

SUBJECT: Tuition revenue bonds for Round Rock Higher Education Center

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 5 ayes — Morrison, F. Brown, J. Jones, Mercer, Nixon
0 nays
3 absent — Chavez, Giddings, Smithee

WITNESSES: For — None
Against — None
On — Lamar Urbanovsky, Texas State University System

BACKGROUND: Higher education institutions use tuition revenue bonds to raise funds for capital projects. While tuition revenue repays these bonds, the Legislature typically funds the debt service through appropriations.

DIGEST: HB 2522 would authorize the Southwest Texas State University (SWT) board of regents to acquire, buy, build, improve, renovate, enlarge, or equip property, buildings, structures, roads, or related infrastructure to address the Central Texas high-growth corridor by using tuition revenue bonds in an amount up to \$26 million.

The board could pledge as backing of the bonds all or any part of the revenue funds of an institution, branch, or entity of the SWT System, including student tuition charges. The amount of a pledge could not be reduced or abolished while the bonds were outstanding. If sufficient funds were not available to meet these obligations, the board could transfer among institutions, branches, and entities of the SWT System to ensure the most equitable and efficient allocation of available resources for each institution.

Approval of the Texas Higher Education Coordinating Board would not be required (THECB) to acquire real estate or build facilities financed by the bonds, but THECB would have to review all real property and construction to

be financed by the bonds to determine whether it met board standards for cost, efficiency, and space usage. If the property did not meet those standards, THECB would have to notify the governor, lieutenant governor, House speaker, and Legislative Budget Board.

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:**

HB 2522 would help the Round Rock Higher Education Center (RRHEC) secure a stronger foothold in the burgeoning community of Round Rock by building a 117,000-square-foot facility for the Round Rock campus.

THECB approved the North Austin/Williamson County Multi-Institution Teach Center (MITC) in April 1998, and the center began offering classes that September. SWT, the lead institution, provides upper-level classes and programs leading to bachelor's and master's degrees and selected certificates. Austin Community College (ACC) and Temple College at Taylor provide lower-level classes, associate degree, certificates, and workforce training within state-mandated service areas. In fall 2002, the MITC began operating under a new name, the Round Rock Higher Education Center - SWT, ACC, and Temple College at Taylor.

The RRHEC primarily provides evening programs using multiple sites to serve the broad needs of the region. Most classes are offered at Westwood High School. SWT's enrollment at RRHEC has grown every semester, with 40 percent growth between fall 2001 and fall 2002 to a total enrollment of about 1,500. SWT enrollment is projected to exceed 3,000 by fall 2005 and 5,000 students by 2008.

Williamson County has a history of rapid growth. It anticipates population growth of 57 percent between 2000 and 2015, with 91 percent growth in the traditional college-attending age group.

Space limitations already have become critical and will limit short-term and long-term growth unless the institution can secure larger permanent facilities. Studies show that SWT could triple the number of students served if permanent facilities were available during the day.

Revenue bonds are the most cost-effective way to pay for expensive construction of long-lasting infrastructure. One “silver lining” in the current economic situation is that this is a very good time to issue debt because interest rates are so low. According to the Texas Bond Review Board, Texas is well under its constitutional debt limit. The bonds authorized by HB 2522 would be pledged against university revenues and would pose little financial risk for the state. Tuition revenue bond funding is appropriate for critically-needed projects such as this.

Tremendous community support exists for this endeavor. A local family has agreed to donate up to 100 acres of land for the permanent campus facility. While the owners have been patient with the process, the land may not remain available if funding is delayed beyond 2003. The city of Round Rock has agreed to provide water and wastewater utilities and is prepared to create a higher education corporation or a tax increment reinvestment zone. The local chamber of commerce is supportive, as is Williamson County. Also, once the initial buildings are constructed, the campus would become eligible for allocations from the Higher Education Fund to help meet future construction and repair needs.

HB 1, the general appropriations bill for fiscal 2004-05, contains \$4 million for debt service, contingent on enactment of HB 2522.

**OPPONENTS
SAY:**

HB 2522 would add another long-term funding obligation for the state at a time when the state cannot afford to meet its existing tuition revenue-bond obligations. Principal and interest related to all tuition revenue bonds authorized by the Legislature exceeds current proposed appropriations by more than \$80 million.

These bonds are backed by tuition revenue and are technically not a general obligation to the state. Historically, however, the Legislature has appropriated general revenue to reimburse higher education institutions for tuition to pay the debt service. Even though the state is not obligated legally to repay the bonds, future legislatures are likely to use general revenue to pay at least a significant portion of the debt.

Tuition revenue bonds have become popular because they allow lawmakers to support more projects by paying only a small portion of the cost and leaving

the remaining financial commitments for future legislatures and taxpayers. For example, in enacting HB 658 by Junell, et al., last session, the Legislature authorized more than \$1 billion in project costs, but the related appropriation was only about \$75 million. The state should not allocate scarce resources to pay for this project when alternative funding sources may be available. SWT could seek additional private donations to fund the cost of constructing the buildings.

HB 2522 is one of at least eight proposals this session to use tuition revenue bonds to fund facility construction or repair for higher education institutions. Other institutions have expressed an interest in submitting additional proposals for tuition revenue bond projects. The state cannot afford to commit to all of these projects now, and it should not place this financial burden on future generations.

NOTES:

The fiscal note for HB 2522 estimates debt-service payments, including principal and interest, of \$2 million in fiscal 2004 and \$2.2 million each year thereafter, assuming a 5.75 percent interest rate with 20-year debt service amortization. If debt-service payments were for interest only, the costs would be about \$1.4 million each year.

HB 2759 by Wong would authorize the issuance of \$20 million in revenue bonds to fund construction of facilities to support biotechnology research at the University of Texas M.D. Anderson Cancer Center. HB 1912 by Wolens would authorize \$56 million in revenue bonds to finance biomedical research facilities at the University of Texas Southwestern Medical Center at Dallas. Both bills were passed to engrossment as amended by the House on May 2.

Another related bill, HB 1941 by Woolley, would authorize \$34.9 million in tuition revenue bonds for the University of Texas Health Science Center at Houston for recovery from Tropical Storm Allison. HB 3350 by J. Davis and Coleman would authorize up to \$25 million in tuition revenue bonds for capital improvements at the University of Houston for recovery from Tropical Storm Allison. HB 1941 passed the House on April 22 and has been referred to the Senate Finance Committee, and HB 3350 passed the House on May 5.