

OVERVIEW: TUITION REVENUE BONDS



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Tuition Revenue Bonds (TRBs) are generally used to provide funds to acquire, purchase, construct, improve, renovate, enlarge or equip property, buildings, structures, facilities, roads or related infrastructure on or for an eligible institution of higher education.

BACKGROUND

Universities, health-related institutions, Texas State Technical Colleges and Lamar State Colleges may issue tuition revenue bonds (TRBs) for capital projects after following a thorough review and authorization process. Institutions pledge certain revenues, which may include income from tuition charged to students, to service the debt. However, the Texas Legislature has historically appropriated general revenue to cover the annual cost of debt service.

Texas Education Code, Section 61.0572(e) defines the responsibility of the Coordinating Board regarding TRBs and limits its authority to evaluation and review of the projects in comparison with Coordinating Board standards. Authorization to issue a TRB must be obtained from the Texas Legislature through specific legislation, and Boards of Regents hold ultimate responsibility for project approvals.

TRBs may be used only as specified in the statute. Generally the bonds are used to provide funds to acquire, purchase, construct, improve, renovate, enlarge or equip property, buildings, structures, facilities, roads or related infrastructure on or for a university.

PROCESS FOR EVALUATION

Prior to a legislative session, the legislature will often direct the Coordinating Board to evaluate TRB requests submitted by institutions in their Legislative Appropriations Requests (LARs). The Coordinating Board solicits information and data from each institution about their TRB request and produces an analysis that examines factors such as efficiency, space need and the contribution to state goals for higher education. The legislature is in no way bound by the analysis, and has complete discretion to authorize the issuance of any or all TRBs through legislation.

Upon authorization from the legislature, institutions request project and financing approval from their respective board of regents and submit information about the project to the Coordinating Board for evaluation relative to existing state standards for facilities. If the project fails to meet state standards, the Coordinating Board reports the information to the institution, appropriate university system board, as well as the Governor and the legislature. Ultimately, state law authorizes the boards of regents of each

university system to approve or disapprove TRB projects based on information submitted by the institution and the analysis of the Coordinating Board.

Following board of regent approval, the institution or system then completes an application for the bond review board for the issuance of bonds to finance the project. The bond review board verifies the institution has approval for the issuance of the bonds, analyzes the project request to determine that the funds are available to service the debt, and confirms the financing system is appropriate. The attorney general then reviews and approves the issuance of the bonds and the institution or system sells the bonds and services the debt. Upon completion of the project funded by the TRB, the institution or system includes the facility (if appropriate) in its facilities inventory.

LEGISLATIVE HISTORY OF TUITION REVENUE BONDS

- The Texas Legislature first authorized \$267.5 million in TRBs for particular campuses in 1971 and 1973. By 1974, \$242.5 million in TRBs had been issued.
- In 1991, as part of the South Texas Border initiative, the 72nd-74th Texas Legislatures granted \$421.4 million in new bonding authority.
- In 1997, the 75th Texas Legislature authorized new bonding authority to 41 institutions, totaling \$638.4 million.
- In 2001, the 77th Texas Legislature authorized \$1.08 billion to 49 institutions.
- In 2003, the 78th Texas Legislature, regular session, authorized \$220.4 million to eight institutions, and the third called session authorized \$48.5 million for two institutions.
- In 2005, during the 79th Texas Legislature, regular session, higher education institutions initially requested \$3.1 billion in tuition revenue bond authority for 119 projects, requiring an annual debt service of \$286.7 million. The legislature did not act on these requests during the regular session.
- In 2006, during the 79th Texas Legislature, third called session, the legislature requested that the Coordinating Board develop new criteria by which TRB projects could be evaluated for funding decisions. A total of 155 proposals valued at \$4.5 billion were resubmitted for review and evaluation by the Coordinating Board using the new criteria. The legislature finally approved 63 projects totaling \$1.86 billion, but did not provide funding for the projects at that time.
- In 2007, the 80th Texas Legislature appropriated funding for the TRB projects approved during the previous legislative session.
- In 2007, the 80th Texas Legislature authorized \$13 million for Stephen F. Austin State University's nursing building.
- In 2009, the 81st Texas Legislature authorized \$155 million for two institutions – Texas A&M-Galveston, erosion control (\$5 million) and The University of Texas Medical Branch at Galveston, Hurricane Ike repairs (\$150 million).
- In 2011 and 2013, institutions of higher education submitted TRB project requests for consideration by the legislature. Legislation was filed but was not approved.

FINANCING WITH TRBS

- Fixed rate interest payments, also known as coupon payments, are distributed over the term of the note.
- Tuition, rentals, rates and other charges of an institution of higher education may be pledged to the bond payments.
- Historically, the state has paid the annual debt service of TRBs with general revenue appropriations.

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