

Section 1

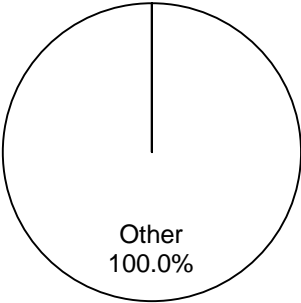
Available University Fund
Summary of Recommendations - Senate

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Emily Deardorff, LBB Analyst

Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$0	\$0	\$0	0.0%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$0	\$0	\$0	0.0%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$1,702,190,396	\$1,690,499,008	(\$11,691,388)	(0.7%)
All Funds	\$1,702,190,396	\$1,690,499,008	(\$11,691,388)	(0.7%)

RECOMMENDED FUNDING
BY METHOD OF FINANCING

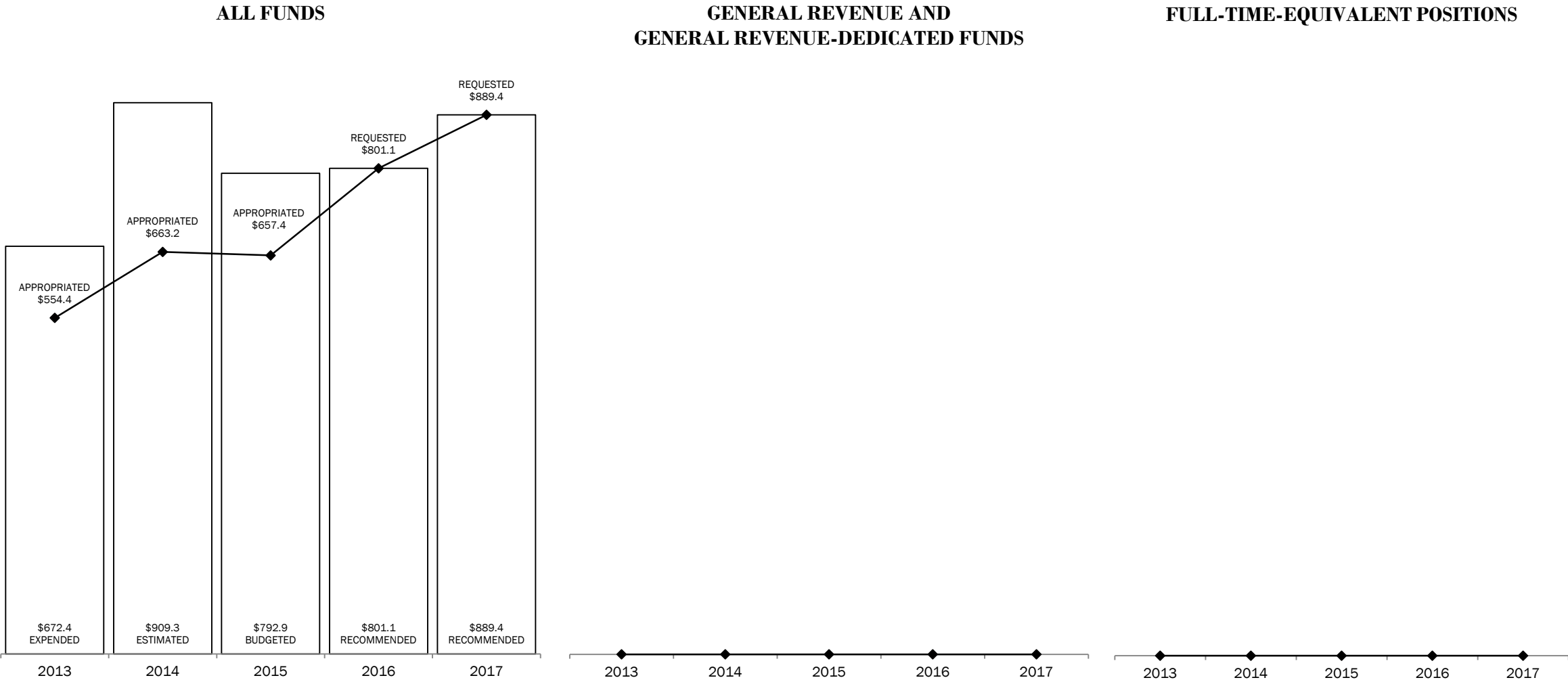


	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs			0.0	0.0%

The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

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Available University Fund
2016-2017 BIENNIUM
IN MILLIONS

TOTAL= \$1,690.5 MILLION



Note: The bill pattern for the Available University Fund does not include FTE information. FTEs whose salaries and wages are paid with Available University Fund appropriations are included in the bill patterns of The University of Texas System, The University of Texas at Austin, Texas A&M University System, Texas A&M University, and Prairie View A&M University, respectively.

