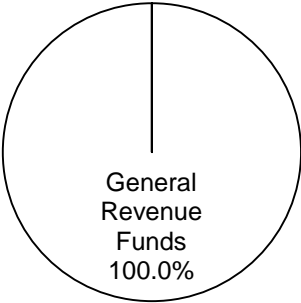


Higher Education Fund  
Summary of Recommendations - Senate

Kris Kavanaugh, LBB Analyst

Method of Financing	2012-13 Base	2014-15 Recommended	Biennial Change	% Change
General Revenue Funds	\$525,000,000	\$525,000,000	\$0	0.0%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$525,000,000	\$525,000,000	\$0	0.0%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$525,000,000	\$525,000,000	\$0	0.0%

RECOMMENDED FUNDING  
BY METHOD OF FINANCING



	FY 2013 Budgeted	FY 2015 Recommended	Biennial Change	% Change
FTEs			0.0	0.0%

The bill pattern for this agency (2014-15 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2014-15 biennium.

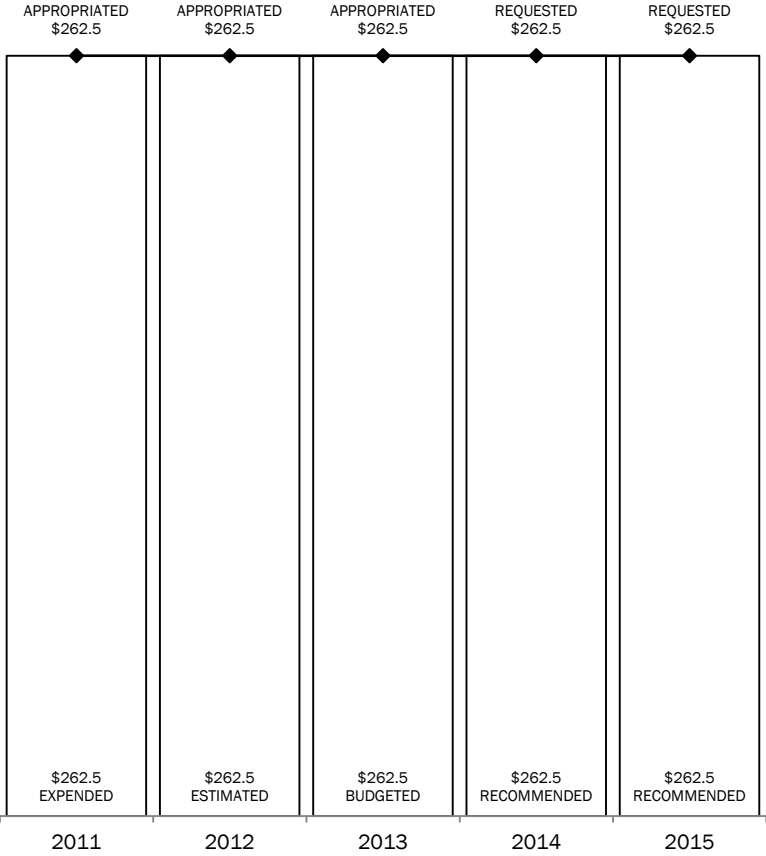
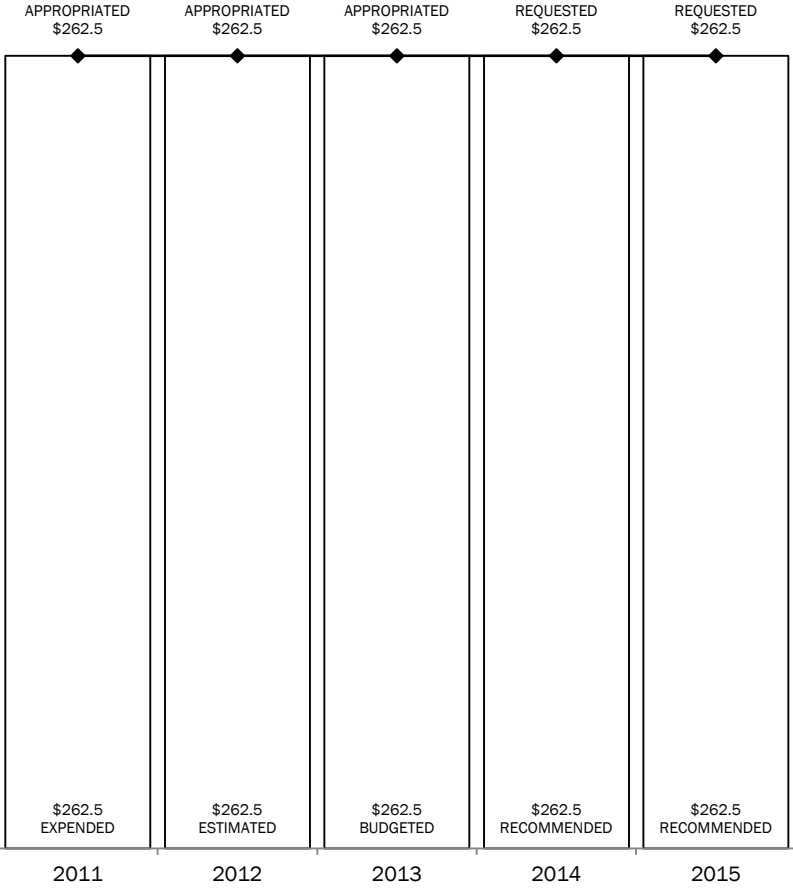
Higher Education Fund  
2014-2015 BIENNIUM  
IN MILLIONS

