



## LEGISLATIVE BUDGET BOARD

# Higher Education Funds

## Constitutional and Statutory Capital and Research Funds

**PRESENTED TO SENATE HIGHER EDUCATION COMMITTEE  
LEGISLATIVE BUDGET BOARD STAFF**

**May 2022**

# Overview

- Overview of funds mandated by the Texas Constitution and Education Code for the purpose of financing capital improvements, support and maintenance or research activities.

<b>Capital Funding</b>	<b>Research Funding</b>
Available University Fund	Texas Research Incentive Program
Permanent University Fund	National Research University Fund
Higher Education Fund	Texas Research University Fund
	Core Research Support Fund
	Comprehensive Research Fund

# Constitutional Capital Funding

## Permanent University Fund

- Established by three grants of land (1838, 1876, and 1883) totaling 2.1 million acres in 19 Texas Counties.
- The lands are managed by the University of Texas System and generate revenue through leases of both surface and mineral rights. The PUF Endowment includes the accumulated mineral income, and the investment returns from the fund management by the University of Texas Investment Management Corporation (UTIMCO).
- The PUF's value may be leveraged for the issuance of bonds to support capital projects at UT System components and certain Texas A&M System components.

## Available University Fund

- An annual distribution from the Permanent University Fund, including a **distribution from the endowment** itself and the **surface income collected by University Lands**. The estimated distribution for 2022 is \$1.2B.
- Distributions may be used to pay principal and interest on PUF-backed debt and remaining funds may be used to for support and maintenance at Texas A&M University, certain A&M institutions, the University of Texas at Austin, and the administrations of both the UT and Texas A&M Systems.

## Higher Education Fund

- An annual General Revenue appropriation of \$393.8 million distributed according to allocations developed in collaboration with the Higher Education Coordinating Board.
- Created to provide capital funding to institutions not eligible for support from the AUF/PUF.

# Available University Fund

**Authorization:** Texas Constitution, Article VII, Section 18

**Eligibility:** University of Texas at Austin, Texas A&M University (Inc. Texas A&M Galveston and the Texas A&M Health Science Center), and Prairie View A&M University, University of Texas System Office, Texas A&M University System Office (See Appendix A for additional detail)

**Allocation Methodology:** Supported by an annual distribution divided between the UT System (two-thirds) and Texas A&M System (one-third) as determined by the UT System Board of Regents, the distribution is composed of two pieces:

- The Distribution shall not exceed seven percent of the average net fair market value of the PUF (Art VII, Sec. 18. (e)). The only exception to this stipulation is if additional funding is necessary to fund the debt service on bonds backed by the PUF.
- The Surface income (from grazing and site leases, easements, groundwater sales, wind farms, caliche/sand/gravel sales, and a vineyard).

**Permissible Uses:** System Office Operations and Maintenance, and Principal and Interest on PUF-Backed Bonds for capital projects at Eligible institutions (See Appendix A for additional detail)

# Permanent University Fund Bonds

**Authorization:** Texas Constitution, Article VII, Section 18

**Eligibility:** Institutions within the University of Texas System and Certain Texas A&M System Institutions and Agencies. See Appendix A for list of eligible institutions.

**Allocation Methodology:** PUF-backed debt may be issued up to 30.0% of the cost value of the Fund. Debt issued by the UT System may not exceed 20.0 % of the cost value of the Fund, while TAMU System issued debt may not exceed 10.0 %. Projects are identified and funded at the discretion of each system.

**Permissible Uses:** PUF Bonds may be issued to finance the following projects:

- Acquiring land
- Constructing, equipping buildings
- Major repair and rehabilitation of buildings
- Acquiring capital equipment
- Acquiring library books and library materials

PUF bonds may NOT be used to construct student housing, intercollegiate athletics facilities, auxiliary enterprises, or working capital or operating expenses

# Higher Education Fund

**Authorization:** Texas Constitution, Art. VII, Section 17; Texas Education Code, Chapter 62

**Eligibility:** An institution of higher education not eligible for support from the AUF/PUF. See Appendix B.

**Allocation Methodology:** Distributions are based on a formula allocation incorporating the following elements: (1) space deficit; (2) facilities condition; (3) institutional complexity; and (4) a separate allocation (currently 2.2 percent) for the Texas State Technical College System.

