

SUBJECT: Establishing the national research university fund

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 7 ayes — Branch, Alonzo, Berman, D. Howard, McCall, Patrick, Rose
0 nays
1 present, not voting — Castro
1 absent — Cohen

SENATE VOTE: On final passage, April 6 — 31-0

WITNESSES: For — (*Registered, but did not testify*) Chris Shields, Greater San Antonio Chamber of Commerce; Jerry Valdez, Greater Houston Partnership
Against — None

BACKGROUND: Texas Constitution, Art. 7, sec. 17 authorizes the Higher Education Fund (HEF), which benefits institutions of higher education not eligible for the Available University Fund. The HEF is supported by general revenue fund appropriations. The distribution of HEF appropriations is provided for Education Code, sec. 62.021. HEF funds may be used for many of the same purposes as the PUF, including to acquire land, construct, repair, and rehabilitate buildings, and purchase capital equipment and library materials. Institutions may use HEF allocations for debt service on HEF bonds. The Constitution calls for a re-allocation of HEF funds every ten years.

From 1986 through 1995, the Legislature appropriated \$100 million to the HEF each year. The annual appropriation increased to \$175 million each year beginning in 1996. In 2008, the annual appropriation increased to \$262.5 million each fiscal year.

In 1996, the Legislature created a dedicated endowment to build the corpus of the Higher Education Fund for the benefit of the non-PUF institutions. This dedicated funding is separate from the HEF allocation,

which is distributed every year. Each year from 1996 and 2001, the permanent HEF received appropriations of \$50 million. Beginning in fiscal 2002, the \$50 million appropriated to the permanent HEF was reduced by the amount of interest earned on the endowment, and a corresponding amount was transferred to the Texas Excellence Fund for the benefit of HEF-eligible institutions. No appropriations to the permanent HEF were made for fiscal 2004-2005 or the fiscal 2006-07 biennium. The estimated current balance of the permanent HEF is between \$450 million and \$475 million.

The Constitution requires that investment returns of the permanent HEF be credited back to the fund until the fund balance reaches \$2 billion. The corpus of the permanent HEF is not spent. After the HEF balance reaches \$2 billion, annual appropriations to the HEF will end. Ten percent of investment income will be returned to the HEF and the remainder of HEF investment income will then be appropriated to HEF-eligible institutions.

Art. 7, sec. 17(i) authorizes the Legislature to dedicate portions of the state's revenues to the creation of a dedicated higher education fund for the following purposes: acquiring land, either with or without permanent improvements; constructing and equipping buildings or other permanent improvements; acquiring capital equipment, library books and library materials; and paying to acquire facilities, 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.

DIGEST:

SJR 35 would amend Art. 7, adding sec. 20 to establish the National Research University Fund 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. Eligible state universities could use distributions from the fund only for the support and maintenance of educational and general activities that promoted increased research capacity at the university. Eligibility criteria would be established by the Legislature. Institutions could receive distributions in one biennium and subsequent biennia. The University of Texas at Austin, Texas A&M University, and Prairie View A&M University would not be eligible to receive money from the fund.

The Legislature would administer the fund, which would be invested in the manner and according to standards for investment of the Permanent

University Fund. Expenses for managing the fund's investments would be paid out of the fund.

The fund would consist of money transferred or deposited to the fund and any interest or other return on investment assets of the fund. The Legislature could dedicate state revenue to the fund.

The portion of the total return on investment assets of the fund that would be available for appropriation in a fiscal biennium would be the portion necessary to provide as nearly as practicable a stable and predictable stream of annual distributions to eligible state universities and to maintain the purchasing power of investment assets.

The Legislature would be prohibited from appropriating money from the fund if the purchasing power of investment assets for any rolling 10-year period was not preserved. The Legislature could appropriate money from the fund when the purchasing power of the investment assets was restored. The amount appropriated from the fund in any fiscal year could not exceed 7 percent of the average net fair market value of the investment assets of the fund. In each fiscal biennium, the Legislature could appropriate, as authorized by the bill, all or a portion of the total return on all investment assets of the fund for the purposes of the fund.

Biennially, the Legislature would be required to allocate funds or to provide for the allocation of funds to eligible state universities. The money would have to be allocated based on an equitable formula established by the Legislature or an agency designated by the Legislature. The Legislature would be required to review and adjust, if appropriate, or to provide for a review and adjustment of the formula at the end of each fiscal biennium.

SJR 35 would establish a temporary provision to expire on January 1, 2011, that would require the transfer of the balance of the Higher Education Fund to the National Research University Fund. The addition of sec. 20 to Art. 7 of the Constitution and the repeal of sec. 17(i) of the Constitution would take effect January 1, 2010. On January 1, 2010, any amount in or payable to the credit of the Higher Education Fund established by Art. 7, sec. 17(i) would be transferred to the credit of the National Research University Fund.

The proposal would be presented to the voters at an election on Tuesday, November 3, 2009. The ballot proposal would read: “The constitutional amendment establishing the national research university fund to enable emerging research universities in this state to achieve national prominence as major research universities and transferring the balance of the higher education fund to the national research university fund.”

**SUPPORTERS
SAY:**

SJR 35 and its accompanying enabling legislation, HB 51 by Branch, are necessary to repurpose the corpus of the HEF and create a pathway for emerging research universities in Texas to achieve nationally recognized research status. The bill would propose a fund that would be a dedicated, long-term independent source of funding for eligible institutions. The HEF-eligible institutions will continue to receive annual general revenue allocations as required by the Texas Constitution.

The need for a highly educated workforce in Texas cannot be overstated, and SJR 35 would be the first step in pursuing that goal. Creating additional national research universities is one of the most important issues facing the state today. If Texas is to achieve the vision of a globally competitive workforce, it must make dramatic gains in the education of its population.

With more than 24 million Texans and only two public, national, tier-one institutions — UT-Austin and Texas A&M University — it is no surprise that the state’s top-flight schools have more applicants than they can admit. Texas is losing more than 10,000 high school graduates a year to doctoral-granting universities in other states. At the same time, the state is recruiting only 4,000 students per year from other states, resulting in a net loss of 6,000 students a year. The presence of more tier-one universities would expand the educational opportunities available to Texas students and keep more of them in the state.

A principal reason that the University of Texas and Texas A&M University have reached the level of tier-one status is because of long-term, sustained funding from the Permanent University Fund. SJR 35 proposes an important change and an excellent use of the funds in the HEF because state funding alone cannot make a tier-one university. Having established, guaranteed funding would allow emerging research institutions to achieve tier-one status, which would allow them to attract and retain top talent, while generating important research in the state.

OPPONENTS
SAY:

While the goals of the proposal are laudable, in this time of limited state dollars, Texas should focus more of its limited state resources, including the funds in the HEF, on those institutions that are the closest to attaining tier-one status. Especially because of the urgency of developing more nationally competitive research universities, it would make more sense to target fewer institutions that were further along the path to national status.

NOTES:

The accompanying enabling legislation, HB 51 by Branch, passed the House by 137-0 on April 24 and was heard in the Senate Higher Education Committee on May 5 and left pending.