HOUSE
RESEARCH
ORGANIZATION bill analysis 5/11/2006

HB 153
Morrison
(CSHB 153 by Morrison)

SUBJECT: Tuition revenue bonds for higher education institutions

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 8 ayes — Morrison, Goolsby, Dawson, Gallego, Giddings, Harper-Brown, J. Jones, Rose

0 nays

1 absent — F. Brown

WITNESSES: No public hearing

BACKGROUND: Tuition revenue bonds (TRBs) are issued by institutions of higher education for which future revenue (tuition and fees) is pledged for repayment of the bonds. The Legislature must authorize bond issuance, and bond proceeds generally are used to fund institutional construction, renovation projects, equipment, and infrastructure. The authorization and issuance of the bonds is not contingent on an appropriation for related debt service, but the Legislature historically has appropriated general revenue to reimburse institutions for the tuition used to pay for the debt service — principal and interest. However, the 78th Legislature in 2003 appropriated funds to pay only for interest on TRBs issued after March 31, 2003. The 79th Legislature in 2005, in SB 1 by Ogden, the general appropriations act for fiscal 2006-07, appropriated $373.1 million for principal and interest for existing TRBs issued through the end of fiscal 2005.

DIGEST: CSHB 153 would authorize the issuance of $3.72 billion in TRBs for institutions of higher education to finance construction and improvement of infrastructure and related facilities. It would appropriate $108 million to pay debt service on the bonds authorized by the bill. The bonds would be payable from pledged revenue and tuition and, if a board of regents did not have sufficient funds to meets it 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 (UT) System ($1.4 billion);
- Texas A&M University System ($899 million);
- University of Houston System ($331 million);
- Texas Tech University System ($305 million);
- Texas State University System ($222 million);
- University of North Texas System ($210 million);
- Texas State Technical College System ($31 million);
- Texas Southern University ($209 million);
- Stephen F. Austin University ($83.2 million);
- Texas Woman's University ($24.2 million); and
- Midwestern State University ($20 million)

The bill would include in the appropriation for the UT System $41.1 million for a biomedical research and education facility at the UT Health Science Center at Houston.

CSHB 153 also would add junior college districts with a total headcount enrollment of 40,000 or more to the statutory list of entities eligible to issue obligation bonds.

The bill would not affect or impact any authority or restriction on the activities that public institutions may conduct with a facility financed by the bonds authorized by the bill.

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 on the 91st day after the last day of the third called session (August 15, 2006, if the special session lasts the full 30 days).

SUPPORTERS SAY:

CSHB 153 would support a wide range of renovations, repairs, upkeep, and new facilities that play an important role in closing the gaps in higher education and are essential to the state's ability to provide high quality education to Texas students. In 2005, the 79th Legislature did not authorize new TRBs to support critical facilities projects at higher education institutions throughout the state. Higher education institutions depend on consistent state support for maintenance and expansion to keep pace with the exploding growth in student enrollment and to maintain aging facilities. All of this combines to enhance the quality of education students receive. Economists and higher education experts say that economic prosperity and better jobs are dependent on having a highly skilled and well educated workforce.

TRBs are the most cost-effective way to finance higher-cost construction or improvement of long-lasting infrastructure, which can be used while the debt is being paid off. While interest rates are low, now is the ideal time to finance the construction of new classrooms, laboratories, and student housing. The state should make an investment in higher education that would pay for itself many times over by supporting each institution's bond program. The bonds would be pledged against university revenues and thus would pose little financial risk for the state.

While the cost of supporting these bonds is significant, it is in the state's best interest to continue to support higher education by paying a portion of debt service on TRBs. In its 2004 report, the Joint Interim Committee on Higher Education recognized the importance of supporting TRBs in its recommendation that the Legislature require that general revenue funding be used to reimburse higher education institutions for the cost related to debt service of all legislatively approved TRBs. CSHB 153 would continue the Legislature's recent practice of funding part, but not all, of the debt service on the TRBs authorized.

