

**SUBJECT:** Authorizing tuition revenue bonds for University of Houston System

**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 — Grover Campbell, University of Houston Board of Regents

**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 3350 would authorize the University of Houston (UH) System board of regents to acquire, purchase, build, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads or related infrastructure by using tuition revenue bonds in an amount up to \$25 million.

The board could pledge as backing for the bonds all or any part of the revenue funds of an institution, branch, or entity of the UH 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 UH System to ensure the most equitable and efficient allocation of available resources for each institution.

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 3350 would enable UH to recover from the disaster caused by Tropical Storm Allison. In June 2001, when Allison struck the Houston area, UH sustained about \$100 million in damages to buildings and other infrastructure. Out of 100 buildings, ninety were damaged. Insurance and funds from the Federal Emergency Management Agency (FEMA) will cover about 78 percent of the cost of recovery. However, the university has had to borrow temporarily about \$25 million from the Higher Education Fund (HEF) that was dedicated to other institutional priorities, as well as using cash reserves. Other critical projects were put on hold to repair classrooms so classes could be held. Private grants and donations are being solicited, but foundations and individuals who traditionally support the university cannot donate as much as in the past because of the current state of the economy.

Revenue bonds are the most cost-effective way to pay for expensive construction or repair 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 3350 would be pledged against university revenues and would pose little financial risk for the state. Tuition revenue bond funding is appropriate for emergency projects such as this.

Part of the funds needed to repay the debt are included in the university’s bill pattern in HB 1, the general appropriations bill for fiscal 2004-05.

**OPPONENTS  
SAY:**

HB 3350 would add another long-term funding obligation for the state. The bill’s fiscal note estimates that it would cost more than \$2 million per year in general revenue. 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 thus 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 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. HB 3350 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 state cannot afford to commit to all of these projects now, and it should not place this financial burden on future generations. The university should consider making this project a priority in the allocation of funds from the HEF, or it should seek additional private donations to fund the cost of reconstruction.

**NOTES:**

The fiscal note for HB 3350 estimates debt-service payments, including principal and interest, of \$2 million in fiscal 2004 and \$2.1 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 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.