

## **BILL ANALYSIS**

C.S.H.B. 1595  
By: Bonnen  
Higher Education  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

The U.S. Census Bureau estimated in 2022 that the population of Texas surpassed 30 million people. This is an increase of roughly five million people since the 2010 census. This growth represents significant opportunity but, as the Federal Reserve Bank of Dallas notes, also will lead to a corresponding strain on the state's infrastructure and public resources. C.S.H.B. 1595 seeks to accelerate state universities' progress toward achieving the goals of Building a Talent Strong Texas, as established by the Texas Higher Education Coordinating Board, and help address the rapidly evolving needs of the Texas economy by redesignating the National Research University Fund as the Texas University Fund and modifying its structure to offer performance-based funding driven by research expenditures. Under this new structure, which is designed to ensure that institutions are not only competitive across Texas, but nationally, eligible institutions would receive a base funding amount dependent on the institution's research expenditures, as well as supplemental funding tied to the amount of federal and private research expenditures made and number of research doctoral degrees awarded.

### **CRIMINAL JUSTICE IMPACT**

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that rulemaking authority is expressly granted to the comptroller of public accounts in SECTION 14 and to the Texas Higher Education Coordinating Board in SECTIONS 15 and 17 of this bill.

### **ANALYSIS**

C.S.H.B. 1595 amends the Education Code to set out provisions relating to the administration and investment of, and distribution and use of money from, certain constitutional and statutory funds to support certain higher education functions.

#### **Texas University Fund**

##### **Redesignation of National Research University Fund**

C.S.H.B. 1595 redesignates the National Research University Fund (NRUF), which had as its purpose providing funding to enable emerging research universities in Texas to achieve national prominence as major research universities, as the Texas University Fund (TUF), which has as its purpose providing funding to enable certain general academic teaching institutions to achieve this national prominence and to drive the state economy. The bill establishes that, in provisions governing the TUF, a reference to the TUF means the NRUF but that in other law the NRUF may be referred to as the TUF.

### Administration and Investment

C.S.H.B. 1595 transfers administration and investment authority from the comptroller of public accounts to the Texas Treasury Safekeeping Trust Company and requires the trust company to determine the amount available for distribution from the TUF in accordance with a distribution policy adopted by the comptroller that is designed to do the following:

- preserve the purchasing power of TUF assets over a rolling 10-year period, subject to the liquidity needs of the TUF; and
- provide a stable and predictable stream of annual distributions.

The bill authorizes the comptroller to solicit gifts and grants from any source for the TUF.

### Funding Eligibility

C.S.H.B. 1595 provides that Texas State University, Texas Tech University, the University of Houston, and the University of North Texas are eligible to receive funding from the TUF for each state fiscal year and that any other general academic teaching institution becomes eligible to receive an initial distribution from the TUF for a state fiscal year if the institution satisfies the following criteria:

- is not entitled to participate in the funding provided by the Texas Constitution to support The Texas A&M University System and The University of Texas System;
- spent on average at least the following amount in federal and private research funds per state fiscal year during the preceding three state fiscal years:
  - for the 2024 state fiscal year, \$20 million; and
  - for any state fiscal year thereafter, the minimum required expenditure for the preceding state fiscal year adjusted by the increase, if any, in the rate of inflation during the preceding state fiscal year, as determined by the Texas Higher Education Coordinating Board (THECB) on the basis of changes in the consumer price index (CPI); and
- awarded on average at least 45 research doctoral degrees per academic year during the preceding three academic years.

The extension of eligibility to an additional institution not expressly named is contingent on the legislature appropriating money to the TUF in an amount sufficient to ensure that, for the first state fiscal year for which the additional institution would receive a distribution from the TUF, the market value of each other eligible institution's share of the distribution of money for that state fiscal year is at least the same as the market value of that share for the state fiscal year immediately preceding the state fiscal year in which the additional institution becomes eligible.

