



Oklahoma
State
Senate

Legislative Brief

June 2005

HIGHER EDUCATION BOND ISSUE

Issue Background

In the 2004 legislative session higher education officials, noting that enrollment at colleges and universities in this state had increased by more than 20,000 students in the last four years, began lobbying the Legislature for a Five Hundred Million (\$500,000,000) Dollar Bond issue for capital improvements at institutions of higher education in this state. They pointed out that the last major bond issue for higher education was in 1992 and a large number of capital improvement needs had developed since then. Although the 2004 Legislature adjourned without approving this request, the Governor and Legislative leaders from both Houses of the Legislature indicated that this request would be a high priority for the 2005 Legislative Session. During the interim between the 2004 and 2005 Legislative Sessions the presidents of the various institutions of higher education in this state developed a comprehensive project list detailing their recommendations on how the proceeds of a Five Hundred Million Dollar bond issue should be allocated. With the passage in November, 2004, of State Questions 704 and 705 authorizing a state lottery a number of people began promoting the idea of using lottery proceeds to fund the debt service payments that a Five Hundred Million Dollar bond issue would require.

Legislative Measures:

Senate Bill 745 was introduced in the 2005 Legislative session as a measure which authorized a Five Hundred Million Dollar bond issue for capital improvements at institutions of higher education in this state. This measure set out the project list which had been developed in the interim by the college presidents. House Bill 1191 was originally introduced as a shell bill but a floor substitute was adopted on the House Floor which was eventually approved by both Houses and signed by the Governor. House Bill 1191 authorizes bonds for \$475 Million in projects at colleges and universities. This authorization is essentially the same as was contained in Senate Bill 745 which passed the Senate without opposition. This bill reduced funding for OU and OSU by Nine Million Dollars each. There was a reduction in funds for the Quartz Mountain Arts and Conference Center and funding for the One Net Telecommunications Network was removed. All of the other projects have exactly the same funding as was contained in the introduced version of Senate Bill 745.

Senate Bill 745 had the Oklahoma State Regents for Higher Education issuing the bonds with an option for bonds to be issued by the Oklahoma Capitol Improvement Authority or the Oklahoma Development Finance Authority. House Bill 1191 has the Oklahoma Capitol Improvement Authority issuing the bonds. That was a request from the Attorney General's Office. Like Senate Bill 745, House Bill 1191 also identifies lottery funds as the primary source of funds to be used to repay the bonds.

House Bill 1191 also modifies the current Master Lease program which is administered by the Oklahoma State Regents for Higher Education. Currently this program is used to provide financing to colleges and universities for the acquisition of items of personal property such as computers and equipment. The program allows the Oklahoma Development Finance Authority to sell bonds to provide funds to purchase these items in large quantities and then enter into lease purchase agreements with the colleges and

universities. The lease payments made by the schools to the ODFFA provide the funds used to pay off the Bonds. This financing mechanism has provided cost savings in the past for the acquisition of personal property. House Bill 1191 expands the Master Lease program to provide for the financing of acquisitions of or improvements to real property as well as personal property.

House Bill 1191 also authorizes the sale of Twenty-Five Million Dollars in bonds to provide for the establishment of a permanent revolving lease fund within the Master Lease program. The bonds would be paid off with lottery money. Lease payments made for projects financed with money from this fund would go back into the fund so that the money could be used again for other projects. Since lease payments will not have to cover any bond interest costs, the Regents can utilize money in this revolving fund to provide lower cost financing than could be provided through normal bond financing. The Regents will develop the criteria for how this program will work and how priorities will be established. The Regents can make financing from this fund available to all colleges and universities including OU and OSU.

House Bill 1191 also authorizes and provides procedures for the Board of Regents which governs OU to issue bonds for OU, the Board of Regents which governs OSU to issue bonds for OSU, and the State Board of Regents for Higher Education to issue bonds for all other colleges and universities. These bonds would be for capital projects at the respective universities and the various boards of regents would be authorized to pledge for the repayment of these bonds any monies lawfully available to them other than revenues appropriated by the Legislature from tax receipts.

A "Statement of Essential Facts" would have to be prepared for each proposed bond issue which would identify the revenue sources to be used to make bond payments. The State Regents would have to approve bonds issued by OU or OSU and the Legislature would be given the opportunity to disapprove any proposed bond issuance. The Legislature would have to be informed each year of any bonds proposed for that year and would have 45 days to pass a concurrent resolution disapproving such bonds.

The bill limits the term of the bonds depending on the type of asset to 5, 10 or 30 years and provides that the bonds would be tax exempt.

House Bill 1191 required the State Regents and the OU and OSU Regents to get a national credit rating at least once every 2 years. An annual audit of all entities that issue bonds or receive bond proceeds is required. House Bill 1191 also sets out legislative intent with regard to higher education in Tulsa.

Senate Bill 745 became a "cleanup" bill for House Bill 1191 and made numerous technical amendments to the language of House Bill 1191. Additionally it raised the limit on the size of a single transaction under the Master Lease Program dealing with the acquisition of real property from Ten Million Dollars (\$10,000,000) to Twenty-Five Million Dollars (\$25,000,000). It also changed the requirement that OU OSU and the State Regents get a credit rating every 2 years to a requirement that they get a credit rating "as deemed necessary and prudent by the State Bond Advisor."

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