SUBJECT: Authorizing annual Higher Education Fund allocations

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 8 ayes — Zerwas, Howard, Alonzo, Crownover, Martinez, Morrison, Raney, C. Turner

0 nays

1 absent — Clardy

WITNESSES: For — (*Registered, but did not testify*: Susan Everett; Julie Lawrence)

Against — None

On — Robert Duncan, Texas Tech University System; (*Registered, but did not testify*: Thomas Keaton, Texas Higher Education Coordinating Board)

BACKGROUND: Texas Constitution, Art. 7, sec. 17(a) requires the Legislature to authorize allocations under the Higher Education Fund (HEF) to provide funding for capital improvement projects and debt service at public higher education institutions that are not eligible for Available University Fund (AUF) funding. The HEF is a counterpart to the Permanent University Fund (PUF), which provides similar funding to the University of Texas System and many institutions in the Texas A&M University System.

Total HEF distributions appear in the general appropriations act and flow through an equitable formula allocation to institutions over a 10-year period. The formula is based on three elements: space deficit, facilities condition, and institutional complexity. The formula also includes a separate allocation to the Texas State Technical College System, which is capped at no more than 2.2 percent of the total HEF allocation. The balance of the HEF funds is then distributed by the formula.

Under the Texas Constitution, every 10 years the Legislature is required to review the HEF allocation methodology, including the allocation formula and appropriation level. Under Art. 7, sec. 17(a), once every five years the Legislature may review the allocation methodology for the following five years and may make an adjustment if the change receives a two-thirds vote. The 79th Legislature in 2005 increased by 50 percent the annual HEF appropriation beginning in 2005 from $175 million to $262.5 million.

This year marks the end of a HEF appropriation decennium, and the 84th Legislature is authorized by the Texas Constitution to review and increase or maintain the appropriation level and allotment of the previous cycle for the next 10 years.

DIGEST:

CSHB 2848 would distribute Higher Education Fund (HEF) allocations to eligible institutions through an equitable formula and would provide adjustments for appropriations to specific institutions.

The bill would authorize two potential courses of action for the amount and allocation of HEF funding, depending on the action of 84th Legislature. The first potential funding allocation, authorized by Education Code, sec. 62.021(a) as amended by the bill, would maintain the current total HEF appropriation level at $262.5 million per year across the HEF eligible institutions for the next 10 years. The second potential funding allocation, authorized by Education Code, sec. 62.021(a-1) as amended by the bill, would increase the appropriation level by 50 percent to $393.7 million per year for the next 10 years.

The allocations in subsection (a-1), which assume an increase in HEF funding, would be dependent upon the Legislature approving an amount in the general appropriations act sufficient to cover this increase for fiscal 2016-17. If the Legislature did not increase the appropriation to fund this change, subsection (a-1) would have no effect, and the funding level would remain at $262.5 million per year and would be allocated as stipulated by subsection (a).

CSHB 2848 also would make technical changes in the equitable formula, repeal and update obsolete language, and specify that the constitutional changes would apply each fiscal year beginning September 1, 2015.

The bill would take effect August 31, 2015, except that the overall increase in the allocation would have to be approved by a two-thirds vote of the membership of each house, as required by Texas Constitution, Art. 7, sec. 17(a).

SUPPORTERS SAY:

CSHB 2848 would allocate funds that are vital to address improvement and maintenance projects at about 30 of the state's public institutions of higher education. The Higher Education Fund (HEF) provides funding for certain institutions to update facilities, address deferred maintenance projects, and keep up with technology needs.

In the past 10 years, higher education institutions have experienced rapid enrollment growth and fast-paced changes in the technology needed in classrooms. The HEF funds contained in CSHB 2848 help compensate institutions for swelling student populations and reduced purchasing power due to inflation. This funding would allow schools to keep moving forward, maintain their quality of education, and prevent buildings and classrooms from falling into disrepair. HEF funds go toward important capital projects that can benefit an entire region. For instance, this funding could help build facilities used to train more nurses to address a nursing shortage in an area.

CSHB 2848 reflects a HEF allocation methodology that is reviewed and set by a study group composed of the institutions in partnership with other stakeholders. The bill's increased HEF funding component reflects the coordinating board's recommendation from this study group that funds be increased by 50 percent for the next 10 years. An increase of 50 percent is consistent with past increases from one HEF cycle to the next. HEF funding for these important capital projects is not based on specific outcomes, but it does address increases in enrollment and needed maintenance projects.

All public institutions of higher education except community colleges receive funding for construction and other capital projects, either through the Permanent University Fund (PUF) or the HEF. HEF funds, which ensure that HEF institutions remain on a comparable footing with PUF institutions, are for limited purposes related to academic facilities, and may not be used solely to fund student housing, intercollegiate athletics, or auxiliary projects. However, over the past 10 years, PUF institutions have received a great deal more funding for capital projects, and more funding is needed for HEF institutions to regain parity.

The proposed increase to HEF funding would be a wise investment not only for the present but also for the next 10 years. Although CSHB 1 as passed by the House would place the additional funding needed to increase HEF in Article 11 of the budget, the Senate version of the budget would provide the additional funds needed. As the budget process progresses, there still will be opportunities to pass a budget that would finance the increased HEF allocations provided in CSHB 2848.

OPPONENTS SAY:

Although the kind of funding in CSHB 2848 is essential for some institutions, the Legislature should evaluate each institution's request for state capital construction funding individually, rather than together in a package. This would allow the Legislature to determine on a case-by-case basis whether the authorized HEF funds were the best investment.

The state appropriates a great deal of money to public higher education, particularly for capital construction through tuition revenue bonds, PUF, and HEF. However, the Legislature is not holding the institutions accountable for reaching any outcomes in return for this investment. The state needs these institutions to produce graduates, not new buildings. Institutions instead should be increasing access and affordability because new buildings provide no benefit if students cannot afford or are otherwise unable to access higher education.

OTHER OPPONENTS SAY:

CSHB 2848's authorization of increased general revenue allocations for HEF for the next 10 years would increase state spending and would not be fiscally responsible.

NOTES:

If the Legislature approved an increased funding allocation for the Higher Education Fund, CHSB 2848 would have a negative fiscal impact of $131.25 million per year in general revenue funds, totaling $262.5 million in general revenue for fiscal 2016-17. If the Legislature did not approve this increased funding, the Legislative Budget Board estimates there would be no fiscal impact to the state.

CSHB 2848 differs from the bill as introduced in that it would make technical adjustments to some of the institutions' allocations.

SB 1191 by Seliger would increase the overall HEF appropriation by $131.25 million, similar to the approach outlined in Education Code, sec. 62.021(a-1) as amended by CSHB 2848. SB 1191 was passed by the Senate on April 9.