

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 24, 2013

TO: Honorable Dan Branch, Chair, House Committee on Higher Education

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2765** by Branch (relating to the creation of the Texas competitive knowledge fund to support excellence at qualifying institutions of higher education.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill amends the Education Code relating to the creation of the Texas Competitive Knowledge Fund to support excellence at qualifying institutions of higher education. The bill renames the Research University Development Fund as the Texas Competitive Knowledge Fund ("Fund") and makes changes to the eligibility, purpose, funding requirements, and initial contributions of the Fund.

The provisions of the bill define eligibility requirements for the Fund depending on the type of institution: research institutions are eligible if the institution reaches total annual research expenditures in an average annual amount of not less than \$450.0 million for three consecutive fiscal years beginning in fiscal year 2011 and emerging research university are eligible if the institution reaches total annual research expenditures in an average annual amount of not less than \$50.0 million for three consecutive fiscal years beginning in fiscal year 2011.

Under provisions of the bill, eligible research institutions must receive at least 50% of the total appropriations for the Fund, with the remaining amount provided to eligible emerging research universities. The appropriations will be based on the proportion of institutions average annual total research expenditures for the three fiscal years prior to the biennium in which the institution is receiving money from the Fund. Under provisions of the bill, during the first biennium in which an eligible institution receives an appropriation from the Fund, the institution's other general revenue appropriations shall be reduced by the lesser of \$5.0 million for the biennium or the amount of the appropriation the institution receives from the Fund.

It is assumed that there would be no net change in general revenue under the provisions of the bill, but that there would be a redistribution of funding between institutions of higher education. The bill provides that the Fund becomes a modified version of a statutory fund, the Research University Development Fund, which has not previously been funded by the legislature. Currently, the legislature funds a program, authorized by the General Appropriations Act (GAA) but not appearing in statute, called the Texas Competitive Knowledge Fund (TCKF). Certain institutions are provided appropriations directly in a strategy named the "Competitive Knowledge Fund". It is assumed that implementation of the bill and creation of the statutory Texas Competitive Knowledge Fund will replace the current program that has been provided appropriations through the GAA in the past.

The analysis of this bill compares the funding requirements under the bill provisions of the new statutory Fund to the appropriations for the TCKF. The Eighty-second Legislature, Regular Session, 2011, appropriated \$93,485,426 in general revenue to the TCKF strategies provided directly to institutions. Institutions receiving TCKF appropriations in fiscal years 2012-13 include The University of Texas at Austin (UT), Texas A&M University (TAMU), University of Houston, Texas Tech University, and The University of Texas at Dallas. This funding level provides approximately \$0.7 million to each institution for every \$10.0 million in average annual research expenditures. Institutions are allocated funding appropriated to the TCKF based on average research expenditures for the previous three-year period.

Under the provisions of the bill and based on the eligibility requirements, it is assumed that the legislature would continue to appropriate \$93.5 million in each future biennia for the Fund and the funding would be provided to the institutions currently receiving TCKF appropriations and The University of Texas at Arlington, The University of Texas at El Paso, and The University of Texas at San Antonio. These three institutions not currently receiving TCKF appropriations in fiscal years 2012-13 would be required to receive a reduction in their general revenue appropriations of the amount the institutions would receive from the Fund in fiscal year 2014 and 2015. It is assumed that the legislature would appropriate additional funding to the Fund in the amount of the institutions reduction in other general revenue appropriations resulting in no net change to general revenue. It was assumed that the University of North Texas and Texas State University - San Marcos, two emerging research universities, would not attain the eligibility requirement regarding average annual research expenditures and would not therefore be eligible for appropriations from this Fund during fiscal years 2014-2018.

The allocation of funding between the eligible institutions will change each biennium depending on changes in total research expenditures at each institution. However, under provisions of the bill, the eligible research institutions in the state must receive at least 50% of the funding provided for this purpose. In addition, under provisions of the bill, eligible research universities must receive in future fiscal years at least the amount of funding that the institutions received in fiscal year 2013. Only two institutions in the state, TAMU and UT, currently meet this criterion and the two institutions received \$38.3 million in TCKF funding during fiscal year 2013. Due to these two provisions regarding appropriations and to the extent that the research universities total research expenditures are not growing at the same or faster rate than the eligible emerging research universities or the amount of funding appropriated to the Fund does not increase, there could be a different match rate provided between the two classes of institutions in the Fund.

Under provisions of the bill, the Texas Higher Education Coordinating Board and institutions of higher education eligible for the Fund will study and make recommendations regarding the research expenditures to be included in the calculations for eligibility purposes and distribution amounts from the Fund. This report is due to certain individuals by December 1, 2014. It is assumed that any costs associated with the implementation of this section can be absorbed by the agency and the institutions within existing resources.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 768 Texas Tech University System Administration,

769 University of North Texas System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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