

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION
Revision 1

May 31, 2009

TO: Honorable David Dewhurst , Lieutenant Governor, Senate
 Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB51 by Branch (relating to measures to enhance and maintain the quality of state universities, including funding and incentives to support emerging public research universities, to the abolition of the higher education fund, to the institutional groupings under the Texas Higher Education Coordinating Board's accountability system, to the independent status of Lamar Institute of Technology, to research conducted by public universities and other state entities, and to the authorization of revenue bonds for certain institutions of higher education.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for HB51, Conference Committee Report: a negative impact of (\$298,965,652) through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	(\$147,475,225)
2011	(\$151,490,427)
2012	(\$151,490,427)
2013	(\$151,490,427)
2014	(\$151,490,427)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>General Revenue Fund</i> 1
2010	(\$147,475,225)
2011	(\$151,490,427)
2012	(\$151,490,427)
2013	(\$151,490,427)
2014	(\$151,490,427)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	3.0
2011	3.0
2012	3.0
2013	3.0
2014	3.0

Fiscal Analysis

The fiscal note will be broken out by each section of the bill.

Section 1 of the bill would require each institution of higher education designated as a research university or emerging research university to submit to the Higher Education Coordinating Board, a detailed, long-term strategic plan documenting the strategy by which the institution intends to achieve recognition as a research university, or enhance the university's reputation as a research university as applicable.

Section 2, 3 and 4 of the bill would amend the Education Code to grant additional authority to the Board of Regents of the Texas A&M University System to issue additional tuition revenue bonds for Texas A&M University at Galveston in an amount not to exceed \$5,000,000 to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads or related infrastructure, for an erosion control breakwater, a dock, or other related purpose reasonably necessary to assist the institution to recover from any damage or other impact caused by Hurricane Ike. This authority would include the irrevocable pledging of revenue for the payment for bonds and transfer of funds from other institutions within the Texas A&M University System.

The sections would also amend the Education Code to grant authority to the Board of Regents of the University of Texas System to issue additional tuition revenue bonds for the recovery and reconstruction of the University of Texas Medical Branch at Galveston (UTMB) in an amount not to exceed \$150,000,000. This authority would include the irrevocable pledging of revenue for the payment for bonds and transfer of funds, subject to Legislative Budget Board (LBB) approval, from other institutions within The UT System. In determining approval, the LBB must consider whether the commissioners' court in the county in which UTMB is located has entered into an agreement with UTMB for costs to provide unreimbursed healthcare or whether the county has imposed an ad valorem tax for healthcare purposes. According to The UT System, The UT Board of Regents has already approved Hurricane Ike Recovery projects and the John Sealy Hospital Modernization project.

Although tuition income is pledged against the bonds, historically the Legislature has appropriated General Revenue to reimburse institutions for the tuition used to pay the debt service. This note assumes the Legislature would continue this policy. The provisions of the bill would exempt these bonds from oversight of the Texas Higher Education Coordinating Board.

Section 5 would require the Higher Education Coordinating Board, as part of other funding recommendations, to determine the amount the Board considers appropriate for funding for excellence in specific programs and fields at general academic teaching institutions.

Section 6 would establish an Excellence Awards program for institutions other than research universities or emerging research universities to encourage the development of designated degree programs to the highest national standards. The Texas Higher Education Coordinating Board (THECB) would be authorized to release Excellence Award funding only when certain benchmarks are met.

Section 7 would require the Higher Education Coordinating Board review the institutional groupings under the Board's accountability system at least once every ten years.

Section 8 and Section 9 would amend Chapter 62 of the Education Code relating to the Research Development Fund.

Section 10 and 11 of the bill would provide two separate reallocations of the Higher Education Fund (HEF) for fiscal years 2009 through 2014, and would not change the total amounts appropriated to the HEF in any of the fiscal years this bill would affect. However, individual institutions of higher education would be affected based on the dollar outcome generated by the updated HEF formula.

The first reallocation would apply to fiscal years 2009 and 2010. To maintain an equitable distribution basis for the HEF, this reallocation would correct certain errors in the existing HEF allocation. This

reallocation would also provide additional HEF funds to those institutions that were under-allocated previously by reducing the allocation of previously over-allocated institutions.

The second reallocation would apply to the second half of the HEF's decennial period (fiscal years 2011 - 2014), and is based on a corrected allocation using updated data elements.

The bill would specify the University of North Texas at Dallas is entitled to participate in the HEF reallocation as soon as the UNT component operates as a general academic teaching institution.

Starting in fiscal year 2011, this bill would also provide separate HEF allocations to the Lamar Institute of Technology, and would direct the Comptroller to adjust the HEF allocations accordingly.

Section 12, Subchapter C, Research University Development Fund. Under this section the Higher Education Coordinating Board would distribute funds to eligible research and emerging research universities based on the average amount of total research funds expended by each institution annually during the three most recent fiscal years according to rates specified in the bill.

Section 12, Subchapter D, Performance Incentive Funding, provides a mechanism for performance incentive funding for general academic teaching institutions. The funding would be allocated on a 50/50 split under guidelines established in the bill. Using a table of weights with combinations of noncritical/critical fields and not at-risk/at-risk students, general academic institutions qualify for incentive funds in proportion to the increase in the average number of degrees awarded annually in the two most recent fiscal years compared to the two immediately preceding years. Noncritical field/Not at-risk Student is weighted at 1.0; Critical field/at-risk Student is weighted at 3.0. Statutory critical fields include engineering, computer science, math, physical science, allied health, nursing, and teach certification in science or math.

Section 12 Subchapter F, Texas Research Incentive Program. Under provisions of this section, the Higher Education Coordinating Board would develop and administer the Texas Research Incentive Program to provide matching funds to assist eligible institutions in leveraging private gifts or endowments for the enhancement of research productivity and faculty recruitment.

