

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 25, 2009

TO: Honorable Judith Zaffirini, Chair, Senate Committee on Higher Education

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB51 by Branch (relating to measures to enhance and maintain the quality of state universities, including funding and incentives to support emerging public research universities in developing and maintaining programs of the highest tier, to the abolition of the higher education fund, and to the institutional groupings under the Texas Higher Education Coordinating Board's accountability system.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB51, Committee Report 2nd House, Substituted: a negative impact of (\$276,013,806) through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	(\$138,039,302)
2011	(\$137,974,504)
2012	(\$137,974,504)
2013	(\$137,974,504)
2014	(\$137,974,504)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>General Revenue Fund</i> 1
2010	(\$138,039,302)
2011	(\$137,974,504)
2012	(\$137,974,504)
2013	(\$137,974,504)
2014	(\$137,974,504)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	3.0
2011	3.0
2012	3.0
2013	3.0
2014	3.0

Fiscal Analysis

The fiscal note will be broken out by each section of the bill.

Section 1 of the bill would require each institution of higher education designated as a research university or emerging research university to submit to the Higher Education Coordinating Board, a detailed, long-term strategic plan documenting the strategy by which the institution intends to achieve recognition as a research university, or enhance the university's reputation as a research university as applicable.

Section 2 would require the Higher Education Coordinating Board, as part of other funding recommendations, to determine the amount the Board considers appropriate for funding for excellence in specific programs and fields at general academic teaching institutions.

Section 3 would establish an Excellence Awards program for institutions other than research universities or emerging research universities to encourage the development of designated degree programs to the highest national standards. The Texas Higher Education Coordinating Board (THECB) would be authorized to release Excellence Award funding only when certain benchmarks are met.

Section 4 would require the Higher Education Coordinating Board review the institutional groupings under the Board's accountability system at least once every ten years.

Section 5 and Section 6 would amend Chapter 62 of the Education Code relating to the Research Development Fund

Section 7, Subchapter C, Research University Development Fund. Under this section the Higher Education Coordinating Board would distribute funds to eligible research and emerging research universities based on the average amount of total research funds expended by each institution annually during the three most recent fiscal years according to rates specified in the bill.

Section 7, Subchapter D, Performance Incentive Funding, provides a mechanism for performance incentive funding for general academic teaching institutions. The funding would be allocated on a 50/50 split under guidelines established in the bill. Using a table of weights with combinations of noncritical/critical fields and not at-risk/at-risk students, general academic institutions qualify for incentive funds in proportion to the increase in the average number of degrees awarded annually in the two most recent fiscal years compared to the two immediately preceding years. Noncritical field/Not at-risk Student is weighted at 1.0; Critical field/at-risk Student is weighted at 3.0. Statutory critical fields include engineering, computer science, math, physical science, allied health, nursing, and teach certification in science or math.

Section 7 Subchapter F, Texas Research Incentive Program. Under provisions of this section, the Higher Education Coordinating Board would develop and administer the Texas Research Incentive Program to provide matching funds to assist eligible institutions in leveraging private gifts for the enhancement of research productivity and faculty recruitment.

Section 8, Subchapter G, National Research University Fund. Contingent upon voter approval of a Texas Constitutional amendment proposed by the 81st Texas Legislature, the bill would create a new source of funding to enhance research capacity at certain public general academic institutions using the investment earnings of an existing but rededicated fund corpus (i.e., the Permanent Higher Education Fund, which would become the corpus for the National Research University Fund, or NRUF). Annual NRUF allocations to eligible institutions would be based solely on the earnings of the NRUF corpus over time.

Section 9 amends Section 62.094 of the Education Code as it relates to the Research Development Fund.

Methodology

The fiscal impact for the bill is broken down by the new initiatives and administrative costs for the Higher Education Coordinating Board.

Research University Development Fund

Based upon total research expenditures of the two research universities and seven emerging research universities between fiscal year 2006 and 2008, the Higher Education Coordinating Board estimates that matching grants of \$117 million per year would be made to the institutions. The 80th Legislature appropriated \$46,603,810 in fiscal year 2008 and \$46,603,805 in fiscal year 2009 to a similar program, the Texas Competitive Knowledge Fund, to the University of Texas at Austin, Texas A&M University, University of Houston, and Texas Tech University. For purposes of this fiscal note, these amounts have been taken into consideration and the costs associated with this section of the legislation have been reduced accordingly.

Performance Incentive Funding

Based on an incentive funding model provided by the Higher Education Coordinating Board, \$100 million per year would be distributed to the institutions. Of this amount \$50 million would be awarded based the increase in the average number of degrees awarded annually by each institution in the two most recent fiscal years (2007 and 2008) compared to the preceding fiscal years (2005 and 2006) and \$50 million would be awarded in proportion to the average number of degrees awarded in the three most recent fiscal years (2006, 2007 and 2008). The criteria for the allocation for public universities includes bachelor, masters, doctoral and professional degrees. Degrees issued to students considered at risk as well as degrees in critical fields are given extra weight.

In fiscal year 2009, the Higher Education Coordinating Board was appropriated \$100 million in incentive funding with 80% or \$80 million going to general academic teaching institutions based on degrees awarded with increased weights for critical fields and at-risk students and 20% or \$20 million going to top ten percent scholarships. For purposes of this fiscal note, it is assumed this allocation would continue in the same amounts and same percentages for fiscal year 2010 and subsequent years thereby reducing the costs by \$80 million per year. It should be noted that the number of top ten percent scholarships would increase in the 2010-11 biennium as new cohorts of students become eligible for the program and renewal students receive funding. The estimated amount to cover these students is \$54 million for the biennium.

Texas Research Incentive Program

Based on information provided by the Higher Education Coordinating Board, the fiscal year 2008 total of private gifts reported by emerging research universities that would qualify for a match under the legislation would be approximately \$47.3 million per year. For purposes of this fiscal note it is assumed the state would match this amount in fiscal years 2010-2014.

National Research University Fund

Since the funding for the National Research University Fund would be tied the investment earnings of an existing fund, there would not be a fiscal impact to the State.

Administrative Costs

Administrative costs for the Higher Education Coordinating Board for salary and benefits for three new program directors is estimated at \$267,608 per year in fiscal year 2010, and \$232,810 in fiscal year 2011 and subsequent years. Staff travel cost is estimated at \$10,000 annually to allow staff and two consultants to monitor the implementation/use of funds distributed through the new programs. Four site visits per year would be conducted at a \$2,500 cost for each. Other operating expenses at \$5,000 annually would be used to upgrade computer technology software, perhaps with GIS software, to allow greater monitoring and evaluation, and real time updates on new building process/renovation.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 781 Higher Education Coordinating Board, 710 Texas A&M University System

Administrative and General Offices, 720 The University of Texas System
Administration, 758 Texas State University System, 769 University of North Texas
System Administration, 783 University of Houston System Administration, 768 Texas
Tech University System Administration

LBB Staff: JOB, KK, RT, GO, SSh