HOUSE RESEARCH ORGANIZATION bill analysis | 5/2/2003 | HB 2759 Wong, et al. (CSHB 2759 by F. Brown)

SUBJECT: Authorizing tuition revenue bonds for M.D. Anderson Cancer Center

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 5 ayes — Morrison, F. Brown, J. Jones, Mercer, Nixon

0 nays

3 absent — Chavez, Giddings, Smithee

WITNESSES: For — None

Against — None

On — John Mendelsohn, M.D. Anderson Cancer Center

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: CSHB 2759 would authorize the University of Texas (UT) System board of regents to acquire, build, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure for biomedical research at the M.D. Anderson Center by using tuition revenue bonds in an amount up to $20 million.

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

The board of regents would not have to obtain approval from the Texas Higher Education Coordinating Board (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 meet board standards for cost, efficiency, and space usage. If the property did not meet these 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:

CSHB 2759 would help support a major effort by M.D. Anderson and its partners to harness the potential of biotechnology to make the region a global competitor and to generate economic growth that would benefit the entire state. Houston is in a position to lead in the state's biotechnology initiative, since it leads all other Texas cities in biomedical research dollars and has additional strength in engineering, physics, and nanotechnology. It also has 50 biotechnology companies, the largest number of any Texas city. The collaborative project supported by these revenue bonds would allow M.D. Anderson to work with Houston area businesses to realize the potential of the biotechnology industry.

M.D. Anderson and the UT Health Sciences Center at Houston jointly are creating a research park on UT land near the Texas Medical Center. The park will feature a master-planned campus with laboratory and office space for both academic and commercial facilities to support biomedical and biotechnology research. At the facility, scientific and business professionals will collaborate to develop new businesses, products, and services.

This project will generate returns far greater than the state's investment. According to a professional economic analysis, the research park will expand Texas' gross state product by more than $1.5 billion per year, create 23,000 new jobs, and add more than $900 million in annual income. State tax revenues will exceed $518 million during development, and local tax revenues will total about $440 million during development.

The bonds authorized by CSHB 2759 would represent only 3 percent of the total project cost. M.D. Anderson's portion of the research park project is expected to cost $633 million over a 20-year development phase. Private funding is expected to cover 90 per cent of the project costs, and local government funds will provide another 7 per cent.

One "silver lining" in the current economic cloud hanging over Texas is that this is a very good time to issue debt. The state should take advantage of this opportunity to invest in economic development that would pay for itself many times over. The bonds authorized by CSHB 2759 would be pledged against university revenues and thus would pose little financial risk to the state.

Revenue bonds are the most cost-effective way to pay for high-cost construction or improvement of long-lasting infrastructure. Tuition revenue bond funding is appropriate not only for M.D. Anderson but for other higher education institutions, including others within the UT System.

The UT System's bonding capacity is strained by recent investment results. The value of the Permanent University Fund has fallen substantially as a result of the overall decline in financial markets, making it difficult for the UT System to absorb an additional commitment of $1.6 million per year in bond debt. Because this project would generate significant economic benefits for the state, any state contributions to the UT System to cover the cost of the bonds would be more than justified.

OPPONENTS SAY:

CSHB 2759 would add another long-term funding obligation for the state at a time when the Legislature 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 technically are 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 legally obligated 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, leaving the remaining financial commitments for future legislatures and taxpayers. For example, with the enactment of 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 are available. The UT System should consider making this project a priority in the allocation of funds from the Available University Fund. The UT System could issue bonds backed by the Permanent University Fund, as authorized by the Constitution, without requiring a state appropriation of $1.6 million per year for the next 20 years. If this is not practical, the UT M.D. Anderson Cancer Center could seek additional private donations to fund the cost of constructing the building.

CSHB 2759 is one of at least eight proposals this session to use tuition revenue bonds to fund facility construction or repair for higher education institutions. The UT System alone has proposed at least five projects, costing a total of $238 million, to be funded with tuition revenue bonds. 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.

OTHER OPPONENTS SAY:

The Legislature should commit to tuition revenue bonds only for emergency projects, such as unreimbursed expenses related to the recovery from Tropical Storm Allison. Tuition revenue bonds should allow an institution to recover from unexpected disasters but should not be used to fund new facilities.

NOTES:

The committee substitute would reduce the maximum principal amount of revenue bonds that could be issued from $48 million to $20 million.

The companion bill, SB 1216 by Janek and Ellis, has been referred to the Senate Finance Committee.

HB 1912 by Wolens, et al. would authorize the issuance of $56 million in tuition revenue bonds to finance the construction of a biotechnology research facility at the UT Southwestern Medical Center in Dallas. 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. Both bills are on today's House General State Calendar.

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 1941 passed the House on April 22 and has been referred to the Senate Finance Committee.

The House and Senate versions of HB 1, the general appropriations bill for fiscal 2004-05, would appropriate $1.9 million for each year of fiscal 2004-05 biennium for tuition revenue bond retirement.