

SUBJECT: Revenue bonds for construction at public institutions of higher education

COMMITTEE: Appropriations — committee substitute recommended

VOTE: 18 ayes — Bonnen, M. González, Ashby, C. Bell, Capriglione, Dean, Dominguez, Howard, A. Johnson, Morrison, Raney, Rose, Sherman, Stucky, Thompson, VanDeaver, Wilson, Zwiener

1 nay — Schaefer

8 absent — Gates, Holland, Jarvis Johnson, Julie Johnson, Minjarez, Toth, Walle, Wu

SENATE VOTE: On final passage, October 15 — 30-1

WITNESSES: No public hearing.

BACKGROUND: Education Code sec. 55.13 authorizes governing boards of public institutions of higher education to issue revenue bonds for the purpose of providing funds to acquire, construct, improve, enlarge, and/or equip any property, buildings, structures, activities, services, operations, or other facilities to be payable from and secured by liens on and pledges of all or any part of the revenue funds of the board and its institution or institutions, or any branch or branches of any of its institutions.

DIGEST: CSSB 52 would authorize the issuance of about \$3.2 billion for projects to be financed through the issuance of bonds for capital improvements at public institutions of higher education. The bill would allow funds allocated from the appropriation of general revenue to an institution of higher education to supplement revenue funds of the institution for capital construction to be designated as "capital improvement debt assistance."

The bill would authorize specified projects that could be financed by the bonds and the maximum aggregate principal amounts that could be financed for each project at the following universities and university systems:

- The Texas A&M University System (\$717.4 million);
- The University of Texas System (\$814.2 million);
- University of Houston System (\$339.5 million);
- Texas State University System (\$422.6 million);
- University of North Texas System (\$264.7 million);
- Texas Woman's University (\$100 million);
- Stephen F. Austin State University (\$44.9 million);
- Texas Tech University System (\$271.8 million);
- Texas Southern University (\$95.2 million); and
- Texas State Technical College System (\$153.4 million).

Each institution's governing board would be authorized to pledge irrevocably to the payment of bonds authorized by the bill all or any part of its revenue funds, including student tuition charges. The amount of a pledge could not be reduced or abrogated while the bonds for which the pledge was made, or bonds issued to refund those bonds, were outstanding.

If sufficient funds were not available to a board to meet its obligations, the board could transfer funds among its institutions, branches, and entities to ensure the most equitable and efficient allocation of available resources. In lieu of financing a project authorized in the bill, a board could finance in the prescribed manner an alternative project for deferred maintenance or infrastructure at the same institution or entity in an amount not to exceed the total authorized for the project and any unspent amount from projects authorized for the institution or entity under Education Code ch. 55. The governing board would have to notify the Texas Higher Education Coordinating Board of such an alternative project.

The bill would not affect any authority or restriction regarding the activities that a public institution of higher education could conduct in connection with a facility financed by bonds authorized by the bill.

The bill would take effect on the 91st day after the last day of the legislative session.

SUPPORTERS
SAY:

CSSB 52 would authorize certain bonds to allow public institutions of higher education to undertake needed capital projects on their campuses. These improvements would help colleges and universities expand facilities to meet growing enrollment and prepare students with the workforce skills needed to help the state recover economically from the coronavirus pandemic.

The \$3.2 billion in projects listed in the bill would help the colleges and universities build new facilities and make critical upgrades to aging buildings to improve health and safety conditions for those who use the facilities. Some of the projects would assist in increasing the number of graduates in critical nursing and health-related fields.

The Legislature has not funded university debt assistance, or tuition revenue bonds, since 2015. This has left many universities with overcrowded and even unsafe facilities at a time of enrollment growth.

The bonds authorized in the bill would not be general obligations of the state. Historically, the Legislature has appropriated general revenue to reimburse institutions for the tuition used to pay the debt service. CSSB 52, in conjunction with other legislation being considered by the Legislature, could leverage federal pandemic recovery funds for the construction projects. Public higher education institutions have limited methods for financing capital improvements, and CSSB 52 would ease pressure on the use of tuition revenue to pay off the bonds. Other alternatives to using bonds as the means of financing higher education construction could be the subject of study during the interim.

The distribution of bond authorization to each of the state's university systems was done using a consistent methodology to ensure fair treatment of the institutions' requests for funding. The projects authorized in CSSB 52 have been carefully vetted to ensure that they are necessary improvements justified by health and safety concerns and enrollment

growth.

CRITICS
SAY:

CSSB 52 would have negative fiscal implications for taxpayers by authorizing a higher education building boom at a time when colleges and universities are not doing enough to control their costs. The high cost of tuition is why many students are choosing to go directly from high school to the workforce and those who do attend college are accumulating substantial debt trying to earn a degree. The Legislature should not authorize additional spending without requiring public colleges and universities to take steps to reduce, freeze, or lower tuition.

The bill would authorize significant construction projects at The Texas A&M University and the University of Texas even though those two systems have access to the Permanent University Fund, the largest public endowment fund in the nation. Money should be used to first assist university systems that do not have access to the Permanent University Fund.

Although the Legislature has considered a proposal to use federal coronavirus recovery funds as the source of revenue for bond authorization, it is unclear whether such a proposal would be allowable under interim U.S. Treasury Department guidelines for use of American Rescue Plan Act of 2021 funds. Issues could arise related to using the federal funds for debt service and obligating and completing spending on the projects under specified timelines.

NOTES:

According to the Legislative Budget Board, the bill would have a negative impact of \$304.8 million to general revenue through fiscal 2023. The bill would make no appropriation but could provide the legal basis for an appropriation of funds.