

TEXAS HIGHER EDUCATION COORDINATING BOARD

MINUTES

Regular Quarterly Meeting

1200 East Anderson Lane, Austin, Texas

July 18-19, 2002

The Texas Higher Education Coordinating Board convened at 9:35 a.m. on July 18, 2002, with the following members present: Pamela P. Willeford, presiding; Neal W. Adams (present on Thursday only); Martin Basaldua M.D.; Ricardo G. Cigarroa, M.D; Kevin Eltife (present on Thursday only); Raul B. Fernandez; Cathy Obriotti Green; Gerry Griffin; Carey Hobbs; Adair Margo; Curtis Ransom; Robert Shepard; Windy Sitton; Terdema Ussery.

Board members not present: General Marc Cisneros; Jerry Farrington; Lorraine Perryman; Hector de J. Ruiz.

AGENDA ITEM	ACTION
I. Approval of Minutes of the April 18-19, 2002 meeting	On motion by Mr. Shepard, seconded by Mr. Hobbs, the minutes of the April 18-19, 2002 meeting were approved.
II. Major policy action	
A. Medical education in Texas	<p>No action required. Reports were given by:</p> <ul style="list-style-type: none"> • Dr. Marshall Hill, Assistant Commissioner, Universities and Health Related Institutions Division; • Roland Goertz, M.D., Chair of the Coordinating Board's Family Practice Residency Program Advisory Committee; • Patti Patterson, M.D., Vice President for Rural and Community Health, Texas Tech University Health Sciences Center; • John D. Stobo, M.D., President, The University of Texas Medical Branch at Galveston. <p>Senator Eliot Shapleigh and Representative Roberto Gutierrez also addressed the Board. Supplementary Agenda Materials were provided to the Board. A copy is on file with these minutes.</p>
III. Approval of Consent Calendar for entire meeting	Mr. Hobbs requested that item IX-I be removed from the Consent Calendar. On motion by Mr. Griffin, seconded by Ms. Margo, the Board adopted the Consent Calendar. Items on the Consent Calendar are: IV-A(3), IV-A(4), VI-L, IX-C and IX-H.
IV. Matters relating to the Committee on Participation and Success	
A. Consideration of reports to the Texas Legislature: <ol style="list-style-type: none"> 1. Report on the partnership plans to increase college-going rates (Section 29.903, Texas Education Code) and the Pilot Program for College Enrollment Workshops (Section 61.088, Texas Education Code and Section 40, page III-64, 2002-2003 General Appropriations Act), in accordance with House Bill 400, 77th Texas Legislature 	<ol style="list-style-type: none"> 1. On motion by Ms. Green, seconded by Dr. Cigarroa, the Board adopted the reports and authorized the Commissioner to distribute it to the Governor and the Texas Legislature.

AGENDA ITEM	ACTION
<p>2. Report on a plan, in conjunction with the Texas Education Agency, to ensure that students in elementary, junior, and senior high schools are adequately advised about the TEXAS Grant and other financial aid information, in accordance with Section 61.0776, Texas Education Code (SB 1057, 77th Texas Legislature)</p> <p>3. Report on establishing an agreement with private tax preparation firms and implementing a pilot program to assist college applicants in completing the federal financial aid application, in accordance with Section 41, page III-64, 2002-2003 General Appropriations Act</p> <p>4. Report on a study of the extent to which data captured for other agencies' programs can be used to establish financial aid eligibility, in accordance with Section 42, page III-65, 2002-2003 General Appropriations Act</p>	<p>2. On motion by Ms. Green, seconded by Mr. Ussery, the Board adopted the report.</p> <p>3. This item was adopted on the Consent Calendar.</p> <p>4. This item was adopted on the Consent Calendar.</p>
<p>B. Presentation by Regent Anne Armstrong, Texas A&M University System Board of Regents and Chair, Regents' Committee on Academic Affairs, and Leo Sayavedra, Vice Chancellor for Academic and Student Affairs, Texas A&M University System, on actions to mobilize Texas A&M University System component institutions to help reach the goals of <i>Closing the Gaps</i></p>	<p>No action required. Reports were given by:</p> <ul style="list-style-type: none"> • Anne Armstrong, Chair of the Texas A&M University System Board of Regents' Committee on Academic Affairs; • Dr. Lionel Sosa, Regent, Chair of the Committee on Access, Texas A&M University System Board of Regents; • Regent Dionel E. Aviles, Vice Chair of the Committee on Academic Affairs, Texas A&M University System Board of Regents.
<p>C. Report on the TEXAS Grant Program</p>	<p>No action required. A report was given by: Lois Hollis, Assistant Commissioner, Student Services Division.</p>
<p>D. Report on education preparation program promising practices</p>	<p>No action required.</p>
<p>E. Report on Statewide Higher Education Awareness and Motivational Campaign</p>	<p>No action required. A report was given by Lynn Denton, Director of Public Awareness and Motivation Campaign, Division of Participation and Success; and Dr. Felipe Alanis, Commissioner of Education.</p>
<p>F. Consideration of proposing amendments to Section 21.57 of Board rules, concerning increasing the annual and aggregate loan limits of the Hinson-Hazelwood College Access Loan (First consideration)</p>	<p>On motion by Ms. Green, seconded by Mr. Shepard, the Board proposed the amendments to Board rules.</p>
<p>G. Consideration of proposing amendments to Sections 21.590, 21.591 and 21.596 of Board rules, concerning the authority, scope and purpose of the program; the definition of service period, and repayment of education loans for the Border County Doctoral Faculty Education Loan Repayment Program (First consideration)</p>	<p>On motion by Ms. Green, seconded by Mr. Hobbs, the Board proposed the amendments to the Board rules. The rule as proposed is in the Agenda.</p>

