

Higher Education Funds Summary - House

There are four higher education funds with their own bill patterns.

The Available University Fund (AUF) is authorized by the Texas Constitution, Article VII, Section 18. The AUF provides funding for institutions in the University of Texas (UT) System and most institutions in the Texas A&M University (TAMU) System. AUF appropriations are first used to pay debt service on bonds backed by the Permanent University Fund (PUF), then remaining funds may be used for support and maintenance at certain institutions and for system office operations.

The Higher Education Fund (HEF) is authorized by the Texas Constitution, Article VII, Section 17. The HEF provides capital funding for institutions of higher education that are not supported by the Available University Fund.

The Permanent Fund for Military and Veterans Exemptions (MVE) is authorized by Education Code, Section 54.3411, and was established to assist public institutions of higher education to offset the waived tuition and fee revenue from the Hazlewood Legacy Program. Historically, the Legislature has appropriated additional General Revenue in addition to MVE distributions.

The Available Texas University Fund (TUF) is authorized by the Texas Constitution, Article VII, Section 20. The TUF provides funding to certain General Academic Institutions (GAIs) for the purpose of achieving national prominence as major research universities and driving the state economy. TUF appropriations may only be used by eligible GAIs for the support and maintenance of educational and general activities that promote research capacity.

Summary of Budget Recommendations

	General Revenue Funds (millions)			All Funds (millions)		
	2024-25 Base	2026-27 Recommended	Biennial Change	2024-25 Base	2026-27 Recommended	Biennial Change
AUF	-	-	-	\$3,726.1	\$3,606.9	(\$119.2)
HEF	\$787.5	\$787.5	\$0.0	\$787.5	\$787.5	\$0.0
MVE	\$214.9	\$214.9	\$0.0	\$235.9	\$236.4	\$0.5
TUF	\$136.4	\$0.0	(\$136.4)	\$273.4	\$274.0	\$0.6
TOTAL	\$1,138.7	\$1,002.4	(\$136.4)	\$5,022.9	\$4,904.8	(\$118.2)

Totals may not sum due to rounding

Policy Issues and Recommendations

1. AUF appropriations. Recommendations include a \$119.2 million decrease in estimated appropriations from the Available University Fund (AUF) for the 2026-27 biennium, for a total of \$3.6 billion. The decrease is due to a \$462.7 million non-recurring special distribution from the PUF to the AUF authorized by the UT System Board of Regents in fiscal year 2024 which offsets the anticipated growth in the PUF. The funds would be allocated, pursuant to the Texas Constitution, Article VII, Section 11 requirements, as follows:

- \$2.4 billion to the UT System, and
- \$1.2 billion to the TAMU System.

The PUF is a state endowment fund that contributes to the support of 21 institutions and six agencies of the UT and TAMU systems. The PUF includes 2.1 million acres of land grants. Annual distributions are made from the PUF to the AUF as approved by the UT System's Board of Regents in accordance with the Texas Constitution requirements and Board of Regents' policy. The AUF also consists of surface income from PUF lands and interest income on AUF balances held in the state treasury.

2. HEF funding and allocation study. Recommendations for Higher Education Fund (HEF) funding maintain \$393.8 million in General Revenue per fiscal year. The Texas Constitution, Article VII, Section 17, requires the Texas Legislature to determine the HEF appropriation allocation every 10 years. In the fifth year of a 10-year period, the Legislature may adjust the allocation formula, but no adjustment that will prevent the payment of outstanding bonds and notes. The current allocations by institution are reflected in Education Code, Section 62.021. HEF allocations for the upcoming 10-year period, fiscal year 2026 to 2035, are contingent upon the passage of legislation by the Eighty-ninth Legislature, 2025.

Per Education Code, Section 62.022, the Texas Higher Education Coordinating Board (THECB) is required to conduct a study of the HEF allocation methodology before the beginning of each 10-year allocation period. Prior to the convening of the Eighty-ninth Legislature, 2025, THECB studied the methodology – with full participation of eligible institutions – and recommended a 100 percent increase in HEF funding from \$393.8 million to \$787.5 million per fiscal year and an updated allocation methodology.

3. MVE distribution and GR appropriation. Pursuant to Texas Education Code, Section 54.3411 requirements, the Texas Treasury Safekeeping Trust Company (TTSTC) administers the Permanent Fund Supporting Military and Veterans Exemptions (MVE) and determines the amount available for distribution and appropriation from the fund. TTSTC determines the MVE appropriation amount in accordance with Texas Comptroller policy, which is based on 3.5 percent of the 20-quarter moving average value of the MVE.

