BACKGROUND

All public institutions of higher education except community colleges and the Texas A&M University System College of Dentistry receive funding for construction and other capital purposes from the Permanent University Fund (PUF) or the Higher Education Fund (HEF) (sometimes referred to as the Higher Education Assistance Fund or HEAF). The Higher Education Fund historically included a dedicated endowment, separate from the general revenue funded HEF. The separate endowment was developed to create a sustainable source for HEF funding separate from general revenue. The 81st Texas Legislature, however, authorized a voter referendum to change the constitution to repurpose the HEF endowment as the National Research University Fund (NRUF). The proposed change was approved by Texas voters in November 2009.

Most long-standing institutions in The University of Texas System and the Texas A&M University System benefit from the PUF; other institutions, including newer UT and A&M System institutions benefit from the HEF. (See tables on page 2).

The amount of funds allocated for each PUF institution is determined by the Boards of Regents of The University of Texas System and Texas A&M University System each year. The allocation of HEF funds to each institution is determined by the Texas Legislature and may be revised every five years. The Texas Higher Education Coordinating Board makes recommendations to the legislature regarding these allocations based on recommendations of an advisory committee comprised of representatives of HEF institutions.

PERMANENT UNIVERSITY FUND

The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF still owns approximately 2.1 million acres of land located in 24 counties primarily in West Texas, but most of its assets are securities held by the fund.
The PUF is a public endowment contributing to the support of 21 institutions of The University of Texas and the Texas A&M University Systems that were members of those systems prior to the creation of the HEF (including the health-related institutions of both systems and the Texas A&M land grant research and service agencies). Distributions from the PUF are deposited into a separate account, the Available University Fund (AUF), which consists of total returns on all investment assets of the PUF. Two-thirds of the AUF is appropriated to The University of Texas System and one-third is appropriated to the Texas A&M University System. The AUF is used for three primary purposes: 1) to pay interest and principal due on PUF bonds that are issued to provide construction dollars at 21 institutions of the UT and A&M Systems; 2) to provide support for a wide range of programs intended to develop excellence at The University of Texas at Austin, Texas A&M University, and Prairie View A&M University; and 3) to provide for the expenses of the two respective System administrations.

The PUF is managed by the Board of Regents of the UT System. The UT System contracts with the University of Texas Investment Management Company (UTIMCO), a nonprofit investment organization, to provide day-to-day management of the PUF and other university investments. The Texas Constitution was amended in 1999 defining the AUF as consisting of distributions from the total return on all investment assets of the PUF.

**HIGHER EDUCATION FUND**

Amendments to the Texas Constitution (Section 17, Article VII) in 1984 and 1993 allow the legislature to provide appropriations to universities, health-related institutions and the Texas State Technical College institutions that do not share in the PUF income. This General Revenue appropriated fund is used for many of the same purposes as the PUF. The institutions can acquire land; construct, repair and rehabilitate buildings; and purchase capital equipment and library materials with HEF funds. They may also use HEF allocations for debt service on HEF bonds. From 1986 through 1995, the legislature appropriated $100 million in HEF funds each year. The annual appropriation increased to $175 million each year beginning in 1996. Beginning FY 2008, the annual appropriation increased to $262.5 million each fiscal year.
Based on the 1984 amendment, the legislature created a dedicated endowment, the permanent Higher Education Fund, in 1996 for the benefit of non-PUF institutions. Each year between 1996 and 2001, the permanent HEF received appropriations of $50 million per year. Beginning in FY 2002, the $50 million appropriated to the permanent HEF was reduced by the amount of interest earned on the endowment, and a corresponding amount was transferred to the Texas Excellence Fund for the benefit of HEF-eligible institutions. No appropriations to the permanent HEF were made for the 2004-05 biennium. At the end of August 2008, the balance of the permanent HEF was $576.2 million. The permanent HEF is managed by the Texas Treasury Safe Keeping Trust. The endowment has now been repurposed as the NRUF.