AGENDA ITEM	ACTION
H. Consideration of proposing an amendment to Section 21.684 of Board Rules, concerning eligibility requirements for the Teach for Texas Alternative Certification Conditional Grant Program (First consideration)	On motion by Ms. Green, seconded by Ms. Sitton, the Board proposed the amendments to the Board rules. The rule as proposed is in the Agenda.
I. Consideration of proposing amendments to Section 5.11(e) of Board rules, concerning uniform use of the Common Admission Application (First consideration)	On motion by Ms. Green, seconded by Ms. Sitton, the Board proposed the amendments to the Board rules. The rule as proposed is in the Agenda.
V. Executive Session	
A. Discussion of pending litigation involving the Coordinating Board and the following parties: 1. South Texas College of Law 2. HEB Ministries, Inc.	Closed Session. A Certified Agenda is on file with these minutes.
VI. Matters relating to the Committee on Institutional Effectiveness and Excellence	
A. Report by Texas Association of Community Colleges on the economic impact study of community colleges in Texas	No action required. Reports were given by: Dr. Bill Crowe, President, Tyler Junior College and TACC; and Dr. Rey Garcia, Executive Director of TACC.
B. Report on allocations of federal Carl D. Perkins Vocational and Technical Education Act funds to colleges and consortia for Basic Grant, Tech-Prep, and State Leadership activities for program year 2002-2003	No action required. A report was given by: Rob Franks, Director of Perkins Grant Administration, Community and Technical Colleges Division.
C. Consideration of adopting Field of Study curriculum for Nursing (Second Consideration)	On motion by Mr. Griffin, seconded by Dr. Cigarroa, the Board adopted the Field of Study curriculum.
D. Allocation of trusteed funds related to graduate medical education 1. Consideration of recommendation by the Family Practice Residency Advisory Committee for allocation of funds for Fiscal Year 2003 2. Consideration of recommendation by the Primary Care Residency Advisory Committee for allocation of funds for primary care residency positions for Fiscal Year 2003 3. Consideration of authorizing the Commissioner to allocate funds for the Graduate Medical Education program for Fiscal Year 2003 4. Consideration of authorizing the Commissioner to allocate funds for the Resident Physician Compensation Program for Fiscal Year 2003 5. Consideration of authorizing the Commissioner to allocate funds for the Statewide Preceptorship Programs in Family Practice General Internal Medicine, and General Pediatrics for Fiscal Year 2003	On motion by Mr. Hobbs, seconded by Mr. Eltife, the Board authorized the allocations of Fiscal Year 2003 trusteed funds.
E. Consideration of Mission Statement and Table of Programs for Prairie View A&M University	On motion by Mr. Griffin, seconded by Dr. Cigarroa, the Board approved the revised mission statement and added planning authority for requested degree programs.

AGENDA ITEM	ACTION
<p>F. Consideration of approval and certification of adequacy of financing for new degree programs and administrative changes</p> <p>TEXAS SOUTHERN UNIVERSITY</p> <p>1. Master of Science in Health Care Administration (MSHCA) degree with major in Health Care Administration</p> <p>TEXAS TECH UNIVERSITY</p> <p>2. Doctor of Philosophy (PhD) degree with major in Hospitality Administration</p> <p>THE UNIVERSITY OF TEXAS AT BROWNSVILLE</p> <p>3. Bachelor of Applied Technology (BAT) degree with majors in Computer Information System Technology, Health Services Technology, Technology Application/Training, and Workforce Leadership/Supervision</p>	<p>A presentation and staff recommendations were provided by Dr. Marshall Hill, Assistant Commissioner, Division of Universities and Health-Related Institutions.</p> <p>1. On motion by Ms. Sitton, seconded by Dr. Cigarroa, the Board approved the new degree program.</p> <p>2. On motion by Ms. Sitton, seconded by Mr. Ransom, the Board approved the new degree program.</p> <p>3. On motion by Mr. Shepard, seconded by Dr. Cigarroa, the Board approved the new degree program with the condition that there be a report after three years on course transferability, participation, and success of BAT graduates.</p>
<p>G. Report on activities of the Transfer Issues Committee</p>	<p>No action required. Reports given by Dr. Millicent Valek, President, Brazosport College; and Dr. Flavius Killebrew, Vice President Academic Affairs, West Texas A&M University.</p>
<p>H. Consideration of projecting the need for medical education in Texas</p>	<p>A report was given by: Dr. Marshall Hill, Assistant Commissioner, Universities and Health-Related Institutions Division. Supplementary Agenda Materials were provided to the Board. A copy is on file with these minutes.</p> <p>On motion by Ms. Green, seconded by Ms. Sitton, the Board adopted the findings and recommendations on the study of the need for medical education in Texas with amendments to the second draft, pages 25 - 27. A copy of the amended pages can be found at Attachment A to these minutes.</p>
<p>I. Consideration of approval of a feasibility study regarding the creation of a doctor of medicine degree program at Prairie View A&M University, in accordance with Texas Education Code, Section 87.107 (House Bill 42, 77th Texas Legislature)</p>	<p>Representative Ruth McClendon, the author of House Bill 42, addressed the Board. A report was given by Dr. Marshall Hill, Assistant Commissioner, Universities and Health-Related Institutions Division.</p> <p>On motion by Dr. Cigarroa, seconded by Ms. Sitton, the Board voted (8 for and 5 against) to amend the committee recommendation as follows: delay making a recommendation until the committee has time to develop and consider a third option; prepare a revised report for the October Board meeting.</p> <p>Supplementary Agenda Materials were provided to the Board. A copy is on file with these minutes.</p>
<p>J. Consideration of the educational impact of Texas Education Code, Section 87.303 (House Bