

Testimony of William H. McRaven
Chancellor, The University of Texas System
Before the House Committee on Higher Education
May 3, 2017

***Delivered remarks often deviate from prepared remarks*

Mr. Chairman and Members:

My name is Bill McRaven and I am chancellor of The University of Texas System. Thank you for the opportunity to speak today about the effect that HJR 110 will have on the UT System.

I'd like to make a few points and then I will be happy to answer any questions you might have. Also with me is Terry Hull, our associate vice chancellor for finance.

First, most people assume that within the UT System the PUF only benefits only our flagship at UT Austin.

The fact is the PUF provides great benefits to all our institutions, to include UT Arlington, UT Dallas, UT San Antonio, UT RGV, UT El Paso, UT Tyler, UT Permian Basin and of course the six HRIs that serve over 7 million out patients a year.

This proposed constitutional amendment would effectively cap the value of the PUF at an estimated \$20.8 billion at the end of this fiscal year. Capping the value of the PUF has several effects:

At the average distribution rate of 5%--- distributions from the PUF to the Available University Fund would also be effectively capped at \$1 billion a year.

That means that as the university enrollment grows to meet the demands of the state, then the per-student amount gets smaller every year.

Also capping these distributions would mean the purchasing power of both the PUF and those annual distributions is reduced as inflation occurs.

Second, restricting the growth of the PUF would result in capping the constitutional debt capacity for UT System PUF bonds to about \$4 billion. That may sound like a lot, but consider:

- UT System currently has \$3.6 billion of outstanding and authorized, but unissued PUF bonds.
- Capping the PUF bonds would severely limit the future capital available for the 14 UT System institutions that use PUF bonds.

What also greatly concerns me is that by restricting the growth of the PUF this would very likely have a negative impact on the UT System and Texas A&M System credit ratings.

- One of the biggest strengths of the PUF is that it gives us the highest possible credit rating.
- A reduced credit rating will increase the cost of debt
 - not only for PUF bonds but...
 - for other debt issued by UT System, including legislatively funded tuition revenue bonds.

Finally, I would add that the PUF bonds we issue are tax-exempt because of a “grandfather provision” in the federal Internal Revenue Code.

Our financial officers advise that the proposed PUF II and PUF III will not fall within this “grandfather provision,” meaning that federal law would prohibit bonds issued under PUF II and PUF III from being tax-exempt.

Mr. Chairman and members, I would echo what Chairman Foster advised. We have applauded every initiative of this legislature to fund higher education, particularly those initiatives to grow more “Tier One” universities, both within and outside the UT System.

But I would ask that as you look for means to help more Texas universities become even greater, you do so in a manner that doesn’t hinder the continued excellence of the institutions of The University of Texas System.

Thank you.