

Texas Public Policy Foundation

Higher Education

Legislator's Guide to the Issues 2017-18



Tuition Revenue Bonds



The Issue

In 1971, the Legislature began the practice of using bonds secured with the tuition revenue of public universities as part of the state's funding for capital expansion in public higher education. Of the two types of bond used for this purpose—revenue financing system bonds and tuition revenue bonds—tuition revenue bonds (TRBs) have received much greater scrutiny, especially over the past decade.

The primary criticism of TRBs addresses the fact that unlike revenue financing system bonds, which university systems must service themselves, TRB debt service is historically covered with general revenue appropriations. Even though TRBs are structured as obligations of the universities that issue them, they are ultimately paid for—principal and interest—by Texas taxpayers.

TRBs were not widely used from 1971 to 2000. The \$1.08 billion in TRBs authorized in 2001 nearly doubled the amount of TRB authorization up to that point. In the aftermath of a special session in 2006, when \$1.86 billion in TRBs was authorized for 63 projects across the state, the Texas Higher Education Coordinating Board was tasked with developing an objective process for evaluating TRB requests. A period of scrutiny followed between 2007 and 2014, during which the Coordinating Board began to develop better tools for objectively prioritizing capital project requests, such as the Space Use Efficiency (SUE) score. Just \$168 million in TRB debt was authorized during this time, most of which went toward financing emergency capital projects on the gulf coast in the aftermath of Hurricane Ike. This period of TRB austerity ended last year, when the 84th Legislature authorized \$3.109 billion in TRB debt.

Besides concerns with the growing cost of TRBs are concerns with how much scrutiny TRB requests actually face. Under standard practice, a majority of TRB requests are bundled into an omnibus TRB bill, the passage of which authorizes many lower-priority projects that might not have received approval on their own. For example, if requests from schools with a failing grade in all three SUE score categories (classroom, lab, and overall) had been removed from last session's omnibus TRB bill (HB 100), it would have cut \$606 million, or 19.5%, from the bill's final cost (\$1.04 billion including interest).

In spite of opposition to the way TRBs are currently used, the most frequently touted alternatives are not without their own pitfalls. Replacing TRBs with general obligation bonds or direct funding from the Economic Stabilization Fund does not address the state's need for an objective process for prioritizing TRB requests. Public-private partnerships, often touted as the future of capital expansion at public universities, are particularly unsuited to provide an alternative to TRBs. Public-private partnerships generally require revenue-generating projects—dormitories, parking garages, cafeterias—but TRBs are restricted by statute to financing projects that cannot generate their own revenue. Other popular suggestions, such as raising the amount of Higher Education Assistance Fund (HEAF) revenue universities can pledge to service endowment fund revenue bonds, are worth pursuing, but not as alternatives to TRBs.

For the foreseeable future, Texas higher education will require state support—some in the form of TRBs—to fund capital projects. However, the Legislature can still make considerable improvements to the TRB authorization process by committing to an objective process for prioritizing TRB requests and, crucially, refusing to authorize projects of insufficient priority.

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The Facts

- The 84th Legislature authorized \$3.109 billion in tuition revenue bonds.
- With interest on these bonds projected at \$2.24 billion, this round of TRBs will cost the state a total of \$5.35 billion over the next 20 years.
- From 1971-2014, the Legislature appropriated approximately \$2.6 billion to retiring TRB debt.
- The Legislative Budget Board forecasts that, over the next five years, Texas will spend nearly \$1.35 billion in general revenue funds on debt service for the most recently authorized round of TRBs.
- \$2.2 billion of the debt from previously issued TRBs was outstanding as of August 31, 2014, and remains to be paid in addition to payments on the most recently authorized TRBs.
- TRB debt will account for just under 20% of the \$21.6 billion the state projects will be spent on public higher education capital projects in Texas over the next five years.

Recommendations

- Attach institutional Space Use Efficiency scores—already developed by THECB—to TRB bills, the same way the Legislative Budget Board attaches a fiscal note to each piece of legislation.
- Allow institutions to pledge up to 75% of HEAF revenue to service endowment fund revenue bonds (up from the current 50% limit), and allow these bonds to be paid over 20 years (up from the current 10-year limit).
- Encourage legislative collaboration on future TRB bills that places the overall efficiency of the Texas public higher education over regional and local priorities by authorizing TRB requests according to a systematic ranking of projects by objective criteria.

Resources

[*Prepared Testimony of Chairman Fred Heldenfels IV Before the House Appropriations Committee*](#) by Fred Heldenfels IV, Texas Higher Education Coordinating Board (May 2012).

[*HB 100 Bill Analysis*](#), House Research Organization, 84th Texas Legislature (April 2015).

[*Winning the "Space Race": How Universities Can Maximize Existing Space to Reduce Tuitions*](#) by Thomas Lindsay, Texas Public Policy Foundation (Dec. 2014).

[*Center for Higher Education: 84th Texas Legislature in Review*](#) by Thomas Lindsay and Trevor McGuire, Texas Public Policy Foundation (Aug. 2015).

[*HB 100 Fiscal Note*](#), Conference Committee Report. Legislative Budget Board. 84th Texas Legislature (R) (May 2015).

[*Capital Expenditures Report FY 2016 to FY 2020*](#), Texas Higher Education Coordinating Board (Oct. 2015).

