LEGISLATIVE BUDGET BOARD

Higher Education Funds Overview

Permanent University Fund, Higher Education Fund, and Texas University Fund

PRESENTED TO SENATE HIGHER EDUCATION COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF JULY 2026

Overview

- Overview of the Permanent University Fund (PUF), Higher Education Fund (HEF), and Texas University Fund (TUF) mandated by the Texas Constitution and Education Code for the purpose of financing capital improvements, support and maintenance, or research activities.
- Review distribution methodologies, allocation structures, and uses.
- Explore the implementation and distribution of the TUF, as new institutions gain eligibility and the fund's corpus grows, ensuring stability and predictability for all participating institutions.

Capital Funding	Research Funding
Available University Fund	Texas University Fund
Permanent University Fund	
Higher Education Fund	

Constitutional Capital Funding

Permanent University Fund (PUF)

- The PUF was established by the Texas Constitution in 1876 with land grants in West Texas to support the University of Texas (UT) and Texas A&M University (TAMU) Systems.
- The UT System manages the PUF land totaling 2.1 million acres to generate revenue through leases of both surface and mineral rights.
- The University of Texas/Texas A&M Investment Management Company (UTIMCO), under authority of the UT System Board of Regents, manages the PUF endowment including the accumulated mineral income and other investment assets.
- The PUF's value may be leveraged for the issuance of bonds to support capital projects at PUF-eligible institutions. If issued, the first obligation of any income earned by the PUF is to pay the debt service, including principal and interest, to be paid through the AUF.

Constitutional Capital Funding

Available University Fund (AUF)

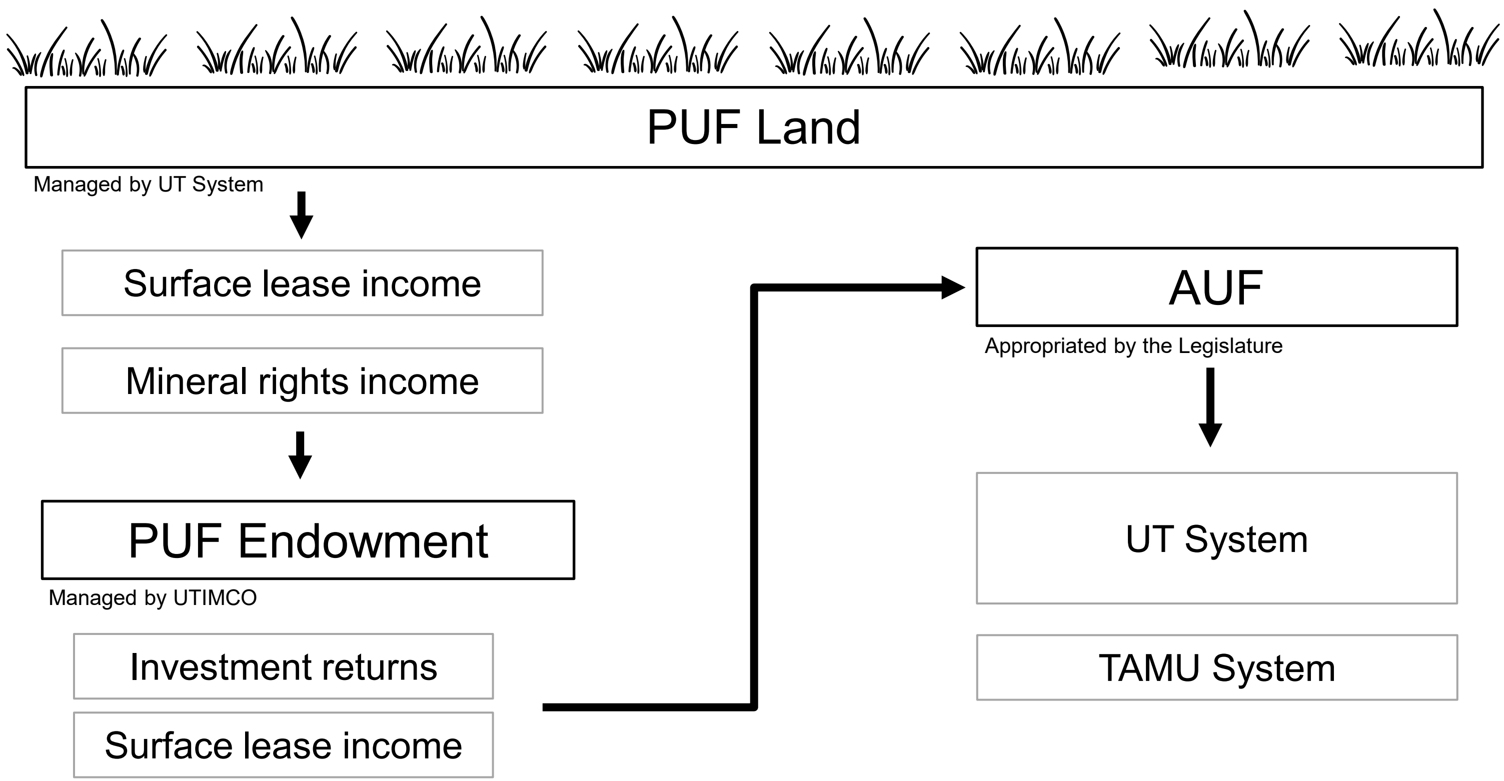
- The Available University Fund consists of revenue from PUF surface income plus an annual distribution from the total return on PUF investments. Total AUF appropriations are constitutionally allocated 2/3 to UT System and 1/3 to TAMU System.