TOTAL= \$525.0 MILLION

ALL FUNDS

GENERAL REVENUE AND  
GENERAL REVENUE-DEDICATED FUNDS

FULL-TIME-EQUIVALENT POSITIONS



**Higher Education Fund**  
**Summary of Recommendations - Senate, By Method of Finance -- ALL FUNDS**

Strategy/Goal	2012-13 Base	2014-15 Recommended	Biennial Change	% Change	Comments
HIGHER EDUCATION FUND A.1.1	\$525,000,000	\$525,000,000	\$0	0.0%	While the HEF appropriation is entirely funded out of the General Revenue Fund, Article 7, Section 17 of the Texas Constitution provides authority only to increase or reallocate the annual appropriations. Thus, the HEF appropriation is not eligible for reduction.
<b>Total, Goal A, HIGHER EDUCATION FUND</b>	<b>\$525,000,000</b>	<b>\$525,000,000</b>	<b>\$0</b>	<b>0.0%</b>	
<b>Grand Total, All Strategies</b>	<b>\$525,000,000</b>	<b>\$525,000,000</b>	<b>\$0</b>	<b>0.0%</b>	

**Section 3**

**Higher Education Fund  
Selected Fiscal and Policy Issues**

- 1. Attachments to this section provide supplementary detail on the statutory allocations of the HEF over time and a comparison of existing funds.