Section 13, Subchapter G, National Research University Fund. Contingent upon voter approval of a Texas Constitutional amendment proposed by the 81st Texas Legislature, the bill would create a new source of funding to enhance research capacity at certain public general academic institutions using the investment earnings of an existing but rededicated fund corpus (i.e., the Permanent Higher Education Fund, which would become the corpus for the National Research University Fund, or NRUF). Annual NRUF allocations to eligible institutions would be based solely on the earnings of the NRUF corpus over time.

Section 14 amends Section 62.094 of the Education Code as it relates to the Research Development Fund.

Section 15 amends Section 96.703(a) of the Education Code as it relates to Lamar Institute of Technology.

Section 16 repeals Section 62.025 and 62.026 of the Education Code dealing with the Research Development Fund and Higher Education Fund respectively.

Section 17 repeals Section 96.703(c) of the Education Code dealing with the Board of Regents of the Texas State University System expending funds allocated to Lamar Institute of Technology under Section 17, Article VII of the Texas Constitution.

Under Section 18, a select committee would be created to study the feasibility of collecting data and maintaining a searchable electronic database to track specialized technology research projects conducted by public universities, public university research facilities, and other state institutions. The committee would include representatives from the institutions specified in the bill and from the Higher Education Coordinating Board. The committee would report their findings and recommendations to the lieutenant governor, the speaker of the house of representatives and the governor by December 1, 2010. The committee would be abolished on January 16, 2011. Provisions of the bill would be

implemented within existing resources.

The remaining sections deal with the Higher Education Coordinating Board adopting rules to implement various sections of the bill and the effective dates of the legislation.

Methodology

The fiscal impact for the bill is broken down by the debt service on the tuition revenue bonds, the new initiatives and administrative costs for the Higher Education Coordinating Board.

Tuition Revenue Bonds

The cost to issue bonds for Texas A&M University at Galveston is based on an assumed 20-year level debt service amortization with a 6 percent interest rate. Included in the table above, the debt service payment would be \$435,923 per year beginning in fiscal year 2010.

The cost to issue bonds for The University of Texas Medical Branch at Galveston is based on an assumed 20-year level debt service amortization with a 6 percent interest rate. Included in the table above, the debt service payment for fiscal year 2010 would be \$9,000,000. Beginning in fiscal year 2011 the debt service would increase to \$13,080,000. UT anticipates the entire \$150 million to be issued during fiscal year 2010; however, they do not expect to make principal payments in fiscal year 2010. As a result, it is assumed interest-only debt service payments in fiscal year 2010.

Research University Development Fund

Based upon total research expenditures of the two research universities and seven emerging research universities between fiscal year 2006 and 2008, the Higher Education Coordinating Board estimates that matching grants of \$117 million per year would be made to the institutions. The 80th Legislature appropriated \$46,603,810 in fiscal year 2008 and \$46,603,805 in fiscal year 2009 to a similar program, the Texas Competitive Knowledge Fund, to the University of Texas at Austin, Texas A&M University, University of Houston, and Texas Tech University. For purposes of this fiscal note, these amounts have been taken into consideration and the costs associated with this section of the legislation have been reduced accordingly.

Performance Incentive Funding

Based on an incentive funding model provided by the Higher Education Coordinating Board, \$100 million per year would be distributed to the institutions. Of this amount \$50 million would be awarded based the increase in the average number of degrees awarded annually by each institution in the two most recent fiscal years (2007 and 2008) compared to the preceding fiscal years (2005 and 2006) and \$50 million would be awarded in proportion to the average number of degrees awarded in the three most recent fiscal years (2006, 2007 and 2008). The criteria for the allocation for public universities includes bachelor, masters, doctoral and professional degrees. Degrees issued to students considered at risk as well as degrees in critical fields are given extra weight.

In fiscal year 2009, the Higher Education Coordinating Board was appropriated \$100 million in incentive funding with 80%, or \$80 million, going to general academic teaching institutions based on degrees awarded with increased weights for critical fields and at-risk students and 20%, or \$20 million, going to top ten percent scholarships. For purposes of this fiscal note, it is assumed this allocation would continue in the same amounts and same percentages for fiscal year 2010 and subsequent years thereby reducing the costs by \$80 million per year. It should be noted that the number of top ten percent scholarships would increase in the 2010-11 biennium as new cohorts of students become eligible for the program and renewal students receive funding. The estimated amount to cover these students is \$54 million for the biennium.

Texas Research Incentive Program

Based on information provided by the Higher Education Coordinating Board, the fiscal year 2008 total of private gifts reported by emerging research universities that would qualify for a match under the

legislation would be approximately \$47.3 million per year. For purposes of this fiscal note it is assumed the state would match this amount in fiscal years 2010-2014.

National Research University Fund

Since the funding for the National Research University Fund would be tied the investment earnings of an existing fund, there would not be a fiscal impact to the State.

Administrative Costs

Administrative costs for the Higher Education Coordinating Board for salary and benefits for three new program directors is estimated at \$267,608 per year in fiscal year 2010, and \$232,810 in fiscal year 2011 and subsequent years. Staff travel cost is estimated at \$10,000 annually to allow staff and two consultants to monitor the implementation/use of funds distributed through the new programs. Four site visits per year would be conducted at a \$2,500 cost for each. Other operating expenses at \$5,000 annually would be used to upgrade computer technology software, perhaps with GIS software, to allow greater monitoring and evaluation, and real time updates on new building process/renovation.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 781 Higher Education Coordinating Board, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 769 University of North Texas System Administration, 783 University of Houston System Administration, 768 Texas Tech University System Administration

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