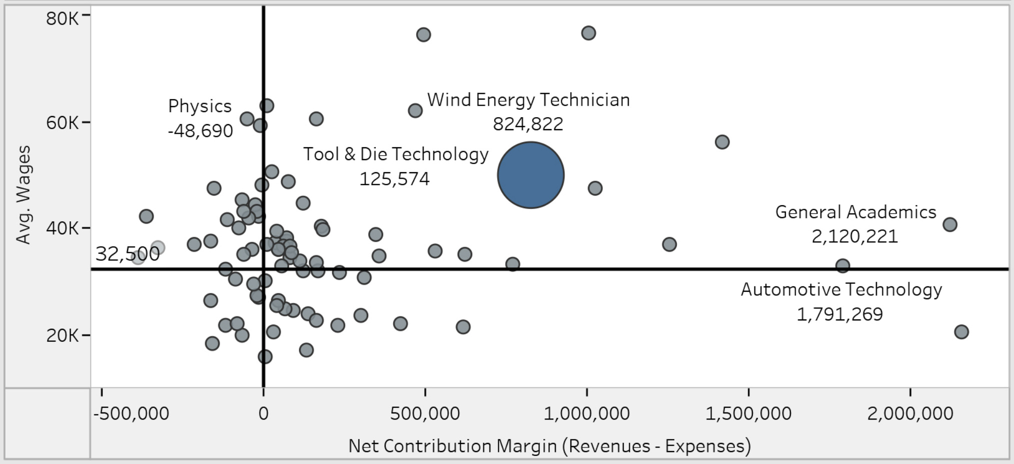
Summary for 2017

Wind Energy Technician is reflecting a first year average wage of $50,189. Net Contribution Margin is $824,822 and $54 per Semester Credit Hour.

Net Contribution Margin by Year

2016	331,844
2017	824,822

Assessment - ROI - 2017 (using wage data from 2014)



Net Contribution Margin by Campus

	HAR	WTX	WAC
2016	52% 172K	48% 160K	0% 0K
2017	59% 489K	41% 336K	0% 0K

Net Contribution Margin by Type

	Tuition	Auxiliaries	Other Revenue	Exp- Oper & Travel	Tuition Waivers	Exp- Salaries
2016	458K	125K	0K	-16K	-33K	-202K
2017	909K	223K	22K	-33K	-63K	-233K

Enrollment - Certified (incl. fluctuations for Flex & Dual Credit)

		Fall	Spring	Summer
WAC	2017	1		
HAR	2016	86	70	53
	2017	138	137	99
SWT	2016	47	39	34
	2017	58	51	44

First Year Wages by Award (2014 most recent data)

			2012	2013	2014
HAR	Assoc	Loc Avg		49.1K	47.8K
		Operational			
	Cert	Loc Avg	45.2K	42.8K	35.9K
		Operational			
WTX	Assoc	Loc Avg	44.7K	52.1K	54.4K
		Operational			
	Cert	Loc Avg	39.5K		
		Operational			
		TSTC Avg		32.4K	33.1K
	Lower Level ..	Operational			

Graduates by Award

		2014	2015	2016
HAR	Assoc	6	13	16
	Cert	7	6	10
SWT	Assoc	19	15	11
	Cert	1	3	3

Placement (Grads found working) by Award (2014 most recent)

		2012	2013	2014
HAR	Assoc		80%	90%
	Cert	85%	73%	90%
WTX	Assoc	90%	86%	68%
	Cert	100%		

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.

TSTC
Texas State Technical College™