Statutory Allocations of the Higher Education Fund, FY 2000-15

Institution/System	A	B	C	D	E
	FY 2000-05 Annual Allocation	FY 2006-07 Annual Allocation	FY 2008 Annual Allocation	FY 2009-10 Corrective Alloc. Per HB 51	FY 2011-15 Annual Allocation Per HB 51
Lamar University					
Lamar - Orange	5,737,451	7,473,672	11,210,508	8,028,333	8,330,933
Lamar - Port Arthur	743,967	743,365	1,115,048	1,140,745	1,235,752
Lamar Institute of Technology	2,336,605	793,412	1,190,119	1,217,124	1,244,694
Sul Ross University	w/Lamar University	w/Lamar University	w/Lamar University	1,825,332	2,332,463
Sul Ross University - Rio Grande	1,635,271	1,362,515	2,043,772	2,090,896	1,625,061
Sam Houston St. University	266,322	253,220	379,831	388,203	445,380
Texas State University - San Marcos	5,864,608	6,610,870	9,916,306	10,184,001	11,893,110
	14,479,112	13,199,517	19,799,276	20,258,248	21,863,258
Subtotal:	31,063,336	30,436,571	45,654,860	45,132,882	48,970,651
Texas A&M University - Corpus Christi	3,687,722	5,519,329	8,278,993	8,471,116	7,139,067
Texas A&M International University	1,778,155	2,086,807	3,130,211	3,202,241	3,796,436
Texas A&M University - Kingsville	3,555,651	3,368,155	5,052,232	5,167,540	5,046,885
Texas A&M University - Commerce	4,229,747	3,563,785	5,345,678	5,684,047	5,193,232
Texas A&M University - Texarkana	1,027,070	1,097,568	1,646,352	1,684,587	1,307,907
West Texas A & M University	3,671,345	3,184,593	4,776,890	4,886,159	4,652,995
Subtotal:	17,949,690	18,820,237	28,230,356	29,095,690	27,136,522
University of Houston	25,986,116	23,517,427	35,276,140	36,091,538	35,885,768
University of Houston - Clear Lake	3,853,447	4,000,892	6,001,337	5,355,874	5,214,167
University of Houston - Downtown	5,453,977	6,418,767	9,628,151	9,548,995	7,435,238
University of Houston - Victoria	1,659,449	1,521,922	2,282,883	2,335,692	2,393,921
Subtotal:	36,952,989	35,459,008	53,188,511	53,332,099	50,929,094
The University of Texas - Pan American	6,081,112	8,588,232	12,882,348	13,176,800	12,311,123
The University of Texas at Brownsville	1,050,580	2,791,194	4,186,790	4,284,677	5,057,420
Subtotal:	7,131,692	11,379,426	17,069,138	17,461,477	17,368,543
TSTC System	3,850,000	3,850,000	5,775,000	5,775,000	5,775,000
Subtotal:	3,850,000	3,850,000	5,775,000	5,775,000	5,775,000
*TSTC System receives a lump sum HEF appropriation to distribute amongst its 4 campuses					
Midwestern State University	3,007,669	2,289,565	3,434,348	3,810,377	3,559,433
Stephen F. Austin State University	6,633,109	4,683,847	7,025,771	6,907,643	8,425,937
Texas Southern University	7,191,493	7,437,642	11,156,463	11,283,387	8,894,700
Texas Woman's University	6,974,897	5,616,139	8,424,209	8,615,167	10,169,695
Subtotal:	23,807,168	20,027,193	30,040,791	30,616,574	31,049,765
Texas Tech University	20,961,881	17,886,318	26,829,477	27,446,656	23,936,088
Texas Tech University HSC	7,735,000	11,899,627	17,849,441	14,854,762	16,973,569
Angelo State University	3,887,211	2,390,535	3,585,802	3,667,497	3,743,027
Subtotal:	32,584,092	32,176,480	48,264,720	45,968,915	44,652,684
University of North Texas	18,021,033	17,424,822	26,137,233	27,122,687	27,846,476
University of North Texas HSC	3,640,000	5,426,261	8,139,391	7,994,676	8,771,265
Subtotal:	21,661,033	22,851,083	34,276,624	35,117,363	36,617,741
GRAND TOTAL:	175,000,000	175,000,000	262,500,000	262,500,000	262,500,000
General Academic Institutions:	156,694,428	152,287,335	228,431,001	229,692,361	226,167,257
Health Related Institutions:	11,375,000	17,325,888	25,988,832	22,849,438	25,744,834
Texas State Technical Colleges:	3,850,000	3,850,000	5,775,000	5,775,000	5,775,000
2-Year Lamar State Colleges:	3,080,572	1,536,777	2,305,167	4,183,201	4,812,909