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Available University Fund					
Summary of Recommendations - Senate, By Method of Finance -- ALL FUNDS					
Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
TEXAS A&M UNIV SYSTEM ALLOCATION A.1.2	\$565,953,080	\$561,533,003	(\$4,420,077)	(0.8%)	The slight difference between the percentage decline for Texas A&M University (TAMU) System and The University of Texas (UT) System strategies is attributable to the inclusion of Available University Fund (AUF) interest income values in the UT System strategy. The TAMU strategy does not include any interest income.
THE UNIV OF TEXAS SYSTEM ALLOCATION A.1.3	\$1,136,237,316	\$1,128,966,005	(\$7,271,311)	(0.6%)	
Total, Goal A, MANAGE/ADMINISTER ENDOWMENT FUNDS	\$1,702,190,396	\$1,690,499,008	(\$11,691,388)	(0.7%)	
Grand Total, All Strategies	\$1,702,190,396	\$1,690,499,008	(\$11,691,388)	(0.7%)	The biennial decrease in the recommended appropriation level is due to a special one-time distribution from the Permanent University Fund (PUF) to the AUF for fiscal year 2014 in an amount equal to an increase in the distribution rate from the PUF from 5.5 percent to 7.0 percent (approximately \$188 million).

**2014-15 Base reflects an increase of \$381,682,977 from the estimated amounts appropriated in the 2014-15 General Appropriations Act. This increase is attributable to the increase in the value of the PUF corpus and the special one-time distribution from the PUF to the AUF in fiscal year 2014 approved by the UT Board of Regents on August 21, 2014.

Available University Fund
Selected Fiscal and Policy Issues - Senate

1. **Strategic Fiscal Review.** The AUF is included in the Strategic Fiscal Review (SFR). Please refer to the SFR packet for specific information and findings. Significant observations and considerations include:
- **Agency Programs.** The AUF has nine programs, which are described in the following bullets:
 - Debt Service for the UT and TAMU Systems—AUF allocations used to secure the payment of principal and interest of PUF-backed bonds that are used for the following purposes: acquiring land; constructing, equipping, and repairing buildings; and acquiring capital equipment, library books, and library materials.
 - UT System Administration and TAMU System Operations—AUF allocations used to support to UT System Administration and TAMU System Offices in providing operational support to the System Office and component institutions.
 - Support and Maintenance Funding for Eligible Component Institutions—AUF allocations to provide support and maintenance to UT Austin, Texas A&M University, and Prairie View A&M University.
 - System Initiatives—AUF allocations used for initiatives that support the entire UT System and TAMU System.
 - **AUF and PUF Comparison between UT and TAMU System.** The following tables provide a comparison of AUF and PUF related data for the UT System and TAMU System for reference.

	UT System	TAMU System
PUF Debt Comparison (as of 8/31/14)		
Constitutional Debt Limit	20 percent PUF book value	10 percent PUF book value
Value Constitutional Debt Limit	\$2,853.8 million	\$1,377.5 million
Outstanding Debt	\$2,002.5 million	\$810.4 million
Authorized but Unissued Debt	\$706.4 million	\$310.0 million
Remaining PUF Debt Capacity	\$145.0 million	\$257.1 million
AUF Comparison (2014-15 biennium)		
AUF Distribution	Two-thirds	One-third
Debt Service	\$329.5 million	\$207.2 million
System Administration/Operations	\$90.9 million	\$27.2 million
System Initiatives	\$167.6 million	\$44.2 million

