Texas Higher Education Coordinating Board

Exhibits to Accompany the Testimony of Chairman Fred Heldenfels

House Appropriations Committee
Subcommittee on Article III
May 8, 2012

Exhibit 4:

Survey of Facilities Funding Practices of Other States

CAPITAL FUNDING SURVEY COMMENTS (2010)

Alabama

In Alabama there is no regular funding for capital. What money the institutions receive from State funding is through occasional bond issues. The institutions can float bond issues and do so to pay for most of their capital needs.

Alaska

The State of Alaska Legislature is considering a constitutional amendment that would set aside a reserve fund for deferred maintenance, which would include an amount for public higher education. Most capital funding has historically been provided through student fees collected at the institution level. Some capital funding has been provided by the legislature (state) in recent years.

Arizona

Arizona constitution limits state general obligation debt to \$300,000; therefore, state has not issued debt on behalf of university system. Universities typically issue system revenue bonds, which are supported by all system revenues, including budget appropriations, tuition, fees, etc. University system relies heavily on state appropriations for capital needs; however, state appropriations for capital have historically been minimal or non-existent.

Arkansas

In 2007, the state in conjunction with the Arkansas Development Finance Authority were able to issue \$150 million in bonds for higher education facilities. In the 1990s the state had set aside \$24 million annually to pay the debt service on a \$300 million college savings bond issue. In 2007, some of those bonds had matured. Others bonds were non-recallable bonds (CAPs). However, with the assistance of investment professions Arkansas was able to "defease" those bonds and issue new bonds. Arkansas actually issued \$250 million in bonds but \$100 million was required to defease the existing bonds. Arkansas' limiting factor was the \$24 million debt service and the fact that the original \$300 million authority to issue bonds had been exhausted. It required a vote of the people in November of 2006 to give Arkansas the authority to issue another \$250 million in bonds. Fortunately, the reputation of the bonds issued in the 1990s was such that the voters overwhelmingly approved the proposition.

Delaware

Institutions may enter the bond market independently.

Florida

The State of Florida, by law, sets aside 10% of its Public Education facility allocation for facilities renewal and correction of life safety, firesafety, ADA, and similar maintenance issues. It is allocated by formula based on the age and gross square footage of all state educational facilities. However, Florida classifies these funds as capital rather than operating. Florida also mentions a Gross Receipts Tax on Utilities and Communications Services as earmarked funding for capital appropriations.

Illinois

Student Facility Fees

Iowa

New buildings are funded thru bonding or state appropriations. If bonding is the method of choice student tuition is pledged for repayment but the state back fills this amount. Revenue streams such as gambling and lottery are used for this. Rebuild Iowa Infrastructure is a fund with a dedicated revenue stream - tobacco settlement. This fund is used for funding M&R projects.

Kansas

In addition to other standard sources of revenue for capital funding, Kansas specifically mentions Mill Levy on Property Tax Evaluation as an earmarked source of funding.

Minnesota

Issues state general obligation bonds to cover the cost of renovation and maintenance of buildings. New buildings are also paid for with general obligations bonds with the universities responsible for 1/3.

Montana

New buildings and M&R funding are taken care of by the legislature. A variety of revenue streams are used: general funds, coal and cigarette taxes, and General Obligation Bonds.

Nebraska

M&R is funded through a cigarette tax and institutional funds. New buildings are funded thru the legislature and institutional funding. Nebraska requires 4-year institutions to allocate up to 2% of a total project cost annually for new construction, acquisition or major renovation projects into a building renewal fund (currently no new funds are being appropriated because of budget shortfalls).

Nevada

Revenue Bonds with debt repaid by a dedicated revenue source such as student fees.

North Dakota

State general funds are used for new buildings and M&R projects. Note: This information was obtained from **South** Dakota as part of a legislative report from 2009.

South Dakota

Capital expenses and M&R are not routinely funded with State General Fund Appropriations. Occassional funding is received for specific projects. Funding comes from 20% of tuition to support capitalneeds and M&R needs.

Texas

In addition to state sources: current revenue & bonds, local sources: property taxes & bonds, institutional bonds; land and mineral rights are a source of funding for capital appropriations.

West Virginia

In addition to state sources of funding, lottery revenue and tuition fees are indicated as sources of funding for capital appropriations. Most capital funding has historically been provided through student fees collected at the institution level. Some capital funding has been provided by the legislature (state) in recent years.

Wyoming

New buildings are funded through state appropriations and private donor funds. The state has a 50/50 program where it matches donations put forth by private donors for academic buildings. M&R is fund by state appropriations.

