

SUBJECT: Authorizing tuition revenue bonds for UT Health Science Center at Houston

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 6 ayes — Morrison, F. Brown, Chavez, Goolsby, Mercer, Nixon
0 nays
3 absent — Giddings, J. Jones, Smithee

WITNESSES: For — None
Against — None
On — Chase Untermeyer, University of Texas Health Science Center at Houston

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 3351 would authorize the University of Texas (UT) System Board of Regents to acquire, purchase, build, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads or related infrastructure for the UT Health Science Center at Houston (UTHSC-H) for the replacement of facilities lost in Tropical Storm Allison by using tuition revenue bonds in an amount up to \$30 million.

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 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 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 they met board standards for cost, efficiency, and space usage. THECB would have to notify the governor, lieutenant governor, House speaker, and Legislative Budget Board if the project did not meet board standards.

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 3351 would enable the state to aid in the repair of facilities at UTHSC-H damaged by Tropical Storm Allison in June of 2001. The storm devastated a UTHSC-H research lab causing more than \$92 million in losses. Approximately 114,000 square feet of laboratory and academic space was lost, and the animal research facility was completely destroyed. Parts of building are still using emergency generators for electrical power.

The scale of damage and the scope of recovery and mitigation are far greater than what insurance likely will cover. UTHSC-H has received nearly \$60 million from insurance, but that has been used for losses to the entire medical school campus, and the research lab gets only a portion of the funds. Also, the lab is not eligible for Federal Emergency Management Agency funds because it is a very old building and needs mitigation in order to reduce or eliminate the threat of future water damage. Part of the new construction will be built using private donations and money from the Permanent University Fund.

Revenue bonds are the most cost-effective way to pay for expensive construction or repair of long-lasting infrastructure. One “silver lining” in the current economic situation is that this is a very good time to issue debt because interest rates are so low. According to the Texas Bond Review Board, Texas is well under its constitutional debt limit. The bonds authorized by HB 3351 would be pledged against university revenues and would pose little financial risk for the state. Tuition revenue bond funding is appropriate for emergency projects such as this.

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 \$2 million a year in bond debt.

Given the emergency situation at UTHSC-H, it is appropriate for expenditures authorized under HB 3351 to bypass the THECB's approval process, just as other expenditures have bypassed this process in the past. THECB still could review the proposed projects and could issue a report to state leaders if the projects did not meet the board's criteria.

OPPONENTS
SAY:

HB 3351 would add another long-term funding obligation for the state. The bill's fiscal note estimates that it would cost nearly \$2.5 million per year in general revenue. Principal and interest related to all tuition revenue bonds authorized by the Legislature exceed current proposed appropriations by more than \$80 million.

These bonds are backed by tuition revenue and thus technically are 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 legally would not be obligated to repay the bonds, future legislatures likely would 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, leaving the remaining financial commitments for future legislatures and taxpayers. For example, in enacting HB 658 by Junell last session, the Legislature authorized more than \$1 billion in project costs, but the related appropriation was only about \$75 million.

HB 3351 is one of at least eight proposals this session to use tuition revenue bonds to fund facility construction and repair for higher education institutions. The state cannot afford to commit to all of these projects now, and it should not place this financial burden on future generations. The university 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 nearly \$2.5 million per year for the next 20 years.

**OTHER
OPPONENTS
SAY:**

HB 3351 unjustifiably would exempt expenditures of funds from these bonds from THECB's approval. The board should be able to apply its oversight of higher education infrastructure expenditures by determining whether the proposed projects at UTHSC-H should be approved.

NOTES:

The Legislative Budget Board estimates that HB 3351 would cost the state \$2.4 million per year in general revenue in fiscal 2004 through 2008, on the assumption that the Legislature would appropriate funds to reimburse institutions for the tuition used to pay debt service.

The companion bill, SB 1420 by Janek, has been referred to the Senate Finance Committee. A related bill, HB 1941 by Woolley, which would authorize the UT System to issue up to \$34.9 million in bonds to repair other infrastructure damaged at UTHSC-H by Tropical Storm Allison, passed the House on April 22 and was referred to the Senate Finance Committee on April 25. If both HB 3351 and HB 1941 were enacted, there would be up to \$65 million in bonds issued for the repair of damaged facilities at UTHSC-H.

Another related bill, HB 3350 by J. Davis and Coleman, which would authorize up to \$25 million in tuition revenue bonds for capital improvements at the University of Houston for recovery from Tropical Storm Allison, passed the House on May 5.

HB 2759 by Wong would authorize the issuance of \$20 million in revenue bonds to fund construction of facilities to support biotechnology research at the University of Texas M.D. Anderson Cancer Center. HB 1912 by Wolens would authorize \$56 million in revenue bonds to finance biomedical research facilities at the University of Texas Southwestern Medical Center at Dallas. Both bills passed the House on May 5. HB 2522 by Krusee, which would authorize issuance by the Texas State University System \$26 million in tuition revenue bonds to fund construction for the Southwest Texas State University Multi-Institution Teaching Center at Round Rock, passed to engrossment in the House on May 6.