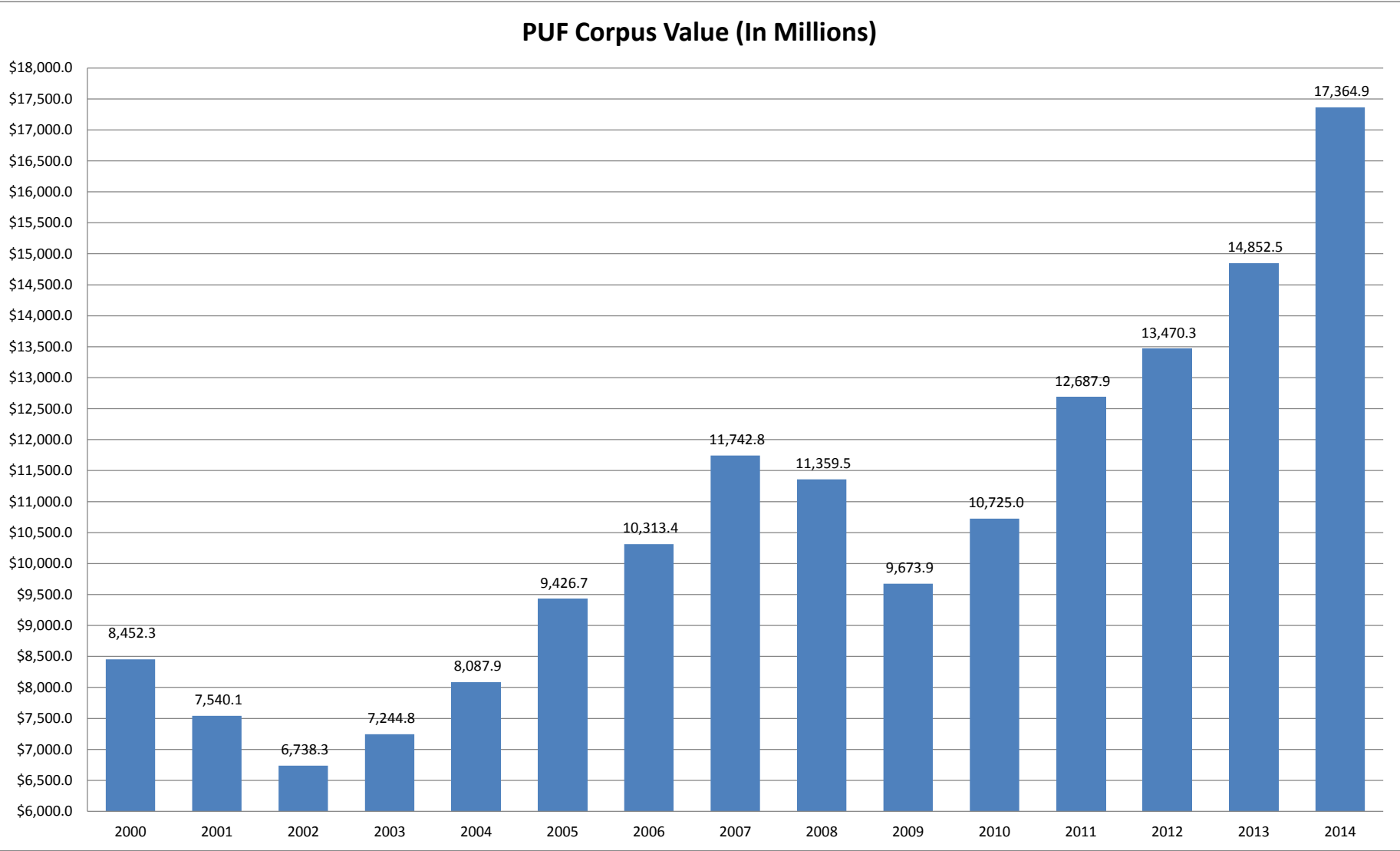
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	UT Austin	Texas A&M	Prairie View A&M
AUF Distributions (2014-15 Biennium)			
AUF Support and Maintenance Allocations	\$563.5 million	\$198.5 million	\$32.0 million
FTEs funded with AUF (FY 15)	1,625.8	560.0	75.0

2. **Estimated Appropriations.** The recommended AUF estimated appropriations for the 2016-17 biennium are based on the following assumptions:
- An assumed annual investment return for the PUF of 6.82 percent; and
 - A distribution rate from the PUF of 5.0 percent in fiscal year 2016 and fiscal year 2017.
3. **Value of the PUF.** The market value of the PUF was \$17.4 billion as of August 31, 2014. Attachments to this section provide additional information on the corpus value of the PUF since fiscal year 2000 and a comparison of existing funds.
4. **PUF-backed Bonds.** The Texas Constitution authorizes the UT and TAMU System governing boards to issue PUF bonds to finance capital expenditures. Debt service payments on PUF bonds are paid from each respective system’s AUF allocation. As of August 31, 2014, outstanding PUF debt totaled \$2,002.5 million for UT System and \$810.4 million for TAMU System.

Performance of the Permanent University Fund (2000-2014)

Fiscal Year	Corpus Value	% Change Corpus Value
2000	8,452.3	0.00%
2001	7,540.1	(10.79%)
2002	6,738.3	(10.63%)
2003	7,244.8	7.52%
2004	8,087.9	11.64%
2005	9,426.7	16.55%
2006	10,313.4	9.41%
2007	11,742.8	13.86%
2008	11,359.5	(3.26%)
2009	9,673.9	(14.80%)
2010	10,725.0	10.87%
2011	12,687.9	18.30%
2012	13,470.3	6.17%
2013	14,852.5	10.26%
2014	17,364.9	16.92%



