HOUSE
RESEARCH
ORGANIZATION bill analysis | 5/9/2003 | HB 3526
Hamric, Heflin, et al.

SUBJECT: Consolidating two higher education excellence funds into single fund

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 6 ayes — Morrison, F. Brown, Chavez, Goolsby, Mercer, Nixon

0 nays

3 absent — Giddings, J. Jones, Smithee

WITNESSES: For — None

Against — None

On — Stanton C. Calvert, Texas A&M University System; Grover Campbell, University of Houston System; Mike Sanders, Texas Tech University 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 the University of Texas (UT) at Austin, Texas A&M University (TAMU) at College Station, Prairie View A&M, and UT and TAMU system administration.

The PUF is a public endowment contributing to the support of the UT System and the TAMU System. 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 2.1 million acres located in 19 West Texas counties. The PUF's land holdings produce mineral and surface income. 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 for the TAMU System. Allocations to the AUF are determined by the UT and TAMU 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.

In 2001, the 77th Legislature enacted HB 1839 by Junell, which created two new funds, the Texas Excellence Fund (TEF) and the University Research Fund (URF), to support excellence and research at general academic institutions. The TEF provides funds for 24 general academic institutions that receive funding from the HEF. The URF is for eight general academic institutions that are eligible for the PUF, other than UT-Austin, TAMU, and Prairie View A&M. In fiscal 2002-03, $33.8 million was distributed among all eight of the URF institutions, and another $33.8 million was distributed among 21 of the 24 TEF institutions.

For the fiscal 2004-05 biennium, the 24 TEF institutions are divided by statute into two groups, based on annual restricted research expenditures. Institutions that meet the definition of research universities (minimum of 45 doctoral degrees awarded and at least $15 million in restricted research funds in each of the two most recent years) share 80 percent of the fund, and the remaining institutions are eligible to share the remaining 20 percent. Among the eight URF institutions, four share $1 million per year, 50 percent of the remaining amount is allocated to institutions based on the average amount of restricted research funds expended in the three preceding years, and the rest of the funds are allocated based on the number of doctoral degrees at various programs.

DIGEST: HB 3526 would amend Education Code, ch. 62, to abolish the TEF and the URF and establish a new Research Development Fund (RDF) to provide funding to promote increased research capacity at general academic teaching institutions previously eligible for the TEF or URF. The fund would be held outside the state treasury in the custody of the comptroller. Funding mechanisms would be the same as those established for the TEF and URF under Education Code, sec. 62.025. The comptroller could accept gifts or grants from any public or private source for the fund.

Each fiscal year until January 1, 2008, the comptroller would distribute the total amount of all assets in the RDF to eligible institutions based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years. For fiscal 2006-07, URF institutions would be ensured of receiving at least half of what they had received in fiscal 2004-05 before RDF funds were distributed to the remaining eligible institutions.

The Texas Higher Education Coordinating Board (THECB) would be required to prescribe standards and accounting methods for determining eligible expended restricted research funds and provide the comptroller with verified information about each institution's eligible amount for use in determining the distribution of funds. THECB would have the authority to audit eligible institutions to verify this information.

RDF funds could by used only for the support and maintenance of educational and general activities, including research and student services, that promoted increased research capacity at the institution. Funds not used in one fiscal year could be held and used in subsequent years. By December 1 following each fiscal year, RDF-funded institutions would have to report to the Legislative Budget Board describing the manner in which the institution used the money. If the institution spent money previously received from the TEF or the URF during the fiscal year covered by the report, information would have to be included about the disposition of these funds.

The first distribution of money from the RDF would be made in the 2006 fiscal year. Any funds remaining in the TEF or the URF would be transferred to the credit of the RDF.

The bill would take effect September 1, 2005.

SUPPORTERS SAY:

HB 3526 would create a more equitable way of distributing excellence funding among eligible higher education institutions by establishing a single fund and requiring every institution to conform to the same eligibility standards. In doing so, the bill would help achieve the goals for which the two funds were created by helping more Texas institutions achieve national reputations as research institutions.

The original objective in creating these funds was to increase the number of flagship research institutions in Texas, so that these institutions could attract more federal research money and premier faculty, as well as easing enrollment pressures at UT-Austin and TAMU. But the two funds were created in such a way that the distribution of funds is inequitable and some institutions unfairly receive more support for their efforts than others.

The same amount of money is allocated to each fund, but the URF is distributed among eight institutions, while 24 institutions are eligible for funding through the TEF. Additionally, 80 percent of TEF funds are distributed among a small portion of eligible research institutions so that the other institutions must compete for the remaining 20 percent. As a result of these statutory funding mechanisms, URF institutions, including UT-Arlington, UT-Dallas, and UT-El Paso, receive a much larger portion of the URF than most TEF-eligible institutions, including Southwest Texas State University and the University of Houston-Clear Lake, receive from the TEF. These institutions can support research funding and should have access to a greater share of excellence funds.

HB 3526 would alleviate these inequities by establishing one fund and one funding formula for all eligible institutions. It would ensure that research funds were distributed to those institutions that had the capacity to use them effectively and would provide strong support, distributed fairly, for these institutions so that they could develop into top-tier research institutions.

The bill would help strengthen accountability in the distribution and use of excellence funds by setting up auditing and reporting systems overseen by THECB. This would address concerns about how institutions were making use of funds that had already been distributed through the TEF and the URF and would ensure that RDF funds were awarded and used appropriately.

OPPONENTS SAY:	The two funds are achieving their original purpose of supporting emerging research institutions and should not be merged into one at this time. The enabling statutes for both funds are scheduled to expire on August 31, 2005, and HB 3526 would not take effect until September 1, 2005. The two funds should be retained until next session, when a decision about merging and distributing the funds could be based on four years of experience with the current system.
OTHER OPPONENTS SAY:	HB 3526 would not address a larger inequity among institutions striving to become top-tier research institutions. The two funds primarily benefit a handful of institutions, including the University of Houston, Texas Tech University, and the University of North Texas, as well as UT-Arlington, UT-Dallas, UT-El Paso and UT-San Antonio. Other institutions, particularly those in the Rio Grande Valley, have been left out for the most part and are losing out on the opportunity to become top-tier institutions.
NOTES:	The companion bill, SB 1855 by Duncan, was referred to the Senate Finance Committee on March 24.