

**SUBJECT:** Establishing the Texas Excellence Fund and University Research Fund

**COMMITTEE:** Appropriations — committee substitute recommended

**VOTE:** 17 ayes — Junell, West, Coleman, Delisi, Gallego, Glaze, Heflin, Maxey, P. Moreno, Puente, Allen, Farrar, Giddings, Janek, King, McReynolds, Pickett

0 nays

10 absent — Gutierrez, Hamric, Mowery, S. Turner, Eiland, Flores, Hochberg, Luna, Pitts, Smith

**WITNESSES:** For — None

Against — None

On — John Montford, Texas Tech University System; Arthur Smith, University of Houston System

**BACKGROUND:** Two constitutionally-authorized funds provide money for new construction and excellence enhancement for Texas public higher education institutions: the Permanent University Fund (PUF) and the Higher Education Fund (HEF). The HEF and income from the PUF may be used to acquire land, construct, equip, repair, or rehabilitate buildings, as well as acquire capital equipment and library materials. Institutions may use a portion of the funds for payment of debt service on bonds issued for authorized purposes. Income from the PUF also can be used for excellence programs at UT-Austin, Texas A&M- College Station, Prairie View A&M, and UT and A&M system administration.

The PUF is a public endowment contributing to the support of the University of Texas System (UT System) and the Texas A&M University System (TAMU ). The Constitution of 1876 established the PUF through the appropriation of land grants previously given to UT, plus one million acres. Today, the fund contains 2,109,110 acres located in 19 West Texas counties. The PUF's 2.1 million acres produce two lines of income: mineral and surface. The mineral income must be added to the corpus of the PUF, while

the surface income can be spent. Surface and investment income from the PUF goes into the Available University Fund (AUF) for use by the TAMU and UT Systems. The Constitution designates two-thirds of the AUF for the UT System, and one-third goes to the TAMU System. Allocations to AUF are determined by the UT and A&M boards of regents.

The HEF was created by constitutional amendment in 1984 as a counterpart to the PUF for Texas public higher education institutions that were outside the UT and TAMU Systems and is supported by general revenue appropriations. Each year, \$175 million is distributed, while \$50 million is set aside to build the HEF. The corpus of the HEF cannot be spent until the fund reaches \$2 billion. Allocations from the HEF are set by the Legislature in general law, based on an equitable formula developed by the coordinating board, and may be adjusted as frequently as every five years. The Legislature must review the allocations to institutions at least every 10 years.

DIGEST:

CSHB 1839 would amend Education Code, ch. 62 to create two new funds, the Texas Excellence Fund (TEF) and the University Research Fund (URF). Both funds would be held outside the state Treasury, in the custody of the comptroller. Each fund would have a different allocation formula, but both funds would be allocated primarily to institutions that have large research and doctoral programs with smaller amounts going to other institutions. The amount of the appropriation to each fund would be equal to the amount of the interest earned on the HEF or \$50 million, whichever was less.

The funds would be used to promote increased research capacity and develop institutional excellence at certain comprehensive research universities and general academic teaching institutions to ensure that Texas and its workforce remained at the forefront of scientific and technological innovation.

The TEF would provide funds to institutions qualified to receive funding from the Higher Education Fund (HEF). The URF would provide funds to institutions that participate in the Permanent University Fund (PUF), other than UT-Austin, Texas A&M University, or Prairie View A&M University.

The bill would require that institutions used money appropriated from the TEF or the URF only for the support and maintenance of educational and general activities (including research and student services) that promoted research capacity and developed institutional excellence. The Comptroller would be allowed to accept gifts or grants from any public or private sources for both of the funds.

**Texas Excellence Fund.** *Comprehensive research universities* would be defined as eligible general academic teaching institutions that in each of the two most recent fiscal years, as verified by the Texas Higher Education Coordinating Board (THECB):

- ! offered a full range of baccalaureate programs and a wide variety of graduate programs;
- ! awarded 45 or more Ph.D. degrees in science, agricultural science, engineering, and clinical and experimental psychology; and
- ! expended at least \$15 million in restricted research funds and related indirect costs.

**Funding.** The bill would require that each year, from the first undedicated \$50 million that came to the state, the comptroller would have to deposit into the TEF an amount equal to the income earned from investment of the HEF in the preceding fiscal year. The remainder would be deposited to the HEF. The comptroller would be responsible for administering and investing the TEF and would have to deposit all interest, dividends, and other income earned from the investment of the TEF to the credit of the TEF. The comptroller would be required, with input from the governing boards of the eligible institutions, to invest the fund in a way that maximized the income earned and gains realized from investment of the fund.