**Purpose:** To provide capital support funding to institutions of higher education not eligible for support from the AUF/PUF. May be used for the following purposes:

- Permanent Improvements,
- Constructing, Equipping buildings,
- Repair, rehabilitation of buildings or other permanent improvements,
- Capital equipment, or
- To pay debt service on bonds issued to finance projects that are eligible under the aforementioned uses.

Funds may not be used for student housing, intercollegiate athletics, or auxiliary enterprises.

# THECB Peer Groups and Research Funding

Peer Groups offer the state a way to group and compare institutions according to general academic mission and certain key academic indicators such as size and number of graduate programs, research expenditures, and other factors. These groupings are considered mutable depending on the evolution of institutions in Texas. There are currently five peer groups: Research, Emerging Research, Doctoral, Comprehensive, and Master's. See Appendix C for peer group definitions.

Research Funding	Recipients (Peer Groups)	Biennial Appropriation
Texas Research Incentive Program	Emerging Research Universities	\$33.3 million
National Research University Fund	Eligible Emerging Research Universities	\$50.1 million
Texas Research University Fund	Research Universities	\$147.1 million
Core Research Support Fund	Emerging Research Universities	\$117.1 million
Comprehensive Research Fund	Other Non-Research and Non-Emerging Research Universities	\$14.3 million

# Texas Research Incentive Program

**Authorization:** Texas Education Code, Chapter 62, Subchapter F.

**Eligibility:** An institution of higher education designated as an **emerging research university** within THECB's accountability system.

**Allocation Methodology:** Eligible matching percentage based on the amount of the donation received by the institution:

- If the total amount of gifts is \$100,000 or more, but less than \$999,999, 50 percent of the donation will be matched;
- If the total amount of gifts and endowments is \$1,000,000 or more, but less than \$1,999,999, 75 percent of the donations will be matched; and
- If the total amount of the gifts is \$2,000,000 or more, 100 percent of the donations will be matched

**Purpose:** To provide matching funds to assist eligible institutions in leveraging private gifts for the enhancement of research productivity and faculty recruitment.

# National Research University Fund

**Authorization:** TX Constitution, Art. VII, Sec. 20(a-h); Texas Education Code, Chapter 62, Subchapter G.

**Eligibility:** An institution of higher education designated as an **emerging research university** within THECB's accountability system; \$45.0 million in restricted research expenditures in each of the last two years and four of the six criteria specified in statute. This criteria includes 1) endowments of \$400.0 million or greater, 2) produces 200 or more PhD's per year, 3) selective entering freshman class, 4) has chapter of Phi Beta Kapp or equivalent, 5) possesses high quality faculty, and 6) demonstrates commitment to high quality graduate education.

**Allocation Methodology:** Each eligible institution is entitled to a distribution of the total appropriations from the fund in an amount equal to the sum of

- One seventh of the total amount appropriated; and
- An equal share of the remaining appropriations, not to exceed an amount equal to one-fourth of the remaining amount.
- If more than four institutions are eligible in a fiscal year, each eligible institution is entitled to an equal share of the total amount appropriated from the fund.

**Permissible Uses:** (1) Provide faculty support and paying faculty salaries; (2) purchase equipment or library materials; (3) pay graduate stipends; and (4) support research performed at the institution, including undergraduate research.

# Texas Research University Fund

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**Authorization:** Texas Education Code, Chapter 62, Subchapter C.

**Eligibility:** An institution of higher education designated as a **research university** within THECB's accountability system and, for any three consecutive state fiscal years, made total annual research expenditures in an average annual amount of \$450.0 million or greater.

**Allocation Methodology:** Amounts shall be apportioned to eligible institutions based on the average amount of total research funds expended by each institution per year for the three preceding state fiscal years.

**Purpose:** To provide funding to eligible research universities to support faculty to ensure excellence in instruction and research.

# Core Research Support Fund

**Authorization:** Texas Education Code, Chapter 62, Subchapter F-1.

**Eligibility:** An institution of higher education that is designated an **emerging research university** under the coordinating board's accountability system.

**Allocation Methodology:** Amounts are appropriated to eligible institutions as follows:

- (1) 50 percent based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years ...; and
- (2) 50 percent based on the average amount of total research funds expended by each institution per year for the three preceding state fiscal years... .

**Purpose:** To provide funding to eligible research universities to support faculty to ensure excellence in instruction and research.

# Comprehensive Research Fund

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**Authorization:** Texas Education Code, Chapter 62, Subchapter E.

**Eligibility:** Doctoral, Comprehensive, and Master's institutions as designated in THECB's Accountability System.

**Allocation Methodology:** Amounts are allocated and appropriated to eligible institutions based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years.