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Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Available University Fund	\$1,690.5 million (Estimated)	<p>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..."</p> <p>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".</p>	<p>Texas Constitution:</p> <p>For "support and maintenance": UT Austin, Texas A&M University, Prairie View University, UT System, A&M System</p> <p>For debt service: All component institutions that are not eligible to receive HEF support, including the TAMU System Agencies except Texas Veterinary Medical Diagnostic Laboratory (which per Education Code Section 88.701 "is a state agency under the jurisdiction and supervision of the board").</p>	<p>Article VII, Section 18(a-j) of the Texas Constitution</p> <p>General Appropriations Act</p>	<p>Texas Constitution requires 1/3 of the annual AUF proceeds be transferred to the Texas A&M University System and 2/3 of the annual AUF proceeds be transferred to The University of Texas 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.</p>
Higher Education Fund	\$525.0 million	<p>To support institutions ineligible for AUF support.</p> <p>Article VII, Section 17(a): "...for the purpose of acquiring land...constructing and equipping buildings ...major repairacquisition of capital equipment...other permanent improvements, or capital equipment used jointly for educational and general activities...."</p>	<p>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.</p>	<p>Article VII, Section 17(a-l) of the Texas Constitution</p> <p>Education Code, Section 62.002</p> <p>General Appropriations Act</p>	<p>Article VII, Section 17(a) requires the HEF be allocated using an "equitable formula", defined in the Education Code (Section 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."</p> <p>THECB administers the HEF formula reallocation advisory process.</p> <p>Education Code (Section 62.021) provides a by-institution breakout of annual HEF appropriations.</p>

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Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Available National Research University Fund	\$61.1 million (Estimated)	<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>Designated an emerging research university by Texas Higher Education Coordinating Board.</p> <p>Reports at least \$45 million in restricted research expenditures in each of the last 2 years. Plus four of the following additional criteria:</p> <p>1) Endowments > \$400 million; 2) Produces > 200 PhDs 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>Article VII, Section 20 (a-h) of the Texas Constitution</p> <p>Education Code, Section 62.141</p> <p>General Appropriation Act</p>	<p>Education Code, Section 62.148 (c): ".....of the total amount appropriated from the fund for distribution in a state fiscal year, each eligible institution is entitled to a distribution in an amount equal to the sum of:</p> <p>(1) one-seventh of the total amount appropriated; and</p> <p>(2) an equal share of any amount remaining after distributions are calculated under Subdivision (1), not to exceed an amount equal to one-fourth of that remaining amount."</p> <p>Education Code, Section 62.148 (e):"If the number of institutions that are eligible for distributions in a state fiscal year is more than four, each eligible institution is entitled to an equal share of the total amount appropriated from the fund for distribution in that fiscal year."</p>
Research Development Fund	\$73.6 million	Education Code Section 62.091: "...to promote increased research capacity at eligible general academic teaching institutions."	Education Code Section 62.092: "'Eligible institution' means a general academic teaching institution, as defined by Section 61.003, other than The University of Texas at Austin or Texas A&M University."	Education Code, Section 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 General Academic Institution.	Education Code Section 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."

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Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Texas Competitive Knowledge Fund	\$159.2 million	Texas Education Code Section 62.052: "...to provide funding to eligible research universities and emerging research universities to support faculty to ensure excellence in instruction and research."	Education Code Section 62.051: "Eligible institution" means an institution of higher education designated as a research university under the coordinating board's accountability system and, for any three consecutive state fiscal years made total annual research expenditures in an average annual amount of not less than \$450 million or an institution designated as an emerging research university under the coordinating board's accountability system and, for any three consecutive state fiscal years made total annual research expenditures in an average annual amount of not less than \$50 million.	Education Code, Section 62.051	The 2014–15 appropriation provided approximately \$0.93 million to each eligible institution for every \$10.0 million in unrestricted research expenditures as averaged over a 3-year period
Texas Research Incentive Program	\$26.7 million	Education Code, Section 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, Section 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, Section 62.121 (House Bill 51, Eighty-first Regular Session)	<p>Education Code, Section 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:</p> <p>(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;</p> <p>(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</p> <p>(3) 100 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$2 million or more.</p>

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Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Norman Hackerman Advanced Research Program	\$1.0 million	Education Code, Section 142.002: "...to provide support for basic research conducted by faculty members and students...in eligible institutions."	Education Code, Section 142.001: "'Eligible institution' means an institution of higher education or a private or independent institution of higher education."	Education Code, Section 142.001	Education Code, Section 142.003: "The coordinating board shall appoint an advisory committee that consists of experts in the specified research areas to advises the coordinating board regarding the board's development of research priorities, guidelines, and procedures for the selection of specific projects at eligible institutions."

Section 4

Available University Fund
Performance Review and Policy Report Highlights

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

Section 5

**Available University Fund
Rider Highlights - Senate**

NONE.