C.S.H.B. 1595 removes eligibility criteria applicable to the NRUF that required designation as an emerging research university, expenditure of at least \$45 million in restricted research funds in each of the preceding two state fiscal years, and satisfaction of at least four of six specified criteria relating to endowment fund value, number of doctor of philosophy degrees awarded, academic achievement, recognition of research capabilities and scholarly attainment, faculty quality, and commitment to high-quality graduate education. The bill repeals certain provisions relating to THECB verification of information submitted for determining funding eligibility.

### Allocation of Fund

C.S.H.B. 1595 does the following with respect to the allocation of money in the TUF:

- changes the cap on the total amount that may be appropriated from the TUF for any state fiscal year from 4.5 percent of the average net market value of the TUF's investment assets for the 12 consecutive state fiscal quarters ending with the last quarter of the preceding state fiscal year, which was the cap for the NRUF, to 7.0 percent of the average net market value of those assets for a period set by comptroller rule; and
- removes existing provisions relating to the allocation of NRUF funds and requires that the amount appropriated from the TUF for distribution in a given state fiscal year be

allocated so that 75 percent of the money goes to a permanent endowment for educational and research base funding and the remaining 25 percent goes to research performance funding.

C.S.H.B. 1595 provides that, in each state fiscal year, an eligible institution is entitled to a distribution of a portion of the total amount of the TUF allocated for the permanent endowment for education and research base funding for that fiscal year computed as follows:

- for an institution that spent at least the following amount in federal and private research funds in each of the preceding two state fiscal years, an amount computed by dividing two by the sum of the number of institutions entitled to receive a distribution multiplied by two and the number of institutions entitled to a distribution but that did not spend that amount:
  - for the 2024 state fiscal year, \$45 million; and
  - for any state fiscal year thereafter, the minimum required expenditure for the preceding state fiscal year adjusted by the increase, if any, in the rate of inflation during the preceding fiscal year, as determined by the THECB on the basis of changes in the CPI; and
- for all other eligible institutions, half of that computed amount.

However, an eligible institution that spends the requisite amount in federal and private research funds to qualify for a distribution from the endowment equal to the full amount computed by the formula is entitled to receive such a distribution only if in each of state fiscal years 2021 and 2022, the institution spent at least \$45 million in federal and private research funds or the legislature appropriates money to the TUF in an amount sufficient to ensure that, for the first state fiscal year for which the institution would receive a full distribution, the market value of each other eligible institution's share of the applicable distribution for that fiscal year is at least the same as the market value of that share for the state fiscal year immediately preceding the state fiscal year in which the institution becomes eligible for a full distribution. An eligible institution that becomes eligible to receive a distribution in the full amount computed by the formula remains eligible to receive such a distribution in each subsequent state fiscal year.

C.S.H.B. 1595 provides that, from 85 percent of the amount allocated from the TUF for research performance funding for a state fiscal year, an eligible institution is entitled to a distribution for that fiscal year in an amount proportionate to the average amount of federal and private research funds the institution spends per state fiscal year during the preceding three state fiscal years as compared to the average amount of those funds all eligible institutions spend per state fiscal year during that period. From 15 percent of the amount allocated for research performance funding for a state fiscal year, an eligible institution is entitled to a distribution for that fiscal year in an amount proportionate to the average number of research doctoral degrees the institution awards per academic year during the preceding three academic years as compared to the average number of those degrees all eligible institutions award per academic year during that period. The bill requires the THECB by rule to establish a method for determining the amounts to which each eligible institution is entitled.

#### Determination and Report of Amount Distributed

C.S.H.B. 1595 requires the Legislative Budget Board, in consultation with the THECB, to do the following for each state fiscal biennium:

- determine the amount of each distribution from the TUF to which each eligible institution is entitled; and
- report those determinations to the legislature and the comptroller.

#### Use of Allocated Amounts

C.S.H.B. 1595 requires an eligible institution's use of money received from the TUF to align with the goals of the state's master plan for higher education. The bill retains as authorized uses of the money allocated from the TUF all uses previously authorized for the NRUF but also

expands the authorized uses to include increasing technology transfer, commercialization, and patent development and increasing the number of research doctoral graduates in Texas.

