

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 3, 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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2765, As Introduced: a negative impact of (\$23,675,802) through the biennium ending August 31, 2015.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	(\$11,837,901)
2015	(\$11,837,901)
2016	(\$14,210,832)
2017	(\$14,210,832)
2018	(\$17,922,902)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund
	1
2014	(\$11,837,901)
2015	(\$11,837,901)
2016	(\$14,210,832)
2017	(\$14,210,832)
2018	(\$17,922,902)

Fiscal Analysis

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, and funding requirements of the Fund. The provisions

of the bill add an eligibility requirement that institutions reach 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. The bill amends the Fund to provide a rate of at least \$700,000 for every \$10.0 million of average annual research expenditures at eligible institutions. The provisions of the bill remove the funding rates previously specified for the Research University Development 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.

Methodology

Under the provisions of the bill the Texas Competitive Knowledge Fund (“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, which is currently funded within the GAA. 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, Texas A&M University, 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 provisions of the Fund, \$700,000 would be provided for every \$10.0 million in average total research expenditures for each institution meeting the eligibility requirements. This includes a classification as a research or emerging research university and reaching a three year average of research expenditures of \$50.0 million or more. Under the provisions of the bill and based on the eligibility requirements, it is assumed that program cost would be based on meeting the matching rate requirements of the Fund based on the most recent three year average of research expenditure data available during a legislative session for eligible institutions. It is assumed that the funding rate is provided over a biennium. At the funding requirements, this would result in general revenue appropriations of \$117,161,228 for fiscal years 2014-15 to eight institutions: The University of Texas at Austin, Texas A&M University, University of Houston, Texas Tech University, The University of Texas at Dallas, The University of Texas at Arlington, The University of Texas at El Paso, and The University of Texas at San Antonio.

For this analysis, it is assumed that research expenditures for each of the eligible research and emerging research universities will grow at a rate of 3% each fiscal year and costs are based on the funding rate using the most recent three fiscal years of data available and distributed equally over the next two fiscal years of the biennium. Using these assumptions, it is assumed costs would be \$121,907,089 in fiscal years 2016-17 and \$129,331,231 in fiscal years 2018-19. These costs were compared to the current TCKF appropriation level of \$93,485,426 to determine

the cost to general revenue to implement the Fund.

Based on these assumptions, 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.

Under provisions of the Fund, the Higher Education Coordinating Board can prorate the amounts provided to eligible institutions if the legislature does not appropriate funding at the level of \$700,000 per \$10.0 million in research expenditures. As such, if the legislature chose to appropriate less than this matching rate, the cost to the state would decrease accordingly. In addition, when appropriations in the GAA for the current TCKF have been provided to institutions for the first time, appropriations have been reduced from the institution's special item strategies. In subsequent biennia, the institution continues to receive appropriations from TCKF and the reduction in special items is not specifically restored. To the extent that institutions not currently receiving TCKF appropriations in fiscal years 2012-13 are included in the Fund and required to receive a reduction in their special item strategies, the cost to the state of implementation would also decrease correspondingly to this offset of general revenue.

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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