

SUBJECT: Authorizing tuition revenue bonds for UT Medical Branch at Galveston

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 7 ayes — Morrison, F. Brown, Chavez, Goolsby, J. Jones, Mercer, Nixon

0 nays

2 absent — Giddings, Smithee

WITNESSES: For — None

Against — None

On — Richard S. Moore, University of Texas Medical Branch at Galveston

BACKGROUND: Higher education institutions use tuition revenue bond to raise funds for capital projects. While tuition revenue repays these bonds, the Legislature typically funds the debt service through appropriations.

DIGEST: HB 3321 would authorize the University of Texas System board of regents to acquire, buy, build, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure for biomedical research, including research related to national biodefense at the University of Texas Medical Branch at Galveston (UTMB), by using tuition revenue bonds in an amount up to \$57 million.

The board could pledge as backing for the bonds all or part of the revenue funds of an institution, branch, or entity of the UT System, including student tuition charges. The amount of a pledge could not be reduced or abolished while the bonds were outstanding. 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 3321 would provide UTMB-Galveston with matching funds should the university be chosen as the site for one of two national biocontainment research laboratories. The university needs \$57 million as the local match for federal funding of \$110 million. The tuition revenue bonds would be sold only if UTMB were awarded the laboratory grant.

After the terrorist attacks of September 11, 2001, President Bush announced a new initiative to address bioterrorism, called Project Bioshield. This will be a comprehensive effort to develop modern, effective drugs and vaccines to counteract the use of biological weapons.

The National Institutes of Health (NIH) has received more than \$1 billion to research biological pathogens that could be developed as a countermeasure against a bioterrorism attack. The NIH wants to build two biocontainment labs, and UTMB has submitted a proposal to build one of the labs on the Galveston campus. This summer, UTMB will open a Level 4 biosafety research lab, the only one of its kind on a university campus. Research at a Level 4 biosafety addresses the most dangerous and lethal pathogens. Because of UTMB's national renown as an leading research facility, it is well positioned to house this biocontainment research facility.

To qualify for a laboratory grant, an institution must be designated as a regional center of excellence. UTMB has organized a consortium of 25 institutions in Texas, New Mexico, Oklahoma, Arkansas, and Louisiana to act as the Regional Centers of Excellence for Biodefense and Emerging Infectious Disease Research, which is expected to bring in \$50 million in research projects to the area over the next five years. The Johnson Space Center will team with UTMB to develop robotic technologies to be used in

conjunction with research targeted to diagnostics, therapeutics, and vaccine development.

This is an exciting project for the Gulf Coast area, the state of Texas, and the surrounding southwest region. Because the project would generate significant economic benefits — about \$45 million to \$75 million per year — any state contributions to the UT System to cover the cost of the bonds would be more than justified.

The state should take advantage of this opportunity to invest in economic development that would pay for itself many times over. The bonds would be pledged against university revenues and would pose little financial risk for the state. Tuition revenue bond funding is appropriate not only for UTMB but for other higher education institutions, including others within the UT System.

Revenue bonds are the most cost-effective way to finance high-cost construction of long-lasting infrastructure, which can be used while the debt is being paid off.

**OPPONENTS
SAY:**

HB 3321 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 and are technically not a general revenue obligation for 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 projects costs, but the related appropriation was only about \$75 million.

HB 3321 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 Tropical Storm Allison, not to fund new facilities.

NOTES:

The bill's fiscal note estimates that the state would incur debt-service payments of \$4.6 million per year, based on a 5 percent interest rate with a 20-year debt service amortization. The total estimated debt service from fiscal 2004 through 2023 would be about \$91.5 million.

The companion bill, SB 1755 by Jackson, has been referred to the Senate Finance Committee.

A related bill, HB 2759 by Wong, et al., would authorize the issuance of up to \$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. 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 1912 by Wolens would authorize \$56 million in tuition revenue bonds for the University of Texas Southwestern Medical Center at Dallas to finance biomedical research facilities. All of these bills have passed the House and have been referred to the Senate Finance Committee.

HB 3351 by J. Davis, which would authorize \$30 million in tuition revenue bonds for the University of Texas Health Science Center at Houston for recovery from Tropical Storm Allison, passed the House on May 10.