Institutions are participating in cost-sharing since institutions may already combine other funds to pay for repair, renovation, and construction, including Permanent University Fund (PUF) and Higher Education Fund (HEF) allocations, so TRBs may not always be the primary source of funding for certain capital projects. Any increase in cost-sharing between the state and higher education institutions would be a significant policy shift, and the state should not retreat from the long-held practice of assisting with the funding of debt service with general revenue. The ability to support cost-sharing would vary widely between universities. It would be difficult for smaller institutions that are less able to raise tuition to make debt-service payments and would create a burden for students attending institutions that did raise tuition in response to cost-sharing pressures.

According to credit rating agencies, any change to the state's long-standing commitment to fund TRBs could threaten the bond ratings of public universities, thereby increasing the cost of debt for needed projects.

Claims that the bill would open the door to certain types of stem-cell research by authorizing bonds to finance a new biomedical research and education facility for the UT Health Science Center in Houston are unfounded. CSHB 153 is a facilities-funding vehicle and would not expand or restrict the scope of any public research institution.

OPPONENTS SAY:

Higher education institutions requested $4.2 billion in TRB authorizations during the 79th Legislature. The state simply does not have the resources to fund the debt service for all the requested TRBs. Because of competing demands on state funds, there has to be a greater cost-sharing between the state and institutions that issue the bonds. TRBs are popular because they allow lawmakers to support more projects by paying only a small portion of the cost and leave the remaining financial commitments to future legislatures and taxpayers.

Policy makers and higher education institutions need to move in the direction of less reliance on state funding for debt service on TRBs and seek innovative ways to fund facilities. Institutions should be required to include bond debt as part of their overall operations budgets, perhaps including some sort of institutional “co-payment,” with all institutions having to pay a portion. Some have suggested a rating or scoring system for prioritizing capital projects, using such criteria as the type of institution and its geographic location, space utilization, and deficit. Institutions have other sources to fund the cost of buildings, including bonds backed by the PUF and the HEF, indirect research cost revenues, and private funds. Since tuition has been deregulated, institutions have more flexibility to raise the revenue they need to finance capital improvements.

The language regarding the proposed authorization for the UT Health Science Center at Houston for a biomedical research and education facility is too broad. The type of research being contemplated in this facility involves human embryonic stem cells, and tax-funded research for this purpose is inappropriate. Adult stem cell research is resulting in tremendous breakthroughs in treatments for debilitating diseases. It is an appropriate and productive use of public funds because adult stem cell research does not require the destruction of human life. Because there is no state law prohibiting the use of human embryonic stem cell research, the bill should be amended to ensure that public funds were used only for biomedical research that did not involve embryonic stem cells.

OTHER OPPONENTS SAY:

CSHB 153 would be a step in the right direction, but is significantly underfunded. While the bill would authorize $3.72 billion in bonds, the related appropriation for debt service would be only $108 million through 2007. It is assumed that the institutions would be responsible for the remaining debt service, which most institutions — smaller universities in particular — would have difficulty in supporting. This could force university systems to choose among critically needed projects and could result in needed projects being postponed.

NOTES:

According to the Legislative Budget Board, the debt-service appropriation in the bill would cost $108 million in general revenue-related funds through fiscal 2006-07, and institutions would be responsible for the remaining debt service.

The committee substitute differs from the bill as introduced by adding and deleting authorization for specific revenue bond projects.

During the 2005 regular session of the 79th Legislature, the House and the Senate both passed a version of HB 2329 by Morrison, which would have authorized a total of $2.2 billion in TRBs for higher education institutions. The bill died when neither the House nor the Senate considered the conference committee report for the bill. Sec. 14.61 of Article 9 of SB 1 by Ogden, the general appropriations act for fiscal 2006-07, included $108 million for TRB debt service, contingent on passage of HB 2329 or similar legislation. Gov. Perry line-item vetoed this provision because HB 2329, or similar legislation, was not enacted.

During the first and second called sessions of the 79th Legislature, the House passed legislation, HB 6 by Morrison in both sessions, which would have authorized $2.7 billion and $2.75 billion respectively in TRBs for higher education institutions. Both bills died in the Senate.

A related bill introduced in the first called session, SB 80 by Ogden, would have authorized the issuance of TRBs at higher education institutions, but would have limited state reimbursement for debt service beginning September 1, 2007. The state reimbursement could not have exceeded 60 percent of the amount of the debt service for as long as the bonds were outstanding, unless the limit posed a hardship for an affected university. The bill died in the Senate Finance Committee.