HOUSE
RESEARCH
ORGANIZATION bill analysis 5/2/2007 HB 1775 Christian

SUBJECT:	Authorizing tuition revenue bonds for Stephen F. Austin State University
COMMITTEE:	Higher Education — favorable, without amendment
VOTE:	7 ayes — Morrison, McCall, F. Brown, Alonzo, Aycock, Patrick, Rose 0 nays 2 absent — Giddings, D. Howard
WITNESSES:	For — None Against — None On — Baker Pattillo, Steve Westbrook, Stephen F. Austin State University
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 typically appropriates general revenue to reimburse institutions for the tuition used to pay the debt service.
DIGEST:	HB 1775 would authorize the board of regents of Stephen F. Austin State University to issue $13 million in tuition revenue bonds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures or related infrastructure for the expansion of the school of nursing facilities. The bonds would be payable from pledged revenue and tuition and the amount of a pledge could not be reduced while bonds were outstanding. Any portion of the proceeds from the bonds not required for a specific project could be used to renovate existing structures and facilities at the university. 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, 2007.

SUPPORTERS SAY:

HB 1775 would support a critical need for additional nursing facilities at Stephen F. Austin University. The university plans to increase enrollment by 25 percent to address the nursing shortage in Texas, but needs additional space to accomplish this goal. The university currently has a successful nursing program, but the increase in nursing students has created a critical need for space. In 2006, the school had two clinical labs, but one had to be converted to classroom space with a capacity of 75 students. The existing facilities lack faculty offices, clinical labs, and enough classrooms to accommodate current enrollment, much less an expansion of enrollment. The land, valued at about $1.4 million, has been donated near the medical center and must be used within three years, so it is imperative to fund the construction now. Also, the space that would be vacated by the nursing school would then be freed for use by other departments in the university.

The nursing school is working with UTMB to develop a collaborative family nurse practitioner-physician's assistant program, which would be the first in Texas.

According to the Texas Hospital Association and the Texas Nurses Association, by 2010 Texas will face a shortage of 27,000 nurses. Despite the demand for nurses, Texas nursing schools report that in 2005, about 11,000 qualified applicants were turned away because the nursing education system was operating at capacity, due to a shortage of faculty and facilities. The shortage is exacerbated by the aging population coupled with a high percentage of nurses who are aging and retiring. The nursing shortage is a serious problem for the future health and economy of the state. Nursing is a growth field, with jobs waiting to be filled, and solving the crisis starts in the nursing schools, which is where the state should focus its efforts.

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. The state should make an investment in higher education that would pay for itself many times over by supporting the nursing facility expansion at the university. The bonds would be pledged against university revenues and thus would pose little financial risk for the state.

While the cost of supporting the bonds would be significant, it would be in the state's best interest to continue to support higher education by paying principal and interest on bond debt. In its 2006 report, the House Higher Education Committee recognized the importance of supporting tuition revenue bonds and stated that stable funding for institutional support and maintenance is essential for the growth of higher education in Texas and achieving the goals of Closing the Gaps. Without the predictability of funding, institutions are limited in forecasting enrollment growth and future capacity needs. Enrollment in Texas is growing due to the initiatives of Closing the Gaps, so capital funding is needed to renovate existing space and create new space to manage growth. It recommended 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.

OPPONENTS SAY:

While financing nursing school facility improvements at Stephen F. Austin may be worthy and justifiable, the state should review closely how it finances capital improvements at public higher education institutions. Tuition revenue bonds are popular because they allow the state to support more projects by paying a small portion of the cost and leaving the remaining financial commitment for future legislatures and taxpayers. HB 1775 would authorize $13 million in project costs, but the related appropriations would be only $1.1 million each year of the next biennium, committing future legislatures to millions of dollars in bond payments over 20 years.

Authorization and issuance of TRBs is not contingent on an appropriation for the debt service, but using general revenue funds to reimburse institutions for principal and interest on the debt has been legislative practice since 1971, when TRBs were first authorized. However, the 78th Legislature in 2003 changed that policy by appropriating TRB debt service for interest only for TRBs issued after March 31, 2003. The 79th Legislature did not authorize any new TRBs until the third called session in 2006, showing a paradigm shift in the state investing to meet higher education goals and address the growing population.

Texas has shown a commitment to improving the method by which capital funding is distributed. Last year, the lieutenant governor announced a new Senate subcommittee on capital funding for higher education, which has recommend some preliminary options to streamline and objectify the process of authorizing TRBs and funding their debt service.

Options include a “bonds” model, in which the Legislature would issue the bonds instead of the individual system, removing the concern about state funding of the debt service. The bonds then would be distributed to individual systems/campuses based on criteria similar to the tuition revenue bonds. The “matching funds” model would require each institution to provide a certain percentage match before state funds could be used. The amount of the match could vary depending on an institution's ability to raise outside finding. An “appropriation” model would require the Legislature to provide an allocation for each institution to receive a prescribed amount for capital funding. It would allow institutions to know how much was available in the front end of the process and they could plan accordingly. The “debt service appropriation” model would allow the Legislature to provide a set amount for debt service and deciding how to use the funds would be left up to the institutions. Other options include modifying the restrictions on HEF-backed bonds to allow them to mature in 30 or fewer years, or allowing institutions to pledge 100 percent of their HEAF allocation toward HEF-backed bonds, to name a few.

As demands on state government compete for limited resources, higher education institutions, and future legislatures must be creative and proactive in funding capital projects, including offering incentives that encourage universities to better use space through online courses, night and weekend classes, and summer classes.

NOTES:

According to the fiscal note, the general revenue cost for debt service on the TRBs that HB 1775 would authorize would total $2,175,500 in fiscal 2008-09.

The companion bill, SB 1382 by Nichols, has been referred to the Senate Finance Committee.