CSHB 1839 would allow the Legislature to appropriate or transfer any available money to the fund as well as to appropriate the money from the fund to the eligible universities and institutions. Eighty percent of the amount appropriated from the fund would go to comprehensive research universities, and the remaining 20 percent would be appropriated to other eligible institutions.

The allocation among institutions would be made in accordance with an equitable allocation formula based on the amount of restricted research funds expended by each institution as reported in its annual financial report. However, the allocation formulas for specific universities or institutions would not be used in the fiscal 2002-03 biennium; for that biennium, the funds would be appropriated to eligible institutions as provided by the general appropriations act.

After the HEF reached \$2 billion, the comptroller would be required to continue to deposit to the TEF each year an amount equal to the investment income earned by the HEF, up to a maximum of \$50 million.

**University Research Fund.** *Comprehensive research universities* would be defined as eligible general academic teaching institutions that were eligible to receive funding from the AUF, and were a component of the UT System or the Texas A&M University System.

*Doctoral and research universities* would be defined as universities that in each of the two most recent fiscal years, as verified by the coordinating board:

- ! offered a full range of baccalaureate programs and a wide variety of graduate programs;
- ! awarded 50 or more Ph.D. degrees;

and in the three preceding fiscal years expended at least \$5 million each year in restricted research funds and related indirect costs.

*Emerging doctoral and research universities* would mean institutions that in each of the two preceding fiscal years:

- ! offered a full range of baccalaureate programs and a wide variety of graduate programs; and
- ! awarded one or more Ph.D. degrees;

and in three preceding fiscal years expended at least \$5 million per year in restricted research funds and related indirect costs.

**Funding.** In each fiscal year, the Legislature would have to appropriate or provide for the transfer to the URF an amount equal to the amount deposited into the TEF for that year. The bill would prohibit the comptroller from making the annual deposit to the TEF and the Legislature from appropriating funding for the TEF unless an equal amount was deposited at the same time to the URF. The comptroller would have to deposit all interest, dividends, and other income earned from investment of the URF to the credit of the URF.

The bill would require, after the 2002-2003 biennium, the comptroller to distribute each year the total assets in the URF, after \$1 million was distributed to general academic teaching institutions that were not eligible doctoral and research universities or emerging doctoral and research universities, with each of these universities receiving an equal amount.

The remaining assets of the URF would be distributed to eligible doctoral and research universities and emerging doctoral and research universities, with 50 percent apportioned among those institutions based on the average amount of restricted research fund expended per year by each institution in the three preceding fiscal years. Of the remaining funds, 75 percent would be apportioned among the institutions based on the number of Ph.D. degrees awarded by each institution in the preceding fiscal year, and 25 percent would be apportioned based on the number of master's degrees awarded by each institution in the preceding fiscal year.

For the fiscal 2002-2003 biennium, \$1 million would be apportioned in equal amounts to general academic teaching institutions other than the eligible or emerging doctoral and research universities; \$500,000 would be distributed to eligible doctoral and research universities, and \$500,000 would be distributed to eligible emerging doctoral and research universities. Those funds would be apportioned among those institutions in equal amounts.

After the distributions, the remaining funds would be distributed to eligible doctoral and research universities and emerging doctoral and research universities, with 50 percent apportioned among those institutions based on the average amount of restricted research funds expended per year in the preceding fiscal year. Of the remaining funds, 75 percent would be apportioned among the institutions based on the number of Ph.D. degrees

awarded by each institution in the preceding fiscal year, and 25 percent would be apportioned based on the number of master's degrees awarded by each institution in the preceding fiscal year.

For purposes of the provision in CSHB 1839, the coordinating board would have to establish standards and accounting methods for determining the amount of restricted research funds expended by the general academic teaching institutions. Additionally, the coordinating board would have to provide each fiscal year to the comptroller information relating to the amounts of restricted research funds expended and the degrees awarded at the institutions which was necessary for determining the fund allocations. The coordinating board would be given the authority to audit appropriate institution records in order to verify the information.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

**SUPPORTERS  
SAY:**

Texas does not have enough graduate and research universities, especially in major metropolitan areas. Of the 10 largest metropolitan areas in the country, three do not have "Tier-1" universities, and all three are in Texas: Dallas, Houston, San Antonio. Texas does have two nationally competitive "flagship" research universities in UT-Austin and TAMU, while California, for example, has eight. Increased funding for excellence would enable some institutions to reach flagship status, enabling them to attract premier faculty and more federal and private-sector research funding, as well as easing enrollment pressures at UT-Austin and Texas A&M.

