HOUSE
RESEARCH
ORGANIZATION bill analysis | 7/29/2013 | HB 5
Branch, et al.

SUBJECT: Authorizing tuition revenue bonds for higher education institutions

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 18 ayes — Pitts, Ashby, Bell, Crownover, Darby, S. Davis, Giddings, Howard, S. King, Márquez, McClendon, Muñoz, Otto, Patrick, Perry, Raney, Ratliff, Zerwas

0 nays

6 absent — G. Bonnen, Carter, Gonzales, Hughes, Longoria, Price

3 present, not voting — Sylvester Turner, Dukes, Orr

WITNESSES: No public hearing

BACKGROUND: Tuition revenue bonds (TRBs), which institutions of higher education pledge future revenue (tuition and fees) to secure, 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 5 would authorize the issuance of $2.7 billion in tuition revenue bonds for institutions of higher education to finance construction and improvement of infrastructure and related facilities.

TRB bond authority. 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. The bill includes TRB authorization for individual institutions and projects in the following university systems:

- University of Texas System ($928.7 million);
- Texas A&M System ($628.8 million);
- University of North Texas System ($266.2 million);
- University of Houston System ($252.8 million);
- Texas Tech University System ($215.4 million);

- Texas State University System ($213.6 million);
- Texas Southern University ($52.8 million);
- Texas State Technical College System ($43.6 million);
- Stephen F. Austin State University ($40 million);
- Texas Woman's University ($38 million); and
- Midwestern State University ($24 million).

The bill would not affect any authority or restriction on the activities an institution of higher education could conduct in facilities funded through authorized TRB bonds.

Debt service. HB 5 would appropriate $175 million in general revenue funds for debt service on the revenue bonds authorized in the bill.

Effective date. The bill would take effect on the 91st day after the last day of the legislative session (October 29, 2013, if both houses adjourn sine die on July 30).

SUPPORTERS SAY:

By authorizing tuition revenue bonds (TRBs), HB 5 would support a wide range of critical facilities projects at higher education institutions throughout the state that play an important role in enhancing opportunities for a quality education. Renovations, repairs, upkeep, and new facilities are essential to the state's ability to provide a high-quality and competitive education to Texas students. The proposed projects are heavily weighted toward additional math, science, technology, and engineering facilities — areas of burgeoning demand in the modern workforce.

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. A highly skilled and well educated workforce is vital to remaining economically competitive in a global marketplace. Texas has devoted a great deal to creating and securing a reputation for providing a good environment for business. A world class workforce is a key part of this equation.

TRBs are the most cost-effective means of financing construction or improvements of durable capital infrastructure and for constructing facilities that can be used while the debt is being paid off. The bonds would be pledged against university revenues and thus would pose little financial risk for the state. Interest rates on recent bond issuances have been secured at remarkably low levels. All existing institutions will match at least 20 percent of each project's cost from their own funds.

State appropriations for TRB authorizations have declined in recent years. According to a February, 2013, Legislative Budget Board presentation, total appropriations for revenue bonds declined to $593.1 million for fiscal 2012-13 from $642.2 million for fiscal 2010-11 and $672.3 million for fiscal 2008-09. Low interest rates and declines in appropriations for debt service make this an opportune time for additional authorizations.

OPPONENTS SAY:

While many of the facilities proposed in HB 5 may be worthy and justifiable, authorizing this massive sum of debt conveys risk to both taxpayers and institutions of higher education. Any amount of additional debt that an institution could not cover with tuition increases would have to be conveyed to another institution within that system or absorbed by taxpayers.

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. The bill would commit future legislatures to hundreds of millions of dollars in bond payments for the foreseeable future. According to the Legislative Budget Board, issuing the TRBs would have a significant impact of about $175 million in fiscal 2015 alone.

The Legislature should commit to TRBs only for emergency projects, which is not the standard of selection used in the bill. Institutions should have to include bond debt as part of their overall operating budgets, so the obligation of repaying the debt is not, in effect, transferred to taxpayers. Committing the state to paying debt service for the foreseeable future entails certain unavoidable risks, due to unpredictable economic and fiscal conditions, and in this case is unnecessary. Capital needs at institutions of higher education can be satisfied without committing taxpayers to paying for debt for up to 20 years.

As demands on state government compete for limited resources, higher education institutions and future legislatures must be creative and proactive in funding capital projects. Current state appropriations, carefully deployed, are sufficient to cover the needs of higher education institutions.

NOTES:

The Legislative Budget Board estimates HB 5 would have a negative impact of $175 million on general revenue for fiscal 2015. The LBB estimates that the annual cost to general revenue through fiscal 2018 would be roughly $230 million after fiscal 2015.

During the regular session of the 83rd Legislature, the House and Senate each voted to approve SB 16 by Zaffirini, which would have authorized $2.7 billion in tuition revenue bonds, but the bill died in the final days of the session.