

# 2019-20

# LEGISLATOR'S GUIDE to the Issues

## Tuition Revenue Bonds

### The Issue

In 1971, the Legislature began using bonds secured with the tuition revenue of public universities as part of the state's funding for capital expansion in public higher education. Two types of bond are used—revenue financing system bonds and tuition revenue bonds (TRBs). Both are secured with pledged future revenues of the university issuing the bonds.

The one difference between these two types of bonds explains the controversy surrounding TRBs. Unlike revenue financing system bonds, which are repaid by the university, TRBs are repaid in full—principal and interest—by the Texas Legislature.

No law or statute requires the Legislature to service TRB debt. Still, the Legislature does so with such regularity that the state's assumed responsibility for TRB debt service is often described as a custom or tradition. In 2015, with \$2.2 billion of previously issued TRB debt outstanding, the Legislature authorized HB 100, the single largest TRB bill in Texas history, set to cost \$3.109 billion in principal and \$2.24 billion in interest. By comparison, the Legislature appropriated approximately \$2.6 billion to retire TRB debt from 1971 to 2014.

TRBs were not widely used from 1971 to 2000. The \$1.08 billion in TRBs authorized in 2001 nearly doubled the amount of TRB authorizations to that point. In the aftermath of a special session in 2006, when \$1.86 billion in TRBs was authorized for 63 projects statewide, the Texas Higher Education Coordinating Board (THECB) was tasked with developing an objective process for evaluating TRB requests. Between 2007 and 2014, the coordinating board developed better tools for prioritizing capital project requests, such as the Space Use Efficiency (SUE) score. Only \$168 million in TRB debt was authorized during this time, most of which went toward financing emergency capital projects. This lull ended in 2015, when the Legislature more than tripled TRB debt.

Besides concerns with the growing cost of TRBs are concerns over how much scrutiny TRB requests actually face. Under standard practice, a majority of TRB requests are bundled into an omnibus TRB bill, passage of which authorizes many lower-priority projects that might not have received approval on their own. For example, if requests from schools with failing grades in all three SUE score categories (classroom, lab, and overall) had been removed from the 2015 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).

Despite opposition to the way TRBs are used, the most frequently touted alternatives are not without pitfalls. Replacing TRBs with general obligation bonds or direct funding from the economic stabilization fund would not address the need for an objective evaluation process of TRB requests. Public-private partnerships, often publicized as the future of capital expansion at public universities, are particularly inappropriate alternatives to TRBs.

Public-private partnerships generally require revenue-generating projects—dormitories, parking garages, cafeterias—but TRBs are legally restricted to financing projects that cannot generate their own revenue.

The problem of expensive construction projects will not be solved by simply changing how these projects are financed. The Legislature and universities need also to rethink the centrality of new construction. For instance, most university facilities are more expensive to replace than to renovate, with some facilities twice as expensive to replace than to renovate. Online learning presents another alternative, with schools such as the University of Florida (UF) and Brigham Young University-Idaho reporting such impressive savings from their online programs that they've been able to reduce tuition. Freshmen enrolled in UF's PaCE program—where the first year of classes are all online before moving on campus as sophomores—pay only 75% of what first-year residential students pay.

Even without a “silver bullet” solution for replacing TRBs, the Legislature has a number of policy options available to reduce higher-education costs. TRBs should be replaced with a more transparent funding mechanism that is less subject to political pressure, and that incentivizes prudent stewardship.

### The Facts

- From 1971 to 2014, the Legislature authorized TRB debt of approximately \$4.8 billion (including interest), \$2.2 billion of which had been retired at taxpayer expense as of August 31, 2014.
- In 2015, the 84th Texas Legislature passed HB 100, which authorized an additional \$5.35 billion in TRB debt (including interest), to be paid over a 20-year period.
- According to the Legislative Budget Board, TRB debt service on the bonds authorized by HB 100 costs the state approximately \$270 million per year. This debt will not be completely serviced until 2035.
- If TRBs from institutions with across-the-board failing SUE scores had been removed from HB 100, outstanding TRB debt in Texas would have been reduced by about \$1.04 billion—nearly one-fifth of the projected final cost of HB 100.

### 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. TRB bills should not authorize construction at schools with across-the-board failing SUE scores.
- 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

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from the current 10-year limit). Incorporate these bonds in a broader strategy for reducing the state's reliance on TRBs.

- Study various policies for incentivizing schools to reduce costs by renovating existing infrastructure instead of raising debt for new construction.
- Study and prioritize policies that accelerate the already rapid development of online education in Texas, especially where online degree plans and other online resources reduce the demand for new construction on Texas campuses.

## Resources

[HB 100 Fiscal Note](#), Legislative Budget Board, 84th Texas Legislature (May 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).

[Tuition Revenue Bonds: An Analysis of the History and Use of TRBs in Texas from 1971-2016](#) by Trevor McGuire, Texas Public Policy Foundation (June 2017).

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

