

## **BILL ANALYSIS**

C.S.H.B. 2765  
By: Branch  
Higher Education  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Advocates note that the purpose of the Texas competitive knowledge fund is to incentivize and reward excellence at emerging and mature national research institutions by allocating research dollars to schools based on those school's restricted research expenditures. These advocates point to the fund's importance in ensuring that the state's top researchers can continue their efforts to improve the world around us. However, since its inception in 2007, has existed only in the General Appropriations Act, never in statute. It has been suggested by the supporters of the fund that codifying the requirements associated with fund participation will ensure clarity and fairness for potential entrants and increase transparency in the appropriations process. C.S.H.B. 2765 seeks to address this issue.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

C.S.H.B. 2765 amends the Education Code to replace the research university development fund with the Texas competitive knowledge fund and to make certain provisions previously applicable to the research university development fund applicable to the Texas competitive knowledge fund. The bill redefines "eligible institution" with regard to the fund as an institution of higher education that is designated either as a research university or as an emerging research university and that, for any three consecutive state fiscal years beginning on or after September 1, 2010, made total annual research expenditures in an average annual amount of at least \$450 million or at least \$50 million, respectively. The bill revises the purpose of the fund and establishes that the fund consists of money appropriated by the legislature for that purpose to eligible institutions.

For the first state fiscal biennium in which an eligible institution receives an appropriation from the fund, C.S.H.B. 2765 requires the institution's other general revenue appropriations to be reduced by an amount capped at the lesser of \$5 million for the biennium or the amount of the institution's appropriation from the fund for the biennium. The bill requires the bill making the appropriation to expressly identify the purpose for which the appropriations were reduced in accordance with the bill's provisions.

C.S.H.B. 2765 requires at least 50 percent of the total amount appropriated for the purposes of the Texas competitive knowledge fund to be appropriated to eligible research universities, with the remainder appropriated to eligible emerging research universities, and entitles each eligible research or emerging research university to receive a share of the applicable amount in proportion to the average amount of total research funds expended by each institution annually during the three fiscal years preceding the state fiscal biennium for which the money is appropriated. The bill removes provisions relating to the Texas Higher Education Coordinating Board's distribution of funds appropriated by the legislature for purposes of the former fund and to the coordinating board's adoption of rules with respect to its administration of that fund.

C.S.H.B. 2765 requires the coordinating board, in consultation with fund-eligible institutions of

higher education, to study and make recommendations regarding the appropriate definitions and categories of research expenditures to be included and applied in determining an institution's eligibility for and the amount of distributions from the fund. The bill requires the coordinating board, not later than December 1, 2014, to report its study and deliver its recommendations to the governor, lieutenant governor, speaker of the house of representatives, and chairs of specified house and senate committees. The bill requires the coordinating board, at the request of a consulting institution of higher education, to include with its recommendations the written response of the institution to those recommendations.

**EFFECTIVE DATE**

September 1, 2013.

**COMPARISON OF ORIGINAL AND SUBSTITUTE**

While C.S.H.B. 2765 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and highlighted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED	HOUSE COMMITTEE SUBSTITUTE
SECTION 1. Subchapter C, Chapter 62, Education Code, is amended to read as follows: SUBCHAPTER C. <u>TEXAS</u> COMPETITIVE <u>KNOWLEDGE</u> [ <u>RESEARCH UNIVERSITY</u> <u>DEVELOPMENT</u> ] FUND Sec. 62.051. DEFINITIONS. In this subchapter: (1) "Eligible institution" means an institution of higher education <u>that</u> : (A) <u>is designated as a research university or</u> <u>emerging research university</u> under the coordinating board's accountability system; <u>and</u> (B) <u>for any three consecutive state fiscal years beginning on or after September 1, 2010, made total annual research expenditures in an average annual amount of not less than \$50 million.</u>  (2) "Institution of higher education" has the meaning assigned by Section 61.003. Sec. 62.052. PURPOSE. The purpose of this subchapter is to provide funding to research universities and emerging research universities <u>to support faculty to ensure excellence in instruction and research</u> [ <del>for</del>	SECTION 1. Subchapter C, Chapter 62, Education Code, is amended to read as follows: SUBCHAPTER C. <u>TEXAS</u> COMPETITIVE <u>KNOWLEDGE</u> [ <u>RESEARCH UNIVERSITY</u> <u>DEVELOPMENT</u> ] FUND Sec. 62.051. DEFINITIONS. In this subchapter: (1) "Eligible institution" means an institution of higher education <u>that</u> : (A) <u>is designated as a research university</u> [ <del>or</del> <u>emerging research university</u> ] under the coordinating board's accountability system <u>and,</u> <u>for any three consecutive state fiscal years beginning on or after September 1, 2010, made total annual research expenditures in an average annual amount of not less than \$450 million; or</u> (B) <u>is designated as an emerging research university under the coordinating board's accountability system and, for any three consecutive state fiscal years beginning on or after September 1, 2010, made total annual research expenditures in an average annual amount of not less than \$50 million.</u> (2) <u>"Fund" means the Texas competitive knowledge fund.</u> (3) "Institution of higher education" has the meaning assigned by Section 61.003. Sec. 62.052. PURPOSE. The purpose of this subchapter is to provide funding to <u>eligible</u> research universities and emerging research universities <u>to support faculty to ensure excellence in instruction and research</u> [ <del>for</del>

~~the recruitment and retention of highly qualified faculty and the enhancement of research productivity at those universities].~~

Sec. 62.053. ~~FUNDING.~~ (a) For each state fiscal year, the coordinating board shall distribute any funds appropriated by the legislature for the purposes of this subchapter, and any other funds made available for the purposes of this subchapter, to eligible institutions based on the average amount of total research funds expended by each institution annually during the three most recent state fiscal years, at the rate of ~~[according to the following rates:~~

