

Higher Education Funds Summary - Senate

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 System and most institutions in the Texas A&M University System. AUF appropriations are first used to pay debt service on bonds backed by the Permanent University Fund, 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 National Research University Fund (NRUF) is authorized by the Texas Constitution, Article VII, Section 20. NRUF provides funding for general academic institutions that are emerging research universities, as classified by the Texas Higher Education Coordinating Board, and meet certain statutory eligibility requirements. NRUF appropriations may only be used for the support and maintenance of education and general activities that promote research capacity.

Summary of Budget Recommendations

	General Revenue Funds (millions)			All Funds (millions)		
	2022-23 Base	2024-25 Recommended	Biennial Change	2022-23 Base	2024-25 Recommended	Biennial Change
AUF	-	-	-	\$2,605.6	\$2,999.3	\$393.7
HEF	\$787.5	\$787.5	-	\$787.5	\$787.5	-
MVE	\$28.5	\$30.0	\$1.5	\$47.7	\$49.8	\$2.1
NRUF	-	-	-	\$57.5	\$57.7	\$0.2
TOTAL	\$816.0	\$817.5	\$1.5	\$3,498.2	\$3,894.3	\$396.1

Totals may not sum due to rounding

Policy Issues and Recommendations

1. **AUF appropriations.** Recommendations include a \$393.7 million increase in estimated appropriations from the Available University Fund (AUF) for the 2024-25 biennium. The estimated AUF appropriations for the 2024-25 biennium total \$3 billion and would be allocated, pursuant to the Texas Constitution, Article VII, Section 11 requirements, as follows:
- \$2.0 billion to the University of Texas (UT) System, and
 - \$979.3 million to the Texas A&M University (TAMU) System.

The Permanent University Fund (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, Sec. 62.021.

Per Education Code, Sec. 62.022, 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 must study the methodology – with full participation of eligible institutions – and make recommendations for the next ten-year allocation period to the Legislative Budget Board and relevant standing committees of the House and Senate.

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. The GR support previously totaled \$15 million per fiscal year, but due to a recommended 5% budget reduction, the appropriation was reduced in FY 2021 and the reduction was maintained in 2022-23. Recommendations for the 2024-25 biennium would restore the appropriation from \$14.25 million per fiscal year to \$15.0 million to align with the restoration of other funds.

Total appropriations, including both MVE and General Revenue support, for the Hazlewood Legacy Program have remained mostly level since FY 2016. In that time, the tuition and fees waived by institutions for the HLP have increased, though at a decreasing rate. In FY 2016, total HLP reimbursements of \$26.4 million covered about 21.3 percent of the institutions' total waived revenue, which was \$123.8 million. In FY 2022, the reimbursements of \$23.5 million covered 13.3 percent of waived revenue, which was \$176.4 million. The biennial cost to fully reimburse institutions, based on FY 2022 distribution, would total \$352.8 million, which would be an increase of \$303.0 million above recommendations.

4. NRUF appropriation, distribution. The Comptroller of Public Accounts, through the Texas Treasury Safekeeping Trust Company (TTSTC), determines the amount of Available National Research University Fund (NRUF) appropriations for each fiscal year pursuant to Education Code, Section 62.148 requirements. Per statute, the NRUF appropriation for any fiscal year may not exceed 4.5 percent of the average value of the NRUF corpus for the previous three fiscal years. TTSTC policy determines the available NRUF appropriation amount based on an effective distribution rate of 3.5 percent.

The distribution of available NRUF appropriations and the university eligibility requirements are set forth in Education Code, Chapter 62, Subchapter G. Currently, the University of Houston, Texas Tech University, University of Texas at Dallas, and University of Texas at Arlington are eligible to receive NRUF appropriations. To become eligible, institutions must for two consecutive fiscal years:

- Satisfy two mandatory criteria by (1) being designated as an emerging research university by the Texas Higher Education Coordinating Board's (THECB) Accountability System and (2) expending at least \$45 million in restricted research funds; and
- Satisfy four of six optional criteria which indicate the institution's academic excellence.

Texas Education Code Sec. 62.146(b) requires THECB to annually certify information related to the NRUF criteria to determine which institutions are eligible for distributions. According to the May 2022 NRUF Eligibility Report, UT San Antonio met the mandatory and optional criteria in FY 2021. However, a mandatory audit of this information found that the institution did not meet the threshold in FY 2020. UT San Antonio would have to meet the criteria again in FY 2022 to be eligible for NRUF in FY 2023. The remaining emerging research universities have not yet met all of the mandatory and optional criteria.

As more institutions have qualified to receive distributions from NRUF, total distributions have increased while institutional allocations have slightly decreased. Institutional allocations decreased from \$9.5 million in fiscal 2017 to \$7.6 million in fiscal 2018, when UT Dallas qualified, then fell to \$6.4 million in fiscal 2021, when UT Arlington qualified. Allocations may continue to decrease as more institutions qualify.

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 specify that necessary direct administration operations must be "support and maintenance," per requirements of the Texas Constitution, Article VII, Section 18. Recommendations also delete a portion of the rider prohibiting the UT System from using AUF appropriations for Board of Regents travel, food, and meeting expenses.

Requests Not Included in Recommendations

AUF Rider Requests Not Included:

- UT System and TAMU System request deletion of a portion of AUF Rider 6, Reporting Requirements for System Office Operations and System Initiatives, requiring reporting of a detailed listing of the role and function of any FTEs included in an AUF-funded Board activity.

MVE Exceptional Item Requests Not Included:

- Several systems requested a combined \$276.0 million in General Revenue to reimburse institutions for waived revenue from the Hazlewood Legacy Program.

MVE Rider Requests Not Included:

- Several systems requested to add provisions to Rider 1, Distribution to Eligible Institutions, and Rider 2, Reimbursements for Hazlewood Exemption Program, requiring the LBB to provide a copy of the approved annual distribution allocation data and amounts by institutions to all receiving institutions of higher education.
- Several systems also requested to add two provisions to Rider 2 to make proportionality benefits available for the General Revenue Funds associated with Hazlewood.
- Several systems requested to add a provision to Rider 3, Appropriation: Unexpended Balances, to provide UB authority for the General Revenue Funds appropriated in Strategy B.1.1.
- Several systems requested to add a new rider requiring the Texas Veterans Commission to report to institutions and their system office on veteran, child, spouse and legacy participants in the Hazlewood exemption program.