Summary of Constitutional Funds and Other Funds for Higher Education								
	MOF	Source of Funds	Legal Basis of Fund and Appropriation Authority	2014-15 Biennial Amounts (Estimated)	Function/Purpose	Eligibility	Allocation Methodology	Bond Issuance Capacity?
Available University Fund	Fund 011 (Other Funds)	Earnings from the Permanent University Fund corpus (as of July 2012 valued at \$13.2 billion) and net surface income of certain PUF-owned lands.  Also, the AUF:  1) Must be enough to pay the principal and interest due in that fiscal year on PUF bonds. 2) Must maintain the purchasing power of the PUF, except as necessary to pay #1, above. 3) Must not exceed an amount equal to 7% of the average net fair market value of the PUF, except as necessary to pay #1, above.	Article VII, Section 18(a-j) of the Texas Constitution  General Appropriations Acts	\$1,320,507,419 (Estimated)	Texas Constitution: "...for the purpose of acquiring land ...constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under this Section..."  Also: "...for the purpose of the support and maintenance of The Texas A&M University System administration, Texas A&M University, and Prairie View A&M University" and "The University of Texas at Austin and The University of Texas System".	Defined by the Texas Constitution:  For "support and maintenance": UT Austin, Texas A&M University, Prairie View University, UT System, A&M System  For debt service: All components, including the TAMU System Agencies except TVMDL (which per Education Code § 88.701 "is a state agency under the jurisdiction and supervision of the board"), and excluding UT Pan American and UT Brownsville (because they receive HEF allocations - an institution can not receive both AUF and HEF dollars).	Texas Constitution requires 1/3 of the annual AUF proceeds be transferred to the Texas A&M University System. Each System office determines how to apportion its share of the AUF between debt service and "support and maintenance", within guidelines specified by the Texas Constitution.	Yes. The following terms and restrictions are defined by the Texas Constitution:  1) Total PUF bond debt may not exceed 30% of the value of the PUF at the time of issuance.  2) Debt must be repaid within 30 years of issuance.  Most UT and A&M institutions receive PUF bond proceeds and have PUF bond debt service payments made on these bond debts by their respective System offices.
Higher Education Fund	General Revenue (Restr.)	State General Revenues.  The "Permanent" Higher Education Fund corpus was transferred to the credit of the National Research University Fund (see below) with voter passage of Proposition 4 in November of 2009.	Article VII, Section 17(a-l) of the Texas Constitution  Education Code, § 62.002  General Appropriations Acts	\$ 525,000,000	To support institutions ineligible for AUF support.  Article VII, Section 17(a): "...for the purpose of acquiring land...constructing and equipping buildings ...major repair ....acquisition of capital equipment...other permanent improvements, or capital equipment used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for educational and general activities."  Education Code, § 62.002: "...to create and maintain a degree of excellence at the respective institutions and agencies of higher education that is above and apart from the normal appropriative formulas established by the Coordinating Board, Texas College and University System"	Article VII, Section 17(c) provides an allowance to add a new institution by a 2/3 vote of both houses of the Legislature if the new institution is outside the UT and A&M Systems.	Article VII, Section 17(a) requires the HEF be allocated using an "equitable formula", defined in the Education Code (§ 62.021) as: "The allocation of funds under this subsection is made in accordance with an equitable formula consisting of the following elements: space deficit, facilities condition, institutional complexity, and a separate allocation for the Texas State Technical College System."  THECB administers the HEF formula reallocation advisory process.  Education Code (§ 62.021) provides a by-institution breakout of annual HEF appropriations.	Yes. The following terms and restrictions are defined by the Texas Constitution:  1) Total bond debt may not exceed 50% of annual HEF appropriations.  2) Debt must be repaid within 10 years of issuance.  Only a few institutions are currently paying off HEF bond debt, and no institution has indicated intent to issue any HEF bond debt in 2014-15.
Research Development Fund	General Revenue (Restr.)	State General Revenues. Education Code reads a certain portion of the annual \$50 million contribution to the Permanent HEF should be redirected to fund a portion of the RDF.	Education Code, § 62.091 Note, the RDF as a stand-alone appropriation item has not been funded since the 2006-07 biennium. However, funds called the RDF have been appropriated directly into the bill patterns of each eligible GAI.	TBD	Education Code § 62.091: "...to promote increased research capacity at eligible general academic teaching institutions."	Education Code § 62.092: "Eligible institution' means a general academic teaching institution, as defined by Section 61.003, other than The University of Texas at Austin, Texas A&M University, or Prairie View A&M University."	Education Code § 62.095: "The amount shall be apportioned among the eligible institutions based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years."	No.