(SOURCE: 2010 Harris, D., Capital Funding Survey and Conversations with Respondents)

CAPITAL FUNDING UPDATES (2012)

CALIFORNIA

Public-Private Partnerships

The University of California has successfully employed Public-Private Partnerships (PPP) to deliver projects ranging from medical office buildings and research facilities to student apartments and hotels. For most institutions and governmental entities, a primary motivation for utilizing PPPs is access to capital. Because UC has robust financing capability, the University's focus when considering PPPs is on other beneficial aspects. These include risk allocation and the management efficiencies intrinsic to experienced private development teams, particularly those that specialize in a particular building type. It is anticipated that, as a delivery method, PPPs will be considered routinely as one of the means for delivering UC capital solutions. As an alternative delivery mechanism for on-campus capital projects, Public-Private Partnerships increasingly are being considered and successfully implemented. To date sixty-five (65) significant and eight smaller PPPs using a variety of transaction structures have been developed or are in planning stages. Four key PPP transaction structures (and the uses to which they are most applicable) include:

- Ground Lease (auxiliary use-i.e., revenue producing from third party tenant/users);
- Donor Development (Donor preference to control project delivery; typically programmatic use; used on or off UC land);
- Ground Lease-Leasebacks (programmatic use, UC is the user); and
- Developer Build-to-Suit for purchase by UC on completion (also known as Turnkey projects—typically programmatic use; best used off UC land). Ground Lease projects for auxiliary purposes include thirteen student and faculty rental housing projects, five faculty for sale housing projects (representing multiple phases and product types) and five motel and hotel projects. Donor development projects, where a donor assumes responsibility for funding and construction of 100 percent of a project, have been employed at four UC campuses and at two agricultural field stations. Given the University's success in executing PPP projects, this capital project delivery method is now considered alongside traditional delivery methods permitted under the Public Contract Code, particularly for auxiliary uses. While the University's excellent financing currently makes it unlikely that a PPP project can produce significant savings compared to a well run UC delivery method, particularly for programmatic projects, but even in these cases, the PPP approach may allow the University to augment its capital delivery system and shift project construction and operating risk. (SOURCE: 2011-21 Consolidated State & Non-State Capital Financial Plan)

LOUISIANA

Louisiana has set up private facilities corporations in which the private entity secures funds for new construction and renovation then leases to college for set period of time then controlling interest reverts to college once obligation is met. (SOURCE: Manns, D.)

MASSACHUSETTS

Massachusetts has in legislation a law that requires colleges and universities (public) to set aside 5% of their operating budget (rolling 3 year average) for deferred maintenance. (SOURCE: Manns, D.)

VIRGINIA

State Appropriations

State Appropriations can be General Fund (GF) or Non-general Funds (NGF) appropriations. GF appropriations typically are restricted to facilities supporting Educational and General Programs. NGF appropriations are provided for Sponsored Research, Auxiliary Enterprise or Hospital facilities. GF appropriations are supported by State tax dollars while NGF appropriations are derived from institutional funds.

State Bonds

Three types of bonds are issued by the state to finance capital projects. They are authorized in accordance with the requirements of Article X, Sections 9(b), 9(c), and 9(d) of the Virginia Constitution.

- 9(b) Bonds Legislative and voter approval are required for issuance of 9(b) debt. These bonds are rated triple "A". 9(b) bonds have been issued only twice since 1971 to finance projects at public institutions of higher education, the most recent being approved by voter referendum in 1992.
- 9(c) Bonds Revenue producing capital projects are funded through 9(c) debt. These bonds are rated triple "A" and are secured by the full faith and credit of the State. Net revenues derived from the use of the capital projects are expected to pay principal and interest on the 9(c) bonds. Generally, 9(c) bonds are used to finance Auxiliary Enterprise facilities, such as residence halls, parking decks and student recreational facilities. 9(c) debt must be approved by the General Assembly.
- 9(d) Bonds Unlike 9(b) and 9(c) bonds, 9(d) bonds do not carry the full faith and credit pledge of the State. 9(d) bonds may be issued by the State or the University.

Privatization Funding

Privatization funding refers to contractual arrangements between public and private entities in which public facilities are owned, operated or provided by the private entity. It is likely that debt issued through Privatization Funding will be at taxable rates of interest, up to 2.5% higher than equivalent tax exempt rates of interest under conventional public State funding. The advantages of Privatization Funding include faster design and construction and less demand on institutional debt capacity.

Lease Funding

Lease funding is a method of acquiring and financing capital projects through another entity that will own and lease the project to the institution. Virginia Commonwealth University makes use of Lease Funding trough its real estate foundation. The VCU Real Estate Foundation acquires and renovates property and then leases this property to the the University. Lease rates are based on the costs incurred by the Foundation for acquiring the property and typically reflect the market rate appropriate for the type and class of space being provided. All leases with the Foundation must be approved by the State.

Virginia Commonwealth University's capital budget is dynamic. Projects financed through State Appropriations and State Bonds must follow the conventional biennial State budgeting cycle and are authorized in the Appropriation Act. The majority of VCU's capital budget is developed based on this process. Privatization Funding and Lease Funding, however, offer financing alternatives outside the biennial State capital budget process, and thus can be undertaker anytime.

(SOURCE: http://www.fmd.vcu.edu/cp/funding.html) 11/2011