HOUSE
RESEARCH
ORGANIZATION bill analysis 4/22/2003

HB 1887
Morrison

SUBJECT: Allowing public universities to retain overhead expenses

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 6 ayes — Morrison, F. Brown, Chavez, Giddings, J. Jones, Mercer

0 nays

2 absent — Nixon, Smithee

WITNESSES: For — Brian Haley, University of Texas at Austin student body; Tom Kowalski, Texas Healthcare and Bio Science Institute

Against — None

On — Diana Natalicio, The University of Texas at El Paso

BACKGROUND: Education Code, Ch. 145 governs overhead cost recovery of grants and research expenses for general academic teaching institutions, medical and dental schools, and other agencies of higher education. Current law requires 50 percent of a university's indirect cost reimbursements to be deducted from the institution's state general revenue appropriations.

The General Appropriations Act of 1999 (HB 1) and the General Appropriations Act of 2001 (SB 1) contained special provisions to allow health-related institutions to retain 100 percent of their indirect research costs covered by grants.

DIGEST: HB 1887 would amend the Education Code to prohibit accounting for funds received by teaching institutions, medical schools, or dental schools to conduct research and pay associated overhead expenses through reductions in general revenue funds appropriated to those institutions.

The funds would have to be used by the general academic teaching institution or a medical or dental school for encouraging and supporting further research.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

SUPPORTERS SAY:

Research universities in Texas work hard to generate external funding for research and development (R&D) and sponsored projects. Yet the state deducts from their general revenue appropriations 50 percent of the indirect cost recovery (ICR) — used to pay for overhead expenses — earned by the institutions on externally funded research projects. Overhead expenses are incurred in building use and depreciation, equipment use, operations and maintenance, interest expense, library expense, and administration. This amounts to a tax on institutions that are successful at securing funding from federal agencies, corporations, foundations, and individual donors.

The ICR is very important not only to large research institutions but also to regional universities competing for outside funding. In addition to being used to reinvest in research capacity, renovate space, buy equipment, and hire technicians, these funds also are used to leverage federal funds. For example, The University of Texas at El Paso secures nearly $7 in federal research dollars for every state dollar expended, but then must forfeit $5 million a year back to general revenue.

Forfeiting half of the ICR seriously undermines the efforts of public universities to continue building research capacity and puts Texas at a disadvantage nationally in securing essential federal R&D dollars. It also hampers the ability of Texas institutions to recruit and retain competitive researchers. Texas is the only state that recaptures such a large portion of the ICR funds. Other large states, including California, Florida, and Michigan, allow universities to retain all or nearly all of the ICR they recover from sponsors.

Texas leaders and policy experts at the state and federal levels agree that the state's ICR policy should be changed to increase federal funds for research at Texas institutions. U.S. Sen. Kay Bailey Hutchison and Texas university leaders reached this conclusion at a meeting earlier this year, and Gov. Perry's Council on Science and Biotechnology Development recently recommended removing the "tax on research" by allowing institutions to keep 100 percent of indirect cost recovery. The Higher Education Coordinating Board also recommended that public universities be allowed to keep 100 percent of the overhead income received from grants.

The comptroller's e-Texas report, *Limited Government Unlimited Opportunity*, recommends that the state move toward allowing colleges and universities that conduct sponsored research to keep 100 percent of ICR funds they receive. In addition, it states that every dollar invested in research produces $3.32 in additional economic activity. Therefore, if the state redirected to research purposes the $35 million in annual indirect cost recoveries currently used to offset state support for higher education, the overall state economy would gain more than $115 million per year.

The bill would not increase inequity between public institutions because it would give schools an equal incentive to aggressively pursue federal funding and enhance their research enterprises. It would allow them to grow and reach their potential in serving the needs of the students, their communities, and local and regional economies.

The House-passed version of HB 1, the general appropriations bill for fiscal 2004-05, has a special provision to allow health-related institutions to retain 100 percent of ICR and provides the level of funding in the bill patterns of all the general academic institutions equal to 100 percent of their ICR (strategy A.1.7).

OPPONENTS SAY:

According to the Legislative Budget Board, HB 1887 would have a negative impact of more than $43 million per year to general revenue through fiscal 2008. This would be an inappropriate use of funds during these tight fiscal times. These institutions are funded with public, taxpayer money and are partners with the state, which provides the seed money for the generation of federal research funds. The ICR policy is not a tax, and it is appropriate that some of the funds the institutions generate return to general revenue. There are other demands on the state budget, such as public education and healthcare for low-income children, the elderly, and the disabled, and each agency must do its part to live within the budget constraints the state is facing.

OTHER OPPONENTS SAY:

HB 1887 would further inequities between institutions of higher learning. Large, research intensive schools that generate more external funding, and also receive allocations from the Permanent University Fund and the

Available University Fund, would be able to keep more money, while institutions on the cusp of becoming research intensive would continue to lag behind because they do not generate as much external funding.

NOTES:

A similar bill, SB 1630 by Ratliff, would allow no more than 40 percent of funds received for paying overhead costs to be used to reduce general revenue appropriations to general academic and teaching institutions and medical and dental schools for the fiscal 2004-05 biennium. Subsequently, all ICR would stay at the generating university with no offset of general revenue funds. SB 1630 was reported favorably from the Senate Education Subcommittee on Higher Education on April 14.