	MOF	Source of Funds	Legal Basis of Fund and Appropriation Authority	2014-15 Biennial Amounts (Estimated)	Function/Purpose	Eligibility	Allocation Methodology	Bond Issuance Capacity?
Texas Competitive Knowledge Fund	General Revenue (Unres.)	State General Revenues.	General Appropriations Acts	TBD	Section 56 of Higher Education Special Provisions, 82nd GAA: "...to support faculty for the purpose of instructional excellence and research."	Defined by the legislature (currently UT Austin, UT Dallas, TAMU, Texas Tech and UH).	The 2012-13 appropriation was based on providing \$685,000 to each eligible institution for every \$10 million in unrestricted research expenditures as averaged over a 3-year period.	No.
National Research University Fund (HB 51, 81st Leg.)	Other Funds	<p>Voter passage of Proposition 4 in November 2009 transferred the PHEF corpus to the credit of the NRUF corpus.</p> <p>Earnings from the NRUF corpus (as of August 2012 valued at \$607.7 million) as well as General Revenue may be appropriated by the Legislature.</p> <p>Also, Article VII, Section 20 (f) of the Texas Constitution requires the NRUF:</p> <p>1) Must maintain its purchasing power over a rolling 10-year period. 2) Must not exceed an amount equal to 7% of the average net fair market value of the fund.</p>	<p>Article VII, Section 20 (a-h) of the Texas Constitution</p> <p>Education Code, § 62.141</p> <p>General Appropriation Acts</p>	<p>TBD</p> <p>Article VII, Section 20 (f) of the Texas Constitution:</p> <p>"Until the fund has been invested for a period of time sufficient to determine the purchasing power over a 10-year period, the legislature may provide by law for means of preserving the purchasing power of the fund."</p>	<p>Article VII, Section 20 (a): "...for the purpose of providing a dedicated, independent, and equitable source of funding to enable emerging research universities in this state to achieve national prominence as major research universities."</p> <p>Article VII, Section 20 (h): "...only for the support and maintenance of educational and general activities that promote increased research capacity at the university."</p> <p>Education Code, § 62.141: "...to allocate appropriations from the national research university fund to provide a dedicated, independent, and equitable source of funding to enable emerging research universities in this state to achieve national prominence as major research universities."</p>	<p>Designated an emerging research university by THECB.</p> <p>Reports at least \$45 million in restricted research expenditures in each of the last 2 years.</p> <p>Plus four of the following additional criteria:</p> <p>1) Endowments &gt; \$400 million; 2) Produces &gt; 200 Ph.D.s per year; 3) Selective entering Freshmen class; 4) Member of Phi Beta Kappa or equivalent; 5) Possesses high quality faculty; and 6) Demonstrated commitment to high-quality graduate education.</p> <p>UT and TAMU are ineligible per Education Code, § 62.147</p>	<p>Education Code, § 62.148: "In each state fiscal year, the comptroller shall distribute to eligible institutions the total amount appropriated from the fund for that fiscal year. The amount shall be allocated to the eligible institutions based on an equitable formula adopted by the legislature to carry out the purposes of the fund as established by Section 20, Article VII, Texas Constitution. In adopting the allocation formula, the legislature may consider the recommendations of the coordinating board, including recommendations on the appropriate elements and relative weights of elements of the formula."</p>	No.

	MOF	Source of Funds	Legal Basis of Fund and Appropriation Authority	2014-15 Biennial Amounts (Estimated)	Function/Purpose	Eligibility	Allocation Methodology	Bond Issuance Capacity?
Texas Research University Development Fund (HB 51, 81st Leg.)	General Revenue (Restr.)	State General Revenues.	Education Code, § 62.051 (HB 51, 81st Regular Session)	TBD	Education Code § 62.051: "...to provide funding to research universities and emerging research universities for the recruitment and retention of highly qualified faculty and the enhancement of research productivity at those universities."	Education Code § 62.051: "Eligible institution" means an institution of higher education designated as a research university or emerging research university under the coordinating board's accountability system."	Education Code § 62.053: "...the coordinating board shall distribute any funds appropriated by the legislature for the purposes of this subchapter...to eligible institutions based on the average amount of total research funds expended by each institution annually during the three most recent state fiscal years, according to the following rates:  (1) at least \$1 million for every \$10 million of the average annual amount of those research funds expended by the institution, if that average amount for the institution is \$50 million or more; and  (2) at least \$500,000 for every \$10 million of the average annual amount of those research funds expended by the institution, if that average amount for the institution is less than \$50 million."	No.
Texas Research Incentive Program (HB 51, 81st Leg.)	GR (Unrestr.)	State General Revenue appropriations, as matched to certain research-related gifts to eligible institutions. Trusted to THECB.	Education Code, § 62.121 (HB 51, 81st Regular Session)	TBD	Education Code, § 62.122: "...to provide matching funds to assist eligible institutions in leveraging private gifts for the enhancement of research productivity and faculty recruitment."	Education Code, § 62.121: "...\"Eligible institution\" means an institution of higher education designated as an emerging research university under the coordinating board's accountability system."	Education Code, § 62.123: "...is entitled to receive, out of funds appropriated for the purposes of the program for that fiscal year, a matching grant in an amount determined according to the following rates:  (1) 50 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$100,000 or more but not more than \$999,999; (2) 75 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$1 million or more but not more than \$1,999,999; or (3) 100 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$2 million or more.	No.



Section 4

Higher Education Fund  
Performance Review and Policy Report Highlights

Reports & Recommendations	Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Will be included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

**Section 5**

**Higher Education Fund  
Rider Highlights**

**Higher Education Fund**  
**Items not Included in the Recommendations**

NONE