

SUBJECT: Authorizing revenue bonds for higher education projects

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 8 ayes — Rangel, Solis, Bailey, Cuellar, Dunnam, Kamel, Rabuck, Reyna
0 nays
1 absent — Rodriguez

WITNESSES: For — none
Against — none
On — Dr. Robert Furgason, Texas A&M-Corpus Christi

DIGEST: CSHB 1235 would amend the Education Code to authorize the issuance of up to \$772.11 million of revenue bonds for the following institutions of higher education and university systems:

Texas Tech University (up to \$66 million);
Texas Tech Health Sciences Center (up to \$51.2 million);
Texas A&M University System (up to \$172.5 million allocated to A& at Commerce, Corpus Christi, Kingsville and Texarkana and to Prairie View, Tarleton State, A&M International and West Texas A&M);
University of Texas System (up to \$313.78 million allocated to UT Arlington, Brownsville, Dallas, El Paso, San Antonio, Tyler, Permian Basin and Pan American);
University of Houston System (up to \$8.2 million);
Texas State University System (up to \$78.33 million allocated to: Angelo State; Lamar at Beaumont, Orange and Port Arthur; Lamar Institute of Technology; Sam Houston State; Southwest Texas State and Sul Ross State);
University of North Texas (up to \$24 million);
University of North Texas Health Science Center (up to \$23 million);
Texas Woman's University (up to \$10.1 million);
Midwestern State University (up to \$15 million);
Stephen F. Austin State University (up to \$10 million).

Use of the bond proceeds would be limited to the purchase, construction, improvement, renovation, enlargement or equipment of property, buildings, structures, facilities, roads or related infrastructure.

University or system boards could pledge all or part of the institution's revenue, including student tuition charges, for bond payment. University systems also would be authorized to transfer funds among institutions to meet debt obligations and to ensure the most equitable and efficient allocation of resources to meet statutory and constitutional duties.

HB 1235 would take immediate effect if finally approved by a two-thirds record vote of the membership of each house.

**SUPPORTERS
SAY:**

CSHB 1235 would help universities serve growing enrollments by constructing new or renovating existing facilities to utilize up-to-date technologies and meet modern education demands to keep them competitive in the higher education marketplace. The bonds authorized would be pledged against university revenues and therefore pose little financial risk to the state.

Revenue bonds are the most cost-effective way to finance high-cost construction or improvement of long-lasting infrastructure, which may be utilized while the debt is being paid off. Authorizing revenue bonds would give Texas higher education much needed support without diverting available general revenue from other state priorities and without increasing state debt.

Operating costs for renovated facilities would be partially offset by savings in utility and maintenance costs due to improved construction or energy systems, and the construction of new buildings would eliminate enormous lease costs being paid by some universities.

The universities whose projects would be authorized by CSHB 1235 have waited at least four to five years to update or expand facilities to meet enrollment demands. The last time tuition revenue bonds were authorized was in 1993, and not all universities who requested were granted bond issuance authority at that time. This bill also would support the higher

education priorities of the South Texas Border Initiative previously enacted by the Legislature.

CSHB 1235 would *not* appropriate general revenue to the affected universities. However, if the Legislature later decided to reimburse institutions for debt service, affordability and accessibility to higher education would be protected because fee increases to cover bond debt would be minimized, and tuition and fee revenues would continue to be used to fund daily operational expenses.

The bond authorizations in CSHB 1235 would continue to be reviewed after the House consideration as part of the on-going development of the state budget. Also, all capital projects are subject to a thorough review prior to construction by the Higher Education Coordinating Board, which evaluates the projects for cost, efficiency and space use. If the Coordinating Board disagrees with the need for a project, it may notify the governor, the lieutenant governor and the speaker.

OPPONENTS
SAY:

CSHB 1235 would be authorizing debt for projects that have not yet been thoroughly reviewed by the Coordinating Board. Issuing all the bonds authorized by the bill could result in a net reduction of \$22.874 million to general revenue-related funds for the fiscal 1998-99 biennium, increase operation and maintenance costs to the universities and to the state, and create a total debt service amount of \$1.4 billion for Texas universities.

This bill could increase the demand for more general revenue appropriations to higher education. Although CSHB 1245 would authorize only the payment of bond obligations from university revenues, the Legislature has traditionally reimbursed institutions for the debt service using general revenue appropriations, which would divert about \$22.9 million of general revenue from other state priorities.

Also, the operation and maintenance of new facilities built by the issued bonds would be paid primarily by the state through higher education formula funding and utility appropriations, and could amount to about \$26 million annually or about \$520 million over the 20-year life of the bond debt.

Prior review of proposed bond-funded projects is important because after enactment of CSHB 1235, it would be extremely difficult to delay or prohibit statutorily authorized bond issues for projects later found by the Coordinating Board or others to be unnecessary.