HOUSE
RESEARCH
ORGANIZATION bill analysis | 7/25/2005 | HB 6 Morrison

SUBJECT:	Authorizing tuition revenue bonds for higher education institutions
COMMITTEE:	Higher Education — favorable, without amendment
VOTE:	5 ayes — Morrison, F. Brown, Dawson, Giddings, Harper-Brown 0 nays 4 absent — Goolsby, Gallego, J. Jones, Rose
WITNESSES:	No public hearing

BACKGROUND: Tuition revenue bonds (TRBs), for which institutions of higher education pledge future revenue (tuition and fees) for repayment, generally are issued to fund capital projects such as institutional construction, renovation projects, equipment, and infrastructure. The Legislature must authorize issuance of TRBs and historically has appropriated general revenue to reimburse institutions for the tuition used to pay the debt service — principal and interest. However, the 78th Legislature in 2003 appropriated funds to pay only for interest on TRBs issued after March 31, 2003. The 79th Legislature in SB 1, the general appropriations act for fiscal 2006-07, appropriated $373.1 million for principal and interest for existing TRBs issued through the end of fiscal 2005.

DIGEST: HB 6 would authorize the issuance of a total of $2.75 billion in TRBs for institutions of higher education to finance construction and improvement of infrastructure and related facilities. It would appropriate $108 million to pay debt service on the bonds authorized by the bill. The bonds would be payable from pledged revenue and tuition and, if a board of regents did not have sufficient funds to meet its obligations, funds could be transferred among institutions, branches, and entities within each system or university.

HB 6 includes TRB authorization for individual institutions and projects in the following university systems:

- University of Texas System ($1.1 billion);
- Texas A&M System ($683 million);

- University of Houston System ($158 million);
- Texas State University System ($295 million);
- University of North Texas System ($161 million);
- Texas Tech University System ($89.75 million);
- Texas Woman's University ($44.5 million);
- Midwestern State University ($10.4 million);
- Stephen F. Austin State University ($65.5 million); and
- Texas Southern University ($109.6 million).

HB 6 also would add junior college districts with a total headcount enrollment of 40,000 or more to the statutory list of entities eligible to issue obligation bonds. This provision would take effect September 1, 2005, if HB 6 finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect on the 91st day after the end of the special session (November 18, 2005, if the second called session lasts a full 30 days).

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 on the 91st day after the end of the special session.

SUPPORTERS SAY:

HB 6 would support a wide range of critical facilities projects at higher education institutions throughout the state that play an important role in closing the gaps in higher education. Renovations, repairs, upkeep, and new facilities are essential to the state's ability to provide high quality education to Texas students. Higher education institutions depend on state support for maintenance and expansion to keep pace with the exploding growth in student enrollment and to maintain and enhance the quality of education these students receive. Economists and higher education experts say that economic prosperity and better jobs are dependent on having a highly skilled and well educated workforce.

TRBs are the most cost-effective way to finance higher-cost construction or improvement of long-lasting infrastructure, which can be used while the debt is being paid off. With interest rates at all-time lows, now is the ideal time to finance the construction of new classrooms, laboratories, and student housing. The state should make an investment in higher education that would pay for itself many times over by supporting each institution's bond program. The bonds would be pledged against university revenues and thus would pose little financial risk for the state.

While the cost of supporting these bonds is significant, it is in the state's best interest to continue to support higher education by paying a significant portion of debt service on TRBs. In its 2004 report, the Joint Interim Committee on Higher Education recognized the importance of supporting TRBs in its recommendation that the Legislature require that general revenue funding be used to reimburse higher education institutions for the cost related to debt service of all legislatively approved TRBs. HB 6 would continue the Legislature's recent practice of funding part, but not all, of the debt service on the TRBs authorized.

An increase in cost-sharing between the state and higher education institutions would be a significant policy shift, and the state should not retreat from the long-held practice of assisting with the funding of debt service with general revenue. The ability to support cost-sharing would vary widely between universities. It would be difficult for smaller institutions that are less able to raise tuition to make debt-service payments and would create a burden for students attending institutions that did raise tuition in response to cost-sharing pressures. According to credit rating agencies, any change to the state's long-standing commitment to fund TRBs could threaten the bond ratings of public universities, thereby increasing the cost of debt for needed projects.

OPPONENTS SAY:

TRBs 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. Because of limited state resources, there should be greater cost-sharing between the state and the institutions that issue the bonds. The Legislature and higher education institutions need to move in the direction of less reliance on state funding for debt service on TRBs, requiring institutions to include bond debt as part of their overall operating budgets. Cost-sharing would allow institutions to issue larger amounts in TRBs, thereby funding more capital projects. Institutions have other sources to fund the cost of buildings, including bonds backed by the Permanent University Fund and the Higher Education Fund, indirect research cost reimbursements earned on externally funded research programs, tuition revenues, and private funds. With tuition deregulation, these institutions have more flexibility to raise the revenue they need to finance capital improvements.

OTHER OPPONENTS SAY:

HB 6 would be a step in the right direction but is significantly underfunded. While the bill would authorize $2.75 billion in bonds requiring $476 million in debt service for fiscal 2006-07, the related appropriation for debt service would be only $108 million through the next biennium. It is assumed that the institutions would be responsible for the remaining debt service, which most institutions — smaller universities in particular — would have difficulty in supporting. This could force university systems to choose among critically needed projects and could result in projects being postponed.

NOTES:

The fiscal note estimates the debt service on the $2.75 billion in TRBs authorized by HB 6 would total approximately $476 million for fiscal 2006-07. The bill would appropriate $108 million for debt service on the bonds.

During the first called special session, the House passed HB 6 by Morrison, which would have authorized $2.7 billion in TRBs for higher education institutions. The bill died in the Senate.

During the regular session, the House and the Senate passed HB 2329 by Morrison, which would have authorized a total of $2.2 billion in TRBs for higher education institutions. The bill died when neither the House nor the Senate considered the conference committee report for the bill. Sec. 14.61 of Article 9 of SB 1, the general appropriations act for fiscal 2006-07, included $108 million for TRB debt service, contingent on passage of HB 2329 or similar legislation. Gov. Perry line-item vetoed this provision because HB 2329, or similar legislation, was not enacted.

A related bill introduced in the first called session, SB 80 by Ogden, would have authorized the issuance of TRBs at higher education institutions, but would have limited state reimbursement for debt service beginning September 1, 2007. The state reimbursement could not have exceeded 60 percent of the amount of the debt service for as long as the bonds were outstanding, unless the limit imposed a hardship for an affected university. SB 80 was left pending in the Senate Finance Committee.