- Allocations must first used to pay principal and interest on PUF-backed debt, and remaining funds are used for support and maintenance at the following institutions:

  - UT Austin;
  - Texas A&M University;
  - Texas A&M University at Galveston;
  - Texas A&M University Health Science Center;
  - Prairie View A&M University; and
  - the UT and TAMU System Offices.

PUF & AUF Structure

The Legislature does not make appropriations directly out of the PUF. Related income is deposited to the AUF where the total appropriation is set by the Legislature and then allocated to the UT and Texas A&M Systems pursuant to the Constitution.



PUF/AUF Eligible Institutions

PUF BOND & AUF ELIGIBLE	
University of Texas (UT) System	**Texas A&M University (TAMU) System**
UT Austin	Texas A&M University
UT System Admin	TAMU System Admin
	TAMU Health Science Center
	Prairie View A&M University
	TAMU Galveston

Allowable uses include debt service, system office operations, system initiatives, and support and maintenance

PUF BOND ONLY	
University of Texas (UT) System	**Texas A&M University (TAMU) System**
All Other UT System Institutions	Tarleton State University
	TAMU San Antonio
	TAMU Central Texas
	TAMU AgriLife Research
	TAMU AgriLife Extension Svc
	TAMU Engineering Experiment Station
	TAMU Engineering Extension Service
	TAMU Transportation Institute
	TAMU Forest Service

Allowable use include debt service only

Constitutional Capital Funding

Higher Education Fund (HEF)

- The Higher Education Fund provides capital funding for institutions that are ineligible for AUF/PUF support.

- The Legislature is constitutionally required to review the HEF allocation every 10 years. House Bill 42, 89th Legislature, fulfilled the decennial requirement and increased the total allocation of annual funding from $393.8 million to $590.6 million.

- The Comptroller of Public Accounts makes annual transfers of funds among eligible institutions based on statutory allocations established via a formula that incorporates the following:

    - Facilities supplement
    - Institutional complexity
    - Space deficit
    - Facilities condition

Constitutional Research Funding

Texas University Fund (TUF)

- The Texas University Fund was established in the 88th Legislative Session to provide research funding that enhances research capacity and supports faculty and graduate education at eligible institutions, aiming for national prominence and economic growth for the state.
- The institutions currently eligible include:
  - University of Houston
  - University of North Texas
  - Texas State University
  - Texas Tech University
- The 88th Legislature provided an initial appropriation of $2.5 billion in GR plus the transferred National Research University Fund (NRUF) balances, creating a corpus of $3.0 billion.
- Additional institutions can become eligible for TUF funding only if they meet specific research and doctoral degree requirements, and if the Legislature appropriates enough money to the fund to provide a stable and predictable stream of annual distributions to each eligible institution.

