

SUBJECT: Authorizing tuition revenue bonds for higher education institutions

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 8 ayes — Zerwas, Howard, Clardy, Crownover, Martinez, Morrison, Raney, C. Turner

0 nays

1 absent — Alonzo

WITNESSES: For — Jeffrey Wiley, Greater Fort Bend Economic Development Council; (*Registered, but did not testify:* Eddie Solis, City of Arlington; Tom Tagliabue, City of Corpus Christi; Jeff Coyle, City of San Antonio; Virginia Martinez Schaefer, Dallas Regional Chamber; Matthew Geske, Fort Worth Chamber of Commerce; Max Jones, The Greater Houston Partnership; Chris Shields, San Antonio Chamber of Commerce; Mariah Ramon, Teaching Hospitals of Texas)

Against — (*Registered, but did not testify:* MerryLynn Gerstenschlager, Texas Eagle Forum)

On — John Sharp, Texas A&M University System; Michael Reeser, Texas State Technical College System; Robert Duncan, Texas Tech University System; Brian McCall, The Texas State University System; Paula Short and Chris Stanich, the University of Houston System; Lee Jackson, the University of North Texas System; William McRaven, The University of Texas System; (*Registered, but did not testify:* Billy Hamilton, Texas A&M University System; Susan Brown, Texas Higher Education Coordinating Board; Edward Ness, Texas Southern University; Jonathan Hoekstra and Isabel Weeden, Texas State Technical College; Roland Smith, Texas State University System; David Bradley, University of Houston-Downtown; Wayne Beran, University of Houston-Victoria; Richard Phillips, University of Houston System; Janet Waldron, University of North Texas System; Michael O'Donnell and Randy Wallace, the University of Texas System; Timothy Rychlec)

BACKGROUND: Tuition revenue bonds (TRBs) are financial instruments that higher education institutions secure with pledged future revenue, such as tuition and fees, to fund capital projects. Institutions and their branches may use TRBs for certain projects outlined in Texas Education Code, ch. 55. These include purchasing, constructing, improving, enlarging, operating, or maintaining any property, buildings, structures, activities, services, operations, or other facilities. The Legislature must authorize the issuance of TRBs in legislation.

DIGEST: CSHB 100 would authorize the issuance of \$3.1 billion in tuition revenue bonds (TRBs) for institutions of higher education to finance construction and renovation of infrastructure and facilities.

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 would authorize TRBs for individual institutions and projects for the following universities and university systems:

- Texas A&M University System (\$805.8 million);
- University of Texas System (\$927.6 million);
- University of Houston System (\$362.5 million);
- Texas State University System (\$256.4 million);
- University of North Texas System (\$269 million);
- Texas Tech University System (\$250.2 million);
- Texas Woman's University (\$38 million);
- Midwestern State University (\$58.4 million);
- Stephen F. Austin University (\$46.4 million);
- Texas Southern University (\$60 million); and
- Texas State Technical College System (\$41.7 million).

CSHB 100 would not affect any authority or restriction on the activities an institution of higher education could conduct in connection with facilities financed by the TRBs.

The bill would take effect September 1, 2015.

SUPPORTERS
SAY:

CSHB 100 would authorize tuition revenue bonds (TRBs) that would be essential for the state's higher education institutions to build and maintain facilities, provide for enrollment growth, and remain competitive. Since their inception, TRBs successfully have funded capital construction projects at institutions of higher education.

These bonds are a cost-effective way to fund projects such as new labs and classrooms that are not likely to be funded by other means. Without TRB funding, institutions would have to fund capital construction projects in other ways, such as by raising tuition. Other funding mechanisms, such as the Permanent University Fund (PUF) and the Higher Education Fund (HEF), are limited in their ability to help institutions fund needed capital growth and facilities upgrades. The long-term financing structure provided by TRBs allows for larger projects. Private contributions can take a long time and are competitive, which puts smaller colleges at a disadvantage. In addition, these donations typically come with stipulations on how they may be used. TRBs are the best option for funding capital construction projects, as other alternatives have failed to gain traction.

Authorizing TRBs for new facilities at the state's universities also would accommodate enrollment growth, allowing more Texans to pursue higher education. Texas institutions have experienced rapid increases in enrollment over the past decade, in part due to statewide initiatives that encourage postsecondary education. Texas' population is expected to grow even more in coming years, and this growth will further strain the state's existing infrastructure. Institutions could admit more students and make higher education more attainable if they were able to build new facilities.

The TRBs provided in this bill would be a good investment for the state because they have a high return. The bonds would be used to expand and improve facilities, including science and engineering research labs. Research and development at universities benefit all taxpayers, not just students. Moreover, investment in state-of-the-art facilities would help attract high-caliber students pursuing science, technology, engineering, and mathematics (STEM) degrees. Graduates of STEM programs earn higher wages, which benefits the state in tax revenue. The Texas

Workforce Commission has projected a workforce shortage in STEM-related jobs, and schools have focused on improving their abilities to meet these needs.

No new TRBs have been authorized since 2009, when the Legislature issued \$155 million in bonds largely to repair hurricane damage at the University of Texas Medical Branch at Galveston. The last major statewide authorization was in 2006, when HB 153 by Morrison authorized \$1.9 billion for projects at 47 institutions. Institutions, some of which have fallen behind high schools in the quality of their facilities, have put off needed repairs and construction since that time. Now is an opportune time to fund TRB requests because interest rates and construction costs are relatively low and the state has enough money to fulfill many of the institutions' capital construction needs.