**Purpose:** To provide funding to promote increased research capacity at eligible general academic teaching institutions.

# Appendix A: AUF/PUF Eligible Institutions

AUF/PUF BOND ELIGIBLE (System Operations and Maintenance Funding) University of Texas Institutions	AUF/PUF BOND ELIGIBLE (System Operations and Maintenance Funding) Texas A&M University Institutions	PUF BOND ONLY (Bond debt paid out of AUF Distribution) University of Texas Institutions	PUF BOND ONLY (Bond debt paid out of AUF Distribution) Texas A&M University Institutions
UT Austin	TAMU	UT Arlington	Tarleton State University
UT System Admin	TAMU System Admin	UT Dallas	TAMU San Antonio
	TAMU Health Science Center	UT El Paso	TAMU Central Texas
	PVAMU	UT Permian Basin	TAMU AgriLife Research
	TAMU Galveston	UT Rio Grande Valley	TAMU AgriLife Extension Svc
		UT San Antonio	TAMU Engineering Experiment Station
		UT Tyler	TAMU Engineering Extension Service
		UT Southwestern Medical Center	TAMU Transportation Institute
		UT Medical Branch Galveston	TAMU Forest Service
		UT Health Science Center Houston	
		UT Health Science Center San Antonio	
		UT Health Science Center Tyler	
		UT M.D. Anderson Cancer Center	

# Appendix B: HEF Eligible Institutions

University of Houston (UH)	Sul Ross State	Stephen F. Austin State	TAMU - Texarkana
UH - Clear Lake	Sul Ross State - Rio Grande	Texas Southern	WTAMU
UH - Downtown	Sam Houston State	Texas Woman's	Midwestern State
UH - Victoria	Texas State	TAMU - Corpus Christi	Texas Tech
Lamar	University of North Texas (UNT)	Texas A&M International	Texas Tech HSC
Lamar - Orange	UNT Health Sciences Center	TAMU - Kingsville	Texas Tech HSC-El Paso
Lamar - Port Arthur	UNT Dallas	TAMU - Commerce	Angelo State
Lamar Institute of Technology			Texas State Technical Colleges

# Appendix C: Peer Group Definitions

**Research:** (1) offer a comprehensive range of undergraduate and graduate programs, (2) award 200 or more PhD degrees annually based on a rolling average of two consecutive years of degree production, (3) generate at least \$150 million annually (adjusted for inflation) in restricted research expenditures based on a rolling two-year average. As of Sept. 1, 2020, the inflation-adjusted threshold is \$193.4m. Only UT Austin and Texas A&M are designated as research universities.

**Emerging Research:** (1) offer a comprehensive range of undergraduate and graduate programs, (2) award at least 30 PhD degrees annually based on a rolling average of two consecutive years of degree production, (3) generate at least 20% of the research universities' criteria for restricted research expenditures (20% of \$150 million adjusted for inflation) as determined by a rolling two-year average. As of Sept. 1, 2020, the inflation-adjusted threshold is \$38.7m. There are 8 emerging research universities.

**Doctoral:** meet three of the following four criteria: (1) award at least 10 PhD degrees annually, (2) offer at least 5 doctoral-research/scholarship programs, (3) enroll at least 150 doctoral-research/scholarship students, (4) generate at least \$2 million annually in restricted research expenditures. There are 7 doctoral universities.

**Comprehensive:** (1) provide access to a broad range of baccalaureate and master's programs, (2) possibly provide doctoral-research/scholarship-level education in targeted area(s) of excellence and/or regional need, (3) provide preparation for the workforce as well as for professional schools and graduate education, (4) focus on serving the student population within the region. There are 6 comprehensive universities.

**Master's:** (1) provide broad-based undergraduate education, (2) establish seamless transfer and facilitate success for Associate of Arts and Associate of Science graduates, (3) offer smaller undergraduate class sizes, (4) provide developmental education and retention programs, (5) provide access to critical and other master's programs, (6) provide preparation for the workforce as well as for professional schools and graduate education, (7) have a critical role in the preparation of certified teachers, (8) provide specialized programs recognized for their excellence. There are 15 master's universities.

SOURCE: THECB <https://reportcenter.highered.texas.gov/reports/data/university-peer-group-categories/>



# LEGISLATIVE BUDGET BOARD

## **Contact the LBB**

Legislative Budget Board

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