### Institutional Endowment Reporting

C.S.H.B. 1595 authorizes each eligible institution, for purposes of reporting the amount of its institutional endowment funds, to include as a true endowment, in accordance with THECB rule, the institution's share of the TUF market value corresponding to the share of the permanent endowment for education and research base funding to which the institution is entitled for a state fiscal year.

### Rulemaking

C.S.H.B. 1595 authorizes the THECB to adopt rules as necessary to implement state law governing the TUF.

### **Core Research Support Fund**

C.S.H.B. 1595 removes provisions establishing a formula for the appropriation of money in the Core Research Support Fund (CRSF) to eligible institutions in a state fiscal year and requires those amounts to be appropriated instead in the same manner that research performance funding is appropriated from the TUF. Moreover, the bill revises the conditions that an institution must satisfy to qualify for a distribution from the CRSF. The bill removes the only existing requirement, which is that the institution be designated as an emerging research university under the THECB's accountability system, and requires instead that the institution not only be entitled to participate in the funding provided by the Texas Constitution to support The Texas A&M University System and The University of Texas System but to also have done both of the following:

- spent on average at least the following amount in federal and private research funds per state fiscal year during the preceding three state fiscal years:
  - for the 2024 fiscal year, \$20 million; and
  - for any state fiscal year thereafter, the amount required for the preceding state fiscal year adjusted by the increase, if any, in the rate of inflation during the preceding fiscal year, as determined by the THECB on the basis of changes in the CPI; and
- awarded on average at least 45 research doctoral degrees per academic year during the preceding three academic years.

### **Texas Comprehensive Research Fund**

C.S.H.B. 1595 removes provisions establishing a formula for the appropriation of money in the Texas Comprehensive Research Fund (TCRF) to eligible institutions in a state fiscal year and requires those amounts to be appropriated instead in the same manner that research performance funding is appropriated from the TUF on the basis of the amount spent in federal and private research funds. The bill makes an institution that is eligible to receive distributions from the TUF ineligible to receive an appropriation from the TCRF.

### **Repealed Provisions**

C.S.H.B. 1595 repeals the following provisions of the Education Code:

- Sections 62.096(a), (b), and (e);
- Section 62.135(b);
- Section 62.142(2);
- Sections 62.146 and 62.147; and
- Sections 62.148(d), (e), and (f).

## **EFFECTIVE DATE**

September 1, 2023.

## **COMPARISON OF INTRODUCED AND SUBSTITUTE**

While C.S.H.B. 1595 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

In revising the conditions that an institution must satisfy to qualify for a distribution from the CRSF, the introduced retained the existing condition that the institution be designated as an emerging research university under the THECB's accountability system. The substitute removes this condition.

The introduced required the distribution policy for the TUF to be designed to preserve the purchasing power of TUF assets. The substitute revises this requirement to require the policy to be designed to preserve that purchasing power over a rolling 10-year period, subject to the liquidity needs of the TUF.

Both the introduced and the substitute change the cap on the total amount that may be appropriated from the newly redesignated TUF for a given state fiscal year. However, whereas the introduced increased the cap from 4.5 percent of the average net market value of the TUF's investment assets for the 12 consecutive state fiscal quarters ending with the last quarter of the preceding state fiscal year to 7.0 percent of that value for that 12-quarter period, the substitute changes the cap instead to 7.0 percent of the average net market value of the TUF's investment assets for a period set by comptroller rule.

The introduce provided certain fixed research expenditure requirements to be eligible to receive funding from the CRSF, base funding from the TUF, and supplemental funding from the permanent endowment for education and research base funding within the TUF. The substitute provides the same fixed expenditure requirements, but applicable only for the 2024 state fiscal year. Thereafter, the substitute provides for the upward adjustment of these expenditure requirements to account for inflation.

The introduced replaced the existing formula for the appropriation of money in the TCRF with a requirement for those amounts to be appropriated in the same manner that research performance funding is appropriated from the TUF. The substitute revises this new requirement to specify that it is the manner in which research performance funding is appropriated based on the amount spent in federal and private research funds. Additionally, the substitute makes an institution that is eligible to receive distributions from the TUF ineligible to receive an appropriation from the TCRF, whereas the introduced did not do this.