

SUBJECT: Tuition revenue bonds for UT Southwestern Medical Center

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 — Kern Wildenthal, M.D., UT Southwestern Medical Center

Against — None

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 1912 would authorize the University of Texas board of regents to use tuition revenue bonds in an amount up to \$56 million to acquire, build, improve, renovate, enlarge, or equip facilities, including roads and related infrastructure, at the University of Texas (UT) Southwestern Medical School to be used primarily for biomedical research.

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 UT System, including student tuition. If sufficient funds were not available to meet these obligations, the board could transfer among institutions, branches, and entities of the UT System to ensure the most equitable and efficient allocation of available resources for each institution.

The board of regents would not have to obtain approval from the Texas Higher Education Coordinating Board (THECB) to acquire real estate or build facilities financed by the bonds, but THECB would have to review all real property and construction to be financed by the bonds to determine whether it met board standards for cost, efficiency, and space usage. If the property did

not meet those standards, THECB would have to notify the governor, lieutenant governor, House speaker, and Legislative Budget Board.

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 1912 would help provide UT Southwestern Medical Center at Dallas with a stronger foothold in the burgeoning biotechnology industry that is expected to generate major economic benefits for Texas for years to come. The biotech industry is at a critical juncture, similar to the electronics industry in the late 1970s. Leading-edge research will be critical to making the discoveries on which new biotech businesses may focus. UT Southwestern has demonstrated its ability to recruit and retain international scientific “superstars” who attract major national grants and around whom the biotech industry will congregate. However, national competition is fierce, and state support is necessary for continued recruitment and growth.

HB 1912 would allow the state to provide this support by issuing tuition revenue bonds needed to build the newest of five research towers on UT Southwestern’s North Campus, which is on land donated by the MacArthur Foundation in 1989. The 150,000-square-foot building would provide modern research space for medical imaging research, molecular structural analysis, computational biology, and other basic biomedical, bioengineering, and computational laboratories central to 21st century biotechnology.

Additional externally funded research made possible by the new building will produce at least a \$135 million annual stimulus to the state economy, over and above the economic benefits of the construction itself. The resulting increase in sales-tax revenues is projected to be well in excess of the annual cost of servicing the bonds.

UT Southwestern has raised \$80 million in federal grants and private gifts and pledges to equip the building and to endow its operation, but sufficient federal and private dollars are not available to pay for the building’s construction as well. The most economical way for the state to participate in the project would be to fund long-term bonds for the building. The state could provide a

\$56 million value to the project immediately, while obligating less than 10 percent of that amount for servicing the bonds during fiscal 2004-05.

One “silver lining” in the current economic cloud hanging over Texas is that this is a very good time to issue debt. The state should take advantage of this opportunity to make an investment in economic development that would pay for itself many times over. The bonds would be pledged against university revenues and thus would pose little financial risk for the state.

Revenue bonds are the most cost-effective way to finance high-cost construction or improvement of long-lasting infrastructure, which can be used while the debt is being paid off. Tuition revenue bond funding is appropriate not only for UT Southwestern, but for other higher education institutions, including others within the UT System.

The UT System’s bonding capacity is strained by recent investment results. The value of the Permanent University Fund has fallen substantially as a result of the overall decline in financial markets, making it difficult for the UT System to absorb an additional commitment of \$4.5 million per year in bond debt. Because this project would generate significant economic benefits for the state, any state contributions to the UT System to cover the cost of the bonds would be more than justified.

**OPPONENTS
SAY:**

HB 1912 would add another long-term funding obligation for the state at a time when the state cannot afford to meet its existing tuition revenue-bond obligations. 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 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 obligated legally 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 and leaving

the remaining financial commitments for future legislatures and taxpayers. For example, in enacting HB 658 by Junell, et al., last session, the Legislature authorized more than \$1 billion in project costs, but the related appropriation was only about \$75 million.

The state should not allocate scarce resources to pay for this project when alternative funding sources are available. The UT System should consider making this project a priority in allocating funds from the Available University Fund. The UT System could issue bonds backed by the Permanent University Fund, as authorized by the Constitution, without requiring a state appropriation of \$4.5 million per year for the next 20 years. If this is not practical, UT Southwestern could seek additional private donations to fund the cost of constructing the building.

HB 1912 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 UT System alone has proposed at least five projects, costing a total of \$238 million, to be funded with tuition revenue bonds. Other institutions have expressed an interest in submitting additional proposals for tuition revenue bond projects. The state cannot afford to commit to all of these projects now, and it should not place this financial burden on future generations.

**OTHER
OPPONENTS
SAY:**

The Legislature should commit to tuition revenue bonds only for emergency projects, such as unreimbursed expenses related to recovering from Hurricane Allison, not to fund new facilities.

NOTES:

The bill's fiscal note estimates debt-service payments of \$4.5 million per year, based on a 5 percent interest rate with a 20-year debt service amortization.

CSHB 1, the House version of the General Appropriations bill, appropriated \$5,078,544 for fiscal 2004 and \$5,077,916 for fiscal 2005 to UT Southwestern Medical School for tuition revenue bond retirement in strategy C.1.2.

The companion bill, SB 932 by Shapiro and Carona, has been referred to the Senate Finance Committee.

A related bill, HB 2759 by Wong, et al., would authorize the issuance of \$20 million in tuition revenue bonds to fund construction of facilities to support biotechnology research at the University of Texas M.D. Anderson Cancer Center. HB 3350 by J. Davis and Coleman would authorize up to \$25 million in tuition revenue bonds for capital improvements at the University of Houston for recovery from Tropical Storm Allison. 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.