Texas Conservative Coalition Research Institute

Comments to the House Committee on Higher Education
September 1, 2020

Regarding the Committee <u>Interim Charge 2</u>: 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.

Interim charge 2 is an important one. Texas's public institutions of higher education are of great importance, and although it is a shared responsibility, the state has a great interest in maintaining their infrastructure needs. The Texas Conservative Coalition Research Institute (TCCRI) takes particular interest in Charge 2 because of a longstanding position the Institute takes on Tuition Revenue Bonds.

Tuition revenue bonds are bonds specifically authorized by the legislature to help institutions of higher education pay for capital intensive projects, such as acquiring, updating, and renovating buildings and facilities. As the follow up questions to Charge 2 make clear, institutional needs can change, which makes it imperative that schools make the right infrastructure decisions and that the correct incentives are in place when those decisions are made.

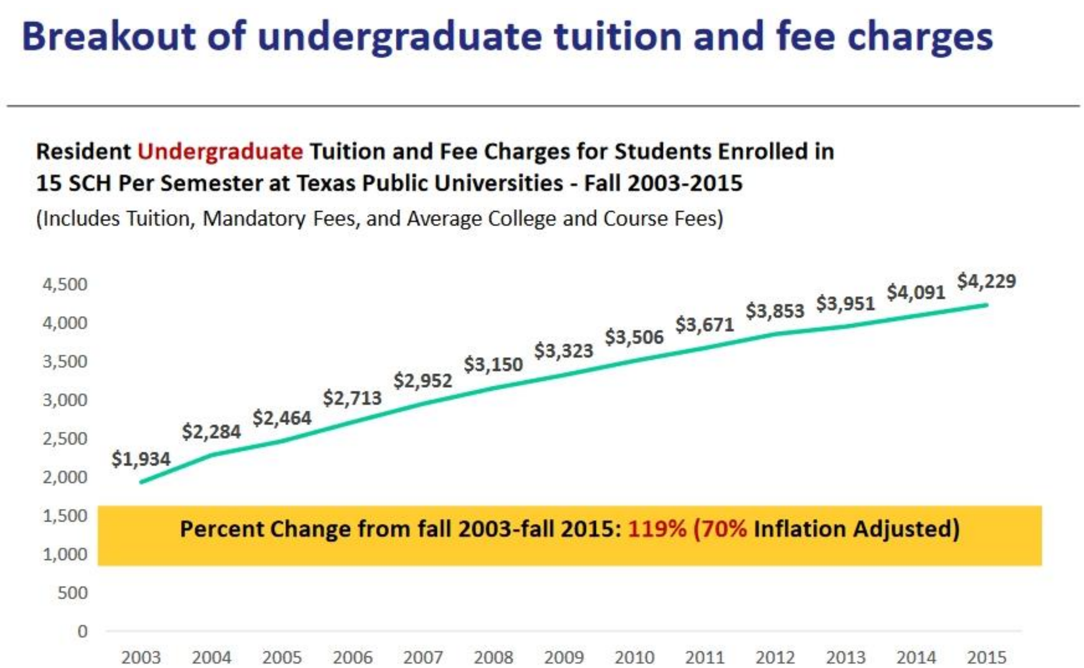
House Bill 2000, which ultimately did not pass to become law during the 86th Legislative Session, would have authorized roughly $3.8 billion in tuition revenue bonds divided as follows:

- Texas A&M University System ($767.5 million for 13 different projects)
- University of Texas System ($1.3 billion for 14 different projects)
- University of Houston System ($351 million for 5 different projects)
- Texas State University System ($369.6 million for 8 different projects)
- University of North Texas System ($321.5 million for 3 different projects)
- Texas Woman's University ($100 million)
- Midwestern State University ($10 million)
- Stephen F. Austin State University ($48 million)
- Texas Southern University ($50 million)
- Texas Tech University System ($249.5 million for 4 different projects)
- Texas State Technical College System ($134.564 million for 7 different projects)

Tuition revenue bonds (TRB) authorize the financing of projects like those listed in HB 2000 and pay for them using tuition revenue. However, that is not exactly how the TRB process has traditionally worked. Section 55.18 of the Education Code states that TRBs "are payable solely from the revenues, income, receipts, or other resources of the board, as provided in this subchapter, and such bonds shall never be an obligation of the State of Texas." However, the state has traditionally appropriated money for service of TRB debt, as the Bond Review Board notes:

> Although college and university revenue debt is payable from a pledge of certain "revenue funds" of the applicable system or institution of higher education… **the legislature has historically appropriated funds in an amount equal to all or a portion of the debt service on tuition revenue debt issued**. [Emphasis added][1]

Indeed, since 2002, the LBB reports that the Legislature has appropriated more than $2.8 billion in General Revenue (GR) funds to higher education institutions as reimbursement for TRB debt service. Meanwhile, the costs associated with attending an institution of higher education have risen rapidly:



This dramatic increase in tuition receipts suggests that adequate revenue exists for higher education institutions to fund TRBs through tuition alone, without GR reimbursement. Together with instructional costs, facility construction and maintenance should be a priority expenditure for higher education institutions that relates directly to the amount of tuition the institution is receiving.

Supporting the facility requests of institutions of higher education is a legitimate function of government and the Legislature should do so in some fashion. However, on the fallacy that these bonds are funded through tuition, the Legislature should take one of two approaches:

> 1. Authorize TRBs—as it has done many times in the past—and not appropriate general revenue after the fact to pay for them: TRBs, as their name implies, should be backed by tuition payments alone, which are also a direct measure of the enrollment at individual institutions; or
>
> 2. The Legislature should change the name from Tuition Revenue Bonds to clearly denote that the Legislature is taking on this obligation. It should then add the funds to Article III, General Appropriations Act. As noted above, the Fiscal Note for HB 100 reads: "Historically the

> Legislature has appropriated General Revenue to reimburse institutions for the tuition used to pay the debt service."

Continuing to appropriate money *after* authorizing TRBs runs contrary to budget transparency, which must remain a key concern for lawmakers.

ENDNOTES

[1] Bond Review Board, 2012 Annual Report.