TUF Historical Distributions

Institution	FY 2024	FY 2025	FY 2026
University of Houston	$48,271,059	$63,842,156	$58,818,201
University of North Texas	$21,328,931	$29,122,890	$47,751,700
Texas Tech University	$44,409,886	$60,087,811	$55,176,055
Texas State University	$22,354,263	$30,266,136	$47,424,524
Total	**$136,364,139**	**$183,318,993**	**$209,170,481**

Notes:

1) The Eighty-eighth Legislature, Regular Session, 2023, appropriated General Revenue Funds for the TUF distribution in fiscal year 2024 in lieu of a distribution from the permanent fund.
2) Fiscal year 2026 reflects Texas State University and the University of North Texas attaining Tier 1 status for the PEER portion of the distribution calculation.

Institutions Nearing TUF Eligibility Thresholds

The Texas Higher Education Coordinating Board (THECB) research data for General Academic Institutions as of February 2026 shows the following institutions nearing research and doctoral degree requirements for eligibility for entry into the fund. In addition to surpassing required thresholds, the Legislature must appropriate enough money to the fund to provide a stable and predictable stream of annual distributions to each eligible institution.

Institution	3-Year Average Research Expenditures (2023–25)	3-Year Average Research Doctoral Degrees (2023–25)
FY 2027 Thresholds	***$21.7M***	***45***
TAMU–Corpus Christi	$25.9M	40
TAMU–Kingsville	$20.4M	24

Contact the LBB

Legislative Budget Board
www.lbb.texas.gov
512.463.1200

Appendix: Permanent University Fund Bonds

Authorization: Texas Constitution, Article VII, Section 18

Eligibility: PUF-eligible institutions within the University of Texas System and Texas A&M University System.

Allocation Methodology: PUF-backed debt may be issued up to 30% of the cost value of the Fund. Debt issued by the UT System may not exceed 20% of the cost value of the Fund, while TAMU System issued debt may not exceed 10%. 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;
- Completing major repair and rehabilitation of buildings;
- Acquiring capital equipment; or
- Acquiring library books and library materials.

PUF bonds may NOT be used to construct student housing, intercollegiate athletics facilities, auxiliary enterprises.

Appendix: Available University Fund

Authorization: Texas Constitution, Article VII, Section 18

Eligibility: The University of Texas at Austin, Texas A&M University (Including Texas A&M Galveston and Texas A&M Health Science Center), Prairie View A&M University, University of Texas System Office, Texas A&M University System Office.

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:

- An annual distribution from the total return on investments that shall not exceed seven percent of the average net fair market value of the PUF. 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, utility easements, etc.

Purpose: Principal and interest on PUF-backed bonds for capital projects, system office operations, system initiatives, and support and maintenance at eligible institutions.

Appendix: 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 or the newly created TSTC Endowment.

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 facilities supplement for institutions with fewer than 20,000 students.

Purpose: To provide capital support funding to institutions of higher education not eligible for support from the AUF/PUF. Funding 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.

Appendix: The Texas University Fund (TUF)

Authorization: Texas Constitution, Art VII, Section 20; Texas Education Code, Chapter 62

Eligibility: University of Houston, Texas Tech University, Texas State University, and University of North Texas

Allocation Methodology: Texas Treasury Safekeeping and Trust Company, which administers and invests the fund, determines the amount available for distribution from the fund. The annual distribution is calculated as 4.5% of 12 fiscal quarter moving-average value of the fund.

Allocations of the annual distribution among institutions are based on a formula consisting of the following:

- 75.0 percent must be allocated to the permanent endowment for education and research (PEER) base funding
    - For PEER base funding, each eligible institution is entitled to a fraction based on two tiers of research performance. Currently, all eligible institutions are Tier 1.
- 25.0 percent must be allocated to research performance funding.
    - For research performance funding, 85.0 percent is allocated to institutions based on federal and private research expenditures and 15.0 percent is allocated to institutions based on research doctoral degrees awarded.

Purpose: Funds may only be used for the support and maintenance of educational and general activities that promote increased research capacity. The use of money is limited to the following activities:

- Providing faculty support and salaries;
- Purchasing equipment or library materials;
- Paying graduate stipends;
- Supporting research performed at the institution, including undergraduate research;
- Increasing technology transfer, commercialization, and patent development; and
- Increasing the number of research doctoral graduates in the state.