TRBs do present a cost to the state, but they are no different from other investments the state makes in legislative priorities. All debt involves risk, and financing for any state program is the responsibility of future lawmakers. To demonstrate that higher education is a state priority, the Legislature typically appropriates general revenue funds to reimburse institutions for the tuition spent toward debt service on TRBs. In addition, while there is no guarantee the Legislature will authorize TRBs each session, any state-funded program or entity must plan for the future while facing uncertainty about whether the Legislature will approve its funding.

Although online learning has grown, there is no consensus on whether it should replace classroom learning. A need still exists for construction of facilities such as labs, where students need to engage in applied learning that cannot be done online, and professor interaction is an important part of education. The investment in a building that could last several years and serve many students also may yield a better value than technology that must be upgraded every few years and that requires students to buy new computers and software.

CSHB 100 would demonstrate necessary fiscal discipline by not fully funding all of the TRB requests made this session. TRB authorizations for larger universities in the bill reflect that these schools serve larger student populations, but smaller schools, particularly newer campuses, also would

receive needed support in the bill.

Gov. Abbott has made clear that he wants more Texas higher education institutions to be top research universities. CSHB 100 would invest meaningfully in building and improving facilities at the state's universities, which would help attract renowned faculty members and researchers. Texas institutions must improve to compete — not only with one another or with those in other states but globally.

**OPPONENTS
SAY:**

CSHB 100 would result in a massive sum of debt from TRBs that would be risky both for taxpayers and institutions of higher education. TRBs promised by one Legislature cover only a portion of the cost of projects, and the remaining debt becomes the responsibility of future legislatures and taxpayers. About \$2.2 billion of the debt from previously issued TRBs still was outstanding as of August 31, 2014.

TRBs are less than ideal for the institutions, the state, and taxpayers. They are unreliable for long-term project planning because institutions cannot predict whether their TRB requests will be authorized. Additionally, institutions tend to request bonds for new construction rather than for deferred maintenance in making their TRB plans. Leaving maintenance projects unaddressed results in outdated, low-quality facilities that deter high-quality students from enrolling and that hinder achievement of current students. Furthermore, any amount of TRB debt that an institution incurs that cannot be covered by tuition increases would be shifted to another institution within that system or absorbed by taxpayers if the Legislature used general revenue to pay for the debt service.

TRBs reimbursed by general revenue place the cost of these projects on the taxpayers, instead of the institutions and students who benefit from them. These bonds can be likened to writing the institutions a blank check with taxpayer money because they may be approved without a vote, which sometimes is required for other state-issued debt.

The state has many demands that compete for limited resources, and higher education institutions and lawmakers should be creative and proactive in funding capital projects. Formula funding for state

universities, if used carefully, is enough to cover the needs of higher education institutions. The amount of money authorized in CSHB 100 would be significant, and the bill would provide for projects and facilities that are unnecessary. The recent lack of TRB funding has yielded unexpected benefits, such as schools being resourceful and making do with less. For example, online learning has expanded. The state and universities should invest more in online education, which does not rely heavily on capital construction funding.

The Legislature should consider alternative funding methods for meeting requests for construction projects. Outcomes-based funding as a supplement to formula funding would ensure that schools focused on specific educational outcomes, such as graduation rates, to secure additional state funds. Alternatives to TRBs include creating a direct appropriation from the state's budget or the Economic Stabilization Fund, establishing public-private partnerships, creating higher education funding districts, or authorizing general obligation bonds.

CSHB 100 would continue to authorize a funding source that does not operate as taxpayers may expect. The Legislature often reimburses the institutions for debt from TRBs with general revenue, rather than the institutions covering the debt with tuition and fees. The state should use a more transparent mechanism for funding capital construction projects at universities.

**OTHER
OPPONENTS
SAY:**

Although CSHB 100 issues TRBs for many needed projects, the \$3.1 billion is not enough to address institutions' full request of \$5.6 billion for fiscal 2016-17.

In addition, CSHB 100 authorizes TRBs for several labs and research facilities, but STEM is not the only area that needs focus and development. Other degree programs can lead to high wages and steady employment, and the state should invest in these other disciplines through TRB projects.

Larger institutions, including Texas A&M and the University of Texas, always receive a large share of higher education funding, but TRBs and other funding mechanisms should address needs at smaller campuses that

also play an important role by educating many first-generation college students and adult learners.

NOTES:

According to the Legislative Budget Board's fiscal note, the bill would have fiscal implications for the state. The cost of reimbursing institutions for tuition used to pay debt service on the TRBs would have a net negative impact on general revenue funds of \$540.3 million through fiscal 2016-17.

The House Appropriations Committee's proposed budget for fiscal 2016-17 would appropriate \$250 million for one year of debt service on TRBs contingent on enactment of CSHB 100 or similar legislation.

CSHB 100 would authorize about \$270 million more for TRBs than HB 100 as introduced would have authorized.

Two companion bills, SB 21 by Zaffirini and SB 245 by Watson, were referred to the Senate Higher Education Committee. Another bill that would authorize TRBs, SB 150 by Seliger, was placed on today's intent calendar in the Senate. The House companion to SB 150, HB 812 by Lozano, was referred to the House Higher Education Committee.