



# TEXAS HIGHER EDUCATION COORDINATING BOARD

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March 15, 2007

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Mr. John O'Brien  
Executive Director  
Legislative Budget Board  
Robert E. Johnson Building, 5<sup>th</sup> Floor  
1501 N. Congress  
Austin, Texas 78701

Dear Mr. O'Brien:

The Coordinating Board has authorized me to forward to you the following **Educational Impact Statement on Senate Bill 146**, which would allow for the creation of higher education enhancement districts. After obtaining voter approval, such districts could levy a sales or property tax, or a combination thereof. Revenue raised by the district would be provided to universities (except Texas A&M University and The University of Texas at Austin) within the district for scholarships, endowments, and other purposes such as facilities, economic development, and cultural programs. The bill also outlines the process for creating and dissolving the district.

There are taxation implications for this bill that are outside the Coordinating Board's area of expertise, but that would have to be considered and overcome before funds would be available for higher education purposes. A few of these include:

- **Local tax limit:** Many areas of the state are currently at the maximum local sales tax rate of two percent. This bill will allow new tax districts to exceed the two percent limit. Part of a district may be at the cap at the same time another area is not.
- **Competition between taxing entities:** There may be competition between competing taxing authorities (i.e. community college districts, independent school districts, and transportation districts) for the limited amount of tax communities are willing to impose on themselves.
- **Changing tax rates:** If an area is at the two percent cap and does not want to go over, one entity must vote to reduce their tax rate before voters can consider a new tax. It is possible for voters to just reduce their taxes without adding a new tax. Area taxing entities may not be willing to take the risk of having their tax rate reduced and the higher education enhancement tax district not implemented.

If a district were able to overcome the above taxing issues, below are the higher education issues to be considered.

### **Higher Education Impact Considerations:**

1. **Regional Income Source:** Higher education enhancement districts could establish a local source of income that is currently not available to universities. This income source, depending on the population of the enhancement district, could supplement endowment and scholarship funds, support area cultural venues and programs and increase support for other areas of interest. The amount of funding that would likely be raised in each district may vary because of differences in the wealth of the region and their tax base. Estimates provided by the Comptroller's Office, based on a one-eighth of one percent sales tax, include ranges from \$2.7 million to \$83 million that would be generated. With a property tax rate of 1 cent, the amount of additional funds generated would range from \$1.5 million to \$26.4 million. There are also variations in the number of high school graduates in regions ranging from almost 2,500 graduates to 45,000 graduates. Each district would be able to award different amounts for scholarships depending on their ability to raise local funds.
2. **Local representation:** Local representation on the board of supervisors could result in better identification of local educational needs and faster response time from institutions in the development and implementation of programs to meet those needs.
3. **Economic Growth Potential:** A local tax might generate additional economic growth within the taxing district. By training and educating more citizens to do work that requires higher-level skills, more individuals would be able to obtain higher-paying jobs and stimulate the local economy with the taxes they pay on property, goods, and services.
4. **Competition for local tax revenues and services:** With the addition of regional taxing districts, the taxing ability of community colleges could be adversely affected. Voters would be asked to support both a community college district and a regional university enhancement district, which could cause confusion and increase competition between two-year and four-year institutions (or other taxing entities) for local funding. Support for existing community college districts could be withdrawn in some communities with the perception that more services would be offered by a regional university than a community college. Areas not currently part of a community college taxing district might elect not to support formation of or annexation to a community college taxing district even though those institutions generally have lower costs to students for degree programs.

5. **Mission statements and admission policies:** Institutions such as Texas Tech University, The University of Texas at Dallas, the University of Houston, Texas State University and others that recruit broadly could feel pressure to change their institutional missions to focus more on regional issues and to reduce enrollment in selective admission programs.
6. **Appropriations/funding:** With an additional funding source for regional universities, revenue sources would be disproportionate since regional universities' formulas are the same as those of institutions with a more statewide focus. It would be important to verify that these monies are not intended as a substitute for current general revenue. Community colleges would be disadvantaged since regional universities would continue to receive state funding for facilities in addition to funds from district taxes, but community colleges would continue to receive only local tax revenue for facilities. In addition, the current formula funding system could be jeopardized, resulting in two potential negative outcomes: (a) some funding could be redirected away from regional universities in lieu of local tax revenues or (b) state funding for regional universities could be reduced. Because of the differing amounts that could be raised with the same tax rate, some local areas would be at a disadvantage compared to other areas.
7. **Shift in state financial responsibility for university services:** With the creation of these districts, the burden of financial responsibility for providing regional university educational services could shift to the local taxpayers from the state. It would be helpful to develop a method of ensuring that these dollars could not replace general revenue in the formula.
8. **Tuition costs:** Community colleges offer education to taxpayers at a modest cost. Regional universities supported in part by local taxes could be pressured to reduce tuition costs to be competitive. In addition, regional universities typically recruit and serve students from multiple regions in Texas and outside of the state. Creation of taxing districts for regional universities may force these institutions to develop in-district vs. out-of-district tuition policies, which could in turn reduce the number of students enrolling from areas outside the enhancement district. Enhancement districts could decide to provide the dollars directly to students which would mitigate the need to have different rates.
9. **Off-campus instruction:** Many institutions offer courses and programs away from their main campuses. The establishment of regional university enhancement districts in addition to current

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community college service areas could create competition among institutions that have established good working relationships. Such action could disrupt effective cooperative work done by existing Higher Education Regional Councils, the discussion and planning bodies now reviewing institutions' plans for out-of-district, lower-division courses and programs. Once again this could be mitigated if the community colleges, technical colleges and state colleges were allowed in participate in the higher education enhancement districts.

**Summary:**

There are many unanswered questions concerning taxation that are outside the expertise of the Coordinating Board. The manner in which an enhancement district selected to implement a tax could have differing consequences. Since the bill is permissive, it would allow tax payers the flexibility to provide additional funding to their local universities, without forcing communities to institute additional taxes.

At best, it would give tax payers, through the election of a supervisory board, control over how the funds are to be used and would encourage additional students to consider higher education as an option with additional scholarships. The local board would have the flexibility to target services that would provide the most benefit to the local community. Also, institutions would benefit from an additional source of funding for student financial aid, institutional support, and facilities or economic development programs.

On the other hand, enhancement districts might cause in-fighting among taxing entities within a community and could be a dividing factor between independent school districts, community colleges, universities, and any of the local taxing entities that would be in competition for taxing authority. It could also cause disagreement between universities because of inequities in the amount of support that could be raised by taxing authorities in different areas of the state. Universities that have begun to recruit broadly may focus on a more narrow area. In addition, there is a concern that even though the original intent is not to have these funds replace state appropriations, in future years the Legislature could decide to shift some of the regional university funding to the local community.

Sincerely,

Raymund A. Paredes

c: Coordinating Board Members  
David Gardner

PA/nc