

- SUBJECT:** Authorizing tuition revenue bonds for higher education institutions
- COMMITTEE:** Appropriations — committee substitute recommended
- VOTE:** 23 ayes — Pitts, Sylvester Turner, Ashby, Bell, G. Bonnen, Carter, Crownover, Darby, S. Davis, Giddings, Gonzales, Howard, Hughes, Longoria, McClendon, Muñoz, Otto, Patrick, Perry, Price, Raney, Ratliff, Zerwas
- 0 nays
- 4 absent — Dukes, S. King, Márquez, Orr
- SENATE VOTE:** On final passage, April 23 — 31-0
- 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:** CSSB 16 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 or university. The bill includes TRB authorization for individual institutions and projects in the following university systems:
- University of Texas System (\$928.7 billion);
  - Texas A&M System (\$622.4 million);
  - University of Houston System (\$252.8 million);

- Texas State University System (\$213.6 million);
- University of North Texas System (\$252.2 million);
- Texas Tech University System (\$215.4 million);
- Texas Woman's University (\$38 million);
- Midwestern State University (\$24 million);
- Stephen F. Austin State University (\$40 million);
- Texas Southern University (\$52.8 million); and
- Texas State Technical College System (\$43.6 million).

Bond authority for three of the projects that would be eligible for TRBs under the bill would be contingent on the passage of legislation to:

- create or authorize a new university that incorporated the University of Brownsville;
- authorize creation of a health sciences center in El Paso as part of the Texas Tech University System; and
- authorize an extension center of the Texas State Technical College System in Ellis County.

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.

**Contingent effect.** The bill would only take effect if the Legislature enacted:

- SB 1, the General Appropriations Act;
- HB 1025, supplemental appropriations for fiscal 2013; and
- SJR 1, constitutional amendment providing for the creation of funds to assist in financing priority projects in the state water plan.

**Effective date.** This 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, 2013.

SUPPORTERS  
SAY:

CSSB 16 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.

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 much to creating and securing the reputation as 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 construct 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, moreover, have been secured at remarkably low levels.

In addition, 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 \$625.3 million for fiscal 2010-11 and \$672.3 million for fiscal 2008-09.

**OPPONENTS  
SAY:**

While many of the facilities proposed in CSSB 16 may be worthy and justifiable, the state should review closely how it finances capital improvements at public higher education institutions.

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 \$450 million on the fiscal 2014-15 biennium 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, including offering incentives that encourage universities to better use space through online courses, night and weekend classes, and summer classes.

**OTHER  
OPPONENTS  
SAY:**

A provision in SB 16 would hold it hostage to the passage of other bills, most notably SJR 1 by Williams, which is unrelated legislation that would amend the Constitution to dedicate funding for certain water projects. Holding a bill hostage to another unrelated bill is unusual and sets a bad precedent. The Legislature should consider separate issues independently.

**NOTES:**

The Legislative Budget Board estimates SB 16 would have a negative impact of \$450.2 million on general revenue for the fiscal 2014-15 biennium. The LBB estimates that the annual cost to general revenue through fiscal 2018 would be roughly \$230 million after fiscal 2014.