

SUBJECT: Creating the Texas Competitive Knowledge Fund

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 9 ayes — Branch, Patrick, Alonzo, Clardy, Darby, Howard, Martinez, Murphy, Raney
0 nays

WITNESSES: For — (*Registered, but did not testify:* Wendy Reilly, TechAmerica); Nelson Salinas, Texas Association of Business)
Against — None
On — Pedro Reyes, The University of Texas System

DIGEST: HB 2765 would establish eligibility criteria and formulas for appropriations from the Texas Competitive Knowledge Fund. The fund would provide additional funds to eligible research universities and emerging research universities to support faculty efforts in instruction and research. The fund would consist of money appropriated by the legislature to eligible institutions.

The bill would establish two tiers of research institutions and grant them different levels of appropriations. The first tier would consist of those research universities that made average annual research expenditures of at least \$450 million. The second tier would consist of those emerging research institutions that made average annual research expenditures of at least \$50 million.

At least 50 percent of the fund would be appropriated to the first-tier institutions with the remainder divided amongst the second tier. The appropriations would be based on the proportion of institutions average annual total research expenditures for the three fiscal years prior to the biennium in which the institution received money from the fund.

For the first state fiscal biennium in which an eligible institution would receive an appropriation from the fund, its other general revenue appropriations would be reduced by an amount not to exceed the lesser of

\$5 million for the biennium or the amount of the institution's appropriation from the fund for the biennium. No institution would receive less from the fund than its contribution to it.

HB 2765 also would require the Texas Higher Education Coordinating Board to conduct a study of the appropriate definitions and categories of research expenditures to be used in determining an institution's eligibility for and distribution from the fund. The study would be due by December 1, 2014.

The bill would take effect on September 1, 2013.

**SUPPORTERS
SAY:**

HB 2765 would incentivize and reward excellence at emerging and mature national research institutions by codifying the requirements and structure of the Competitive Knowledge Fund. Codifying the rules associated with fund participation would ensure clarity and fairness for potential entrants and increase transparency in the appropriations process.

The bill would mirror the appropriations formula for the fund found in CSSB 1. Placing that model into statute would protect the interests of all existing parties and provide fairness and transparency for future fund entrants.

The eligibility criteria in the bill would mean membership in the tiers was liquid. But current research expenditures would place UT-Austin and Texas A&M University in the first tier. The second tier would consist of The University of Houston, UT - Dallas, Texas Tech University, UT - Arlington, UT - El Paso, and UT - San Antonio.

The bill would not create a new authorization for appropriations because the fund already exists and the Legislature has already funded it over several biennia.

It is appropriate to reserve at least half the fund for the first tier because the Competitive Knowledge Fund is the only source of supplemental funds the first tier institutions have for faculty instruction and research. The second tier institutions all have access to other incentive funds as emerging research institutions.

**OPPONENTS
SAY:**

HB 2765 would take away the Appropriations Committee's discretion to fund university research excellence through the Texas Competitive

Knowledge Research University Development Fund and place it in statute. There is no need to remove the Legislature's ability to shift budget priorities from session to session as changing economic conditions and policy shifts dictate.

The bill would invite future appropriations and expenditures of state funds. The Legislative Budget Board's fiscal note shows a negative fiscal impact of \$23.7 million.

The bill should not reserve at least half of the fund for the first tier research institutions. If the second-tier institutions are ever to achieve their full potential as research universities, they will need to receive a larger share of this fund.