HOUSE
RESEARCH
ORGANIZATION bill analysis 4/14/2011

HB 1000
Branch, Coleman
(CSHB 1000 by Branch)

SUBJECT: Creating a distribution system for the national research university fund

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 7 ayes — Branch, Bonnen, Brown, D. Howard, Johnson, Lewis, Patrick

0 nays

2 absent — Castro, Alonzo

WITNESSES: For — None

Against — None

On — Daniel David, University of Texas-Dallas; John Keel, State Auditor's Office; Welcome Wilson, University of Houston Board of Regents

BACKGROUND: The Texas Legislature in 2009 enacted HB 51 by Branch, which established the National Research University Fund (NRUF) to help emerging research institutions join the ranks of the state's two public, tier-one research universities, the University of Texas at Austin and Texas A&M University. NRUF is a permanent, constitutional endowment approved by Texas voters in 2009 with the enactment of Proposition 4 to repurpose the dormant permanent higher education fund as the NRUF to help emerging research institutions reach and maintain tier-one status.

Texas Constitution, Art. 7, sec. 20(f) authorizes the Legislature to appropriate up to 7 percent of the average net market value of the investment assets of the fund, provided that the 10-year purchasing power of the corpus is preserved. The fund is now valued at about $613 million. The Constitution stipulates that a state university that becomes eligible for a portion of the distributions from the fund in a fiscal biennium remains eligible to receive additional distributions in any subsequent state fiscal biennium. The University of Texas at Austin and Texas A&M University are not eligible to receive money from the fund.

There is no formal definition of a tier-one university, but generally accepted criteria include having academic excellence, world-class research, and an exceptional student body. The seven institutions designated by the Texas Higher Education Coordinating Board as emerging research institutions are Texas Tech University, the University of Houston, the University of North Texas, UT-Arlington, UT-Dallas, UT-El Paso, and UT-San Antonio.

Once an institution reaches certain benchmarks, it will have access to a portion of the payout from the NRUF endowment. To be eligible for NRUF funding, an emerging research university must have at least two years of annual restricted research expenditures of more than $45 million. It also must meet four of six other criteria:

- an endowment greater than $400 million;
- doctoral degrees awarded exceeding 200 in each of the previous two years;
- membership in the Association of Research Libraries or the housing of a chapter of Phi Beta Kappa;
- high achievement of the freshman class for two years;
- high-quality faculty for two years;
- high-quality graduate education programs.

DIGEST:

CSHB 1000 would specify the criteria used to determine annual distributions from the National Research University Fund and define the criteria used to allocate the distributions among the eligible institutions.

The bill would require the comptroller to distribute in each fiscal year to eligible institutions the appropriated funds. It would stipulate that the total amount appropriated from the NRUF corpus for any state fiscal year could not exceed 4.5 percent of the average net market value of the investment assets of the NRUF for the 20 consecutive state fiscal quarters ending with the last quarter of the preceding state fiscal year, as determined by the comptroller.

For a state fiscal quarter that included any period before NRUF was established on January 1, 2010, the average net market value of the investment assets of the fund would include the average net market value of the investment assets of the former higher education fund for the applicable quarter. This provision would expire January 1, 2016.

In each fiscal year, each eligible institution would be entitled to an equal share of the total amount to be distributed. The total amount to be distributed to eligible institutions in that year would be a portion of the total amount appropriated from the fund for that year, as follows:

- one-half of the total amount appropriated if only one institution has established eligibility;
- two-thirds of the total amount appropriated if two institutions have established eligibility;
- three-fourths of the total amount appropriated if three institutions have established eligibility;
- four-fifths of the total amount appropriated if four institutions have established eligibility;
- five-sixths of the total amount appropriated if five institutions have established eligibility;
- six-sevenths of the total amount appropriated if six institutions have established eligibility.

If the number of eligible institutions were more than six, each institution would receive an equal share of the total amount appropriated from the fund for that fiscal year. The total amount appropriated from the fund for a state fiscal year would not include any portion of the amount used to reimburse the costs of an audit. The comptroller would retain within the fund any portion of an appropriated amount that remained after all distributions were made. The appropriation of the retained amount would lapse at the end of the fiscal year.

CSHB 1000 would require the coordinating board to prescribe by rule standard methods of accounting and reporting information for the purposes of determining the amount of restricted research funds expended by an eligible institution in a fiscal year. Data submitted to the coordinating board from institutions for the purposes of establishing eligibility to receive allocations of NRUF proceeds would be subject to audit by the state auditor. The coordinating board could request one or more audits as necessary after an institution began receiving distributions. The bill would require the comptroller, from money appropriated from the fund, to reimburse the state auditor for the expense of such audits.

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, 2011.

SUPPORTERS SAY:

CSHB 1000 is needed to implement an allocation method for distributing funds to the emerging research universities once they begin to qualify for NRUF funding. Currently, none of the universities have qualified, but a few are getting close. The method proposed by the bill would be simple to communicate and understand. It would divide the funds equally among the qualifying institutions and return an equal portion to the fund. If one university met eligibility, then half of the total appropriated amount would go to the university and half would go back to the fund. If two universities met the benchmark, then one-third would go to each university and one-third would go to the fund, and so on.

This distribution method would reward the attainment of the benchmarks while being conservative enough to allow the corpus of the fund to grow. Reinvesting some of the proceeds would be important to the health of the fund. Requiring an independent audit of a university's restricted research expenditures would ensure a level playing field for all of the universities.

The distribution model would reward those institutions who qualified early, but not so much that it would be unsustainable.

The distribution of NRUF funds should not be based on an eligible institution's restricted research expenditures. The metric of using an institution's restricted research expenditures already plays a prominent role in the NRUF because it is the first benchmark that an eligible institution must meet in order to begin to gain access to NRUF funds. Using this metric could give a repeated advantage to certain universities, year after year, across all the major university funds that already use these criteria.

OPPONENTS SAY:

Rather than eligible institutions sharing equally in the appropriation, the distribution model should be more performance-based. Funds should be allocated proportionately based on each eligible institution's amount of restricted research expenditures over a period of time. This would be a formula-based methodology that currently is used for other major university funding, including the Research Development Fund, the Competitive Knowledge Fund, and others. It would be an accurate reflection of an institution's performance and reward those institutions for the actual amount of restricted research funds expended in a fiscal year.

NOTES:

The committee substitute differs from the original version of the bill by providing that the state auditor be reimbursed for expenses from money appropriated from the NRUF. The substitute also would determine the 4.5 percent of the average net market value of the fund's assets for 20 rather than 12 consecutive quarters.

A related bill, HB 2115 by Coleman, which would establish a distribution formula and allocate appropriations proportionately among eligible institutions based on a three-year average of restricted research expenditures, was considered in a public hearing of the House Higher Education Committee on March 23 and left pending.

Another related bill, SB 557 by Duncan, which would stipulate that the amount available for distribution would be 3.5 percent of the average market value of the fund over the previous 12 quarters and that eligible institutions would receive one-seventh of the total available, plus one-fourth of any remaining amount, was considered in a March 30 public hearing by the Senate Higher Education Committee and left pending.