In addition to the MVE distributions, the legislature has also appropriated General Revenue for the Hazlewood Legacy Program (HLP) since the 2018-19 biennium through the MVE bill pattern. The General Revenue support totaled \$30.0 million for the 2018-19 biennium but was reduced to \$28.5 million for the next two biennia due to a 5% budget reduction in

General Revenue appropriations. The Eighty-eighth Legislature, 2023, increased the HLP appropriation for the 2024-25 biennium to \$214.9 million as part of a package related to higher education affordability. Recommendations maintain the 2024-25 biennium funding level of \$214.9 million in General Revenue.

From fiscal years 2018 to 2023, annual HLP appropriations, including both MVE and General Revenue support, covered approximately 14.0 percent of the institutions' waived tuition and fee revenue. Due to the increase in General Revenue provided by the Eighty-eighth Legislature, annual HLP appropriations increased to cover 73.9 percent of waived tuition and fee revenue in fiscal year 2024.

4. TUF appropriation and distribution. In 2023, the Eighty-eighth Legislature enacted House Bill 1595, which, in conjunction with voter approval of House Joint Resolution 3, redesignated the National Research University Fund (NRUF) as the Texas University Fund (TUF). The Texas Treasury Safekeeping Trust Company (TTSTC) determines the amount of available TUF distribution for each fiscal year pursuant to Education Code, Section 62.143 requirements. The total amount appropriated from TUF for any state fiscal year may not exceed an amount equal to 7.0 percent of the average net market value of the investment assets of the fund. For fiscal year 2024, in lieu of a distribution from the TUF, the Eighty-eighth Legislature, 2023, appropriated \$136.4 million in General Revenue for distribution to eligible institutions.

The distribution of available TUF appropriations and the university eligibility requirements are set forth in the Texas Constitution, Article VII, Section 20 and Education Code, Chapter 62, Subchapter G. Currently, the University of Houston, Texas Tech University, Texas State University, and the University of North Texas are eligible to receive TUF appropriations. Per Education Code, Section 62.145, another institution may become eligible if the following criteria are met:

- The institution is not entitled to participate in the Permanent University Fund;
- The institution spent on average at least \$20 million, or an amount adjusted for inflation, in federal and private research funds per year in the preceding three fiscal years;
- The institution awarded on average at least 45 research doctoral degrees per year in the preceding three academic years; and
- The Legislature appropriates money to the fund in an amount sufficient to ensure a stable and predictable stream of annual distributions from the TUF to each eligible institution.

Of the amount appropriated from the ATUF for distribution, 75 percent must be allocated to the permanent endowment for education and research (PEER) base funding and 25 percent must be allocated to research performance funding.

Recommendations include \$274.0 million in estimated appropriations from the Available TUF as well as a contingency rider in Article IX of the General Appropriations Bill to provide up to \$1.3 billion in General Revenue for deposit into the TUF to ensure stable funding for currently eligible institutions should additional institutions of higher education become TUF-eligible or become eligible for Level 1 Base Funding. The contingency rider makes \$650.0 million available for deposit for each instance of such eligibility changes certified by THECB.

Rider Highlights

Modification of Existing Riders:

- AUF Rider 3. The University of Texas System Share. Recommendations modify the permissible uses of the UT System share of the Available University Fund distribution to delete language relating to refinancing and early retirement of debt and to clarify that the use of AUF distributions for support and maintenance applies to UT System and UT Austin, pursuant to Texas Constitution, Article VII, Section 18(f).
- TUF Rider 3. Appropriation: Unexpended Balances. Recommendations provide UB authority within the biennium and delete language relating to the transition from the Available National Research University Fund.

New Riders:

- MVE Rider 4. Texas Veterans Commission Veterans Exemption Data. Recommendations require the Texas Veterans Commission to report to eligible institutions and their system offices on veteran, child, spouse, and legacy participants in the Hazlewood exemption program.

Deleted Riders

- TUF Rider 2. General Revenue Distribution to Eligible Institutions. Rider is no longer needed, as ongoing funding for the Available Texas University Fund will be comprised of distributions from the TUF.

Requests Not Included in Recommendations

HEF Exceptional Item Requests Not Included:

- THECB recommended increasing annual HEF appropriations from \$393.8 million to \$787.5 million per fiscal year, for a total of \$1,575.0 million for the 2026-27 biennium. THECB's recommendations were made with full participation of eligible institutions.