~~[(1)] at least \$700,000 [\$1 million] for every \$10 million of the average annual amount of those research funds expended by the institution[, if that average amount for the institution is \$50 million or more; and~~

~~[(2)] at least \$500,000 for every \$10 million of the average annual amount of those research funds expended by the institution, if that average amount for the institution is less than \$50 million].~~

(b) For purposes of Subsection (a), the amount of total research funds expended by an eligible institution in a state fiscal year is the amount of those funds as reported to the coordinating board by the institution for that fiscal year, subject to any adjustment by the coordinating board in accordance with the standards and accounting methods the coordinating board prescribes for purposes of this section. If the funds available for distribution for a state fiscal year under Subsection (a) are not sufficient to provide the amount specified by Subsection (a) for each eligible institution or exceed the amount sufficient for that purpose, the available amount shall be distributed in proportion to the total amount to which each institution is otherwise entitled under Subsection (a).

~~the recruitment and retention of highly qualified faculty and the enhancement of research productivity at those universities].~~

Sec. 62.053. ~~FUND~~ ~~[FUNDING]~~. (a) ~~The Texas competitive knowledge fund consists of money~~ ~~[For each state fiscal year, the coordinating board shall distribute any funds]~~ appropriated by the legislature for the purposes of this subchapter~~[, and any other funds made available for the purposes of this subchapter,]~~ to eligible institutions ~~[based on the average amount of total research funds expended by each institution annually during the three most recent state fiscal years, according to the following rates:~~

~~[(1)] at least \$1 million for every \$10 million of the average annual amount of those research funds expended by the institution, if that average amount for the institution is \$50 million or more; and~~

~~[(2)] at least \$500,000 for every \$10 million of the average annual amount of those research funds expended by the institution, if that average amount for the institution is less than \$50 million].~~

(b) For purposes of this section ~~[Subsection (a)]~~, the amount of total research funds expended by an eligible institution in a state fiscal year is the amount of those funds as reported to the coordinating board by the institution for that fiscal year, subject to any adjustment by the coordinating board in accordance with the standards and accounting methods the coordinating board prescribes for purposes of this section. ~~[If the funds available for distribution for a state fiscal year under Subsection (a) are not sufficient to provide the amount specified by Subsection (a) for each eligible institution or exceed the amount sufficient for that purpose, the available amount shall be distributed in proportion to the total amount to which each institution is otherwise entitled under Subsection (a).]~~

Sec. 62.0535. INITIAL CONTRIBUTION. For the first state fiscal biennium in which an eligible institution receives an appropriation under this subchapter, the institution's other general revenue appropriations shall be reduced by an amount not to exceed the lesser of \$5 million for the biennium or the amount of the institution's appropriation under this subchapter for the biennium. The bill making the appropriation must expressly identify the purpose for which the appropriations were reduced in accordance

Sec. 62.054. RULES. The coordinating board shall adopt rules for the administration of this subchapter~~[, including any rules the coordinating board considers necessary regarding the submission to the coordinating board by eligible institutions of any student data required for the coordinating board to carry out its duties under this subchapter].~~

SECTION 2. (a) The Texas Higher Education Coordinating Board, in consultation with institutions of higher education that are eligible institutions under Subchapter C, Chapter 62, Education Code, as amended by this Act, shall study and make recommendations regarding the appropriate definitions and categories of research expenditures to be included and applied in determining an institution's eligibility for and the amount of distributions from the Texas competitive knowledge fund established by that subchapter.

(b) Not later than December 1, 2014, the coordinating board shall report its study and deliver its recommendations to the:

(1) governor;

with this section.

Sec. 62.054. APPROPRIATION AMOUNTS [RULES]. (a) Of the total amount appropriated for purposes of this subchapter in a state fiscal year, an eligible institution is entitled to receive an appropriation in the amount determined in accordance with this section.

(b) Not less than 50 percent of the total amount appropriated for purposes of this subchapter shall be appropriated to eligible institutions described by Section 62.051(1)(A). Each institution is entitled to receive a share of that amount in proportion to the average amount of total research funds expended by each institution annually during the three fiscal years preceding the state fiscal biennium for which the money is appropriated.

(c) The remainder of the total amount appropriated for purposes of this subchapter shall be appropriated to eligible institutions described by Section 62.051(1)(B). Each institution is entitled to receive a share of that amount in proportion to the average amount of total research funds expended by each institution annually during the three fiscal years preceding the state fiscal biennium for which the money is appropriated. ~~[The coordinating board shall adopt rules for the administration of this subchapter, including any rules the coordinating board considers necessary regarding the submission to the coordinating board by eligible institutions of any student data required for the coordinating board to carry out its duties under this subchapter.]~~

SECTION 2. Same as introduced version.

- (2) lieutenant governor;
  - (3) speaker of the house of representatives;
  - (4) chair of the Senate Committee on Finance;
  - (5) chair of the Senate Committee on Higher Education;
  - (6) chair of the House Committee on Appropriations; and
  - (7) chair of the House Committee on Higher Education.
- (c) At the request of an institution of higher education that consults with the coordinating board under this section, the coordinating board shall include with its recommendations the written response of the institution to those recommendations.

SECTION 3. The Texas Higher Education Coordinating Board shall adopt rules relating to the administration of Subchapter C, Chapter 62, Education Code, as amended by this Act, as soon as practicable after the effective date of this Act.

SECTION 4. This Act takes effect September 1, 2013.

No equivalent provision.

SECTION 3. Same as introduced version.