There is compelling evidence that graduate and research universities provide significant benefits to regions in which they are located. Areas that do not have major graduate and research universities are at a disadvantage. Also, their presence lowers the cost of a quality higher education because more students can live at home while attending school.

Graduate and research universities would contribute to economic development by providing an attractive environment, especially to technology companies such as energy, electronics, software, biotechnology, and aerospace. Through university research, new technologies would be

developed and commercialized, and new businesses would be built. They address the needs for a trained workforce, especially in areas such as engineering or computer science, but also in areas such as nursing and teaching.

Most research universities are able to leverage federal funds at a rate of one to two state dollars for every 10 federal dollars. Federal funds then circulate throughout the economy. While Texas is second in population, it is sixth in federal research and development obligations to higher education institutions. One key to increasing federal research spending in Texas is to increase the number of competitive research universities.

The funding method proposed by CSHB 1839 would be consistent with the coordinating board's *Closing the Gaps, by 2015*. It is also in line with the report of the Special Commission on 21st Century Colleges and Universities, which recognized that individual institutions of higher education in Texas serve differing missions and that many have developed unique areas of expertise, or excellence. It recommended that the state assist these institutions in achieving excellence in their individually chosen areas and assist them in achieving national recognition.

Border area and San Antonio institutions are not left out of the funding proposal. While UT-El Paso does not have many Ph.D.s, it does have high research levels and under the proposal would receive \$8.7 million annually, which is double the \$4.3 million the University of North Texas would be allocated. UT-San Antonio would receive \$3.9 million, which would be only slightly less than the \$4.3 million that University of North Texas would be allocated.

If Texas is going to ride the wave from an extractive industry-based economy to a technology-based economy, it is crucial to establish additional research universities.

OPPONENTS  
SAY:

This bill, to some extent, would continue the maldistribution of research universities in Texas. Based on the eligibility criteria set forth in the bill, the primary recipients of the TEF would be the University of Houston, Texas Tech University, and the University of North Texas. The primary recipients of the URF would be UT-Dallas and the UT-Arlington. San Antonio and the

Rio Grande Valley, both rapidly-growing areas, would, for the most part, be left out.

The effectiveness of trying to create five new research universities while at the same time spreading some excellence funding to every institution in the state is questionable. It would be better to have a more-focused funding program that funded those institutions that are closest to attaining tier 1 status. The coordinating board should, after careful study, recommend designation of future flagship universities based on population, growth, and need.

Reducing the appropriation to the HEF endowment by the amount of interest earned could subvert the intent of the Constitution to return that interest to the fund. Additionally, the intent of the HEF, which is limited to capital expenditures, could be subverted by diverting funds to excellence funding.

OTHER  
OPPONENTS  
SAY:

The bill would not go far enough in recognizing the needs of smaller general academic institutions. Although these institutions may not be near tier 1 status, they serve critical higher education needs in their communities and provide access to higher education for many students. Increased excellence funding to these institutions could enable them to serve their students and communities better and would allow them to develop “niches” of excellence consistent with their unique missions.

NOTES:

According to the bill’s fiscal note, the impact through the biennium ending August 31, 2003 would be \$17,598,000 and would continue to go up to over \$43 million through 2006. The anticipated cost to general revenue for the URF would need to be appropriated each year. There is no provision for the funds in either the Senate-passed or the House-passed versions of CSSB 1, the general appropriations bill. TEF funds come from current investment of HEF funds, so there would be no impact to general revenue.

The committee substitute added provisions establishing the university research fund (URF), including provisions relating to the administration, funding, and allocation of the fund. It specified that for any fiscal year for which the Legislature has made an appropriation for the URF, it must be an amount equal to the amount given to the TEF and specified that the comptroller could not deposit money to the TEF unless the equal amount

was deposited at the same time to the URF. The substitute added a provision relating to the allocation to eligible institutions during the 2002-2003 fiscal year and required the coordinating board to set standards for determining restricted research funds and verifying necessary information with the eligible institutions.

The companion bill, SB 737 by Ellis, was reported favorably by the Senate Finance Committee on March 22.