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TO: House Committee on Higher Education
FROM: Chancellor Mike Reeser, TSTC
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REGARDING: Request for Information, Interim Charge #2

Interim Charge #2:

Evaluate current and future capital infrastructure needs at Texas public universities, health-related institutions, and Texas State Technical Colleges in preparation for potential legislation to be considered by the 87th Legislature. Identify and evaluate alternatives to tuition revenue bonds for the state's funding of higher education capital infrastructure needs, including options for addressing deferred maintenance needs at aging campuses.

1. As a result of the pandemic, have institutions' infrastructure needs changed?

Yes. The infrastructure needs for Texas State Technical College (TSTC) has intensified. The majority of TSTC's programs require some level of hands-on delivery of coursework, and it is impossible to transition most of that hands-on training to an online format. Therefore, in early May, TSTC reopened its 10 campuses following the COVID-related shutdown to the majority of the College's students so that they could complete the spring semester. The reopening was limited to the labs on each campus, specifically for the hands-on instruction. Labs were reopened under CDC, COVID-specific guidelines and safety protocols.

The new social distancing measures required by these safety protocols constrain TSTC's facility and equipment capacity. Individual labs are now only able to serve half or less of their normal student headcount in any given lab time slot. Multiple labs must be scheduled to serve a single cohort of students, requiring more faculty time and more equipment. As a result, TSTC's capital infrastructure needs have increased substantially.

The workers prepared by TSTC programs are, for the most part, critical and essential. In previous post-recession eras, TSTC served a vital role in preparing a workforce that contributed to the following economic recovery. Additionally, in an economic

downturn, TSTC has traditionally seen an increase in student enrollment. That enrollment increase is fully anticipated in the wake of the COVID crisis which will only serve to exacerbate TSTC's infrastructure needs.

2. How have institutions' needs changed since the 86th Legislature? Are there projects that were included in HB 2000 that are no longer needed, i.e., were funded through other means? Are there projects that were not included in HB 2000 that now are a need? If so, why?

TSTC's infrastructure needs have increased, as stated above. All projects requested in House Bill 2000 are still needed; however, the need has grown.

None of the House Bill 2000 projects have been funded through other sources.

Additional projects have increased in urgency as the need for space, particularly heavily equipped and expensive lab space, has intensified since the 86th Legislature. The demand for workforce training is expected to increase post-recession, and TSTC's ability to meet the demand (in TSTC's hands-on environment) is constrained with the additional social distancing protocols and limited options for online delivery of career and technical instruction.

3. If the pandemic has changed institutional needs, are there federal funds that could qualify to help offset COVID-related changes?

TSTC was awarded \$5.6 million in institutional Department of Education CARES grant funds that will help offset COVID-related changes to instructional delivery. An additional Economic Development Administration (EDA) CARES grant is being pursued in the amount of \$6 million to renovate and reconfigure a technical training center that will be socially distanced and include IT infrastructure that supports remote access, filming, and online distribution of instructional content for certain programs. It should be noted, however, this EDA grant will address only one lab on a single TSTC campus.

4. Has the economic recession impacted borrowing costs for a potential Tuition Revenue Bond? Are there any anticipated changes to the costs of borrowing in the future, should conditions remain as they are?

The current borrowing environment is neutral to positive. TSTC issued bonds for necessary housing in June 2020 using its revenue financing system with favorable interest rates/closing costs.

5. Are there financial or other benefits to paying for TRBs with cash rather than borrowing money?

Despite the state's support of TRB debt service, an individual higher education institution's borrowing capacity and cost of borrowing are impacted with each additional TRB issuance. This affects some institutions more than others. The more an institution's bond rating deviates from the state's bond rating, the higher the cost of borrowing. Alternatively, constitutional appropriation bonds borrow against the credit of the state, and institutions benefit from the state's strong credit profile. Further, the shorter term on constitutional appropriation bonds (10 years) generally results in lower interest rates.

Cash support results in stronger institutional balance sheets, driving higher performance metrics and lower borrowing costs for other issuances.

6. What kinds of longer-term impacts will we see to institutions if TRBs continue to be pushed off?

TSTC's long-term growth plans are linked to increasing the capacity of training facilities on campuses in the regions and labor market areas with the highest growth potential. Postponing TRBs limits the College's ability to train and place Texans in fast-growth markets, limiting the economic development opportunities for the state. Further, deterioration of aging infrastructure will continue to accelerate with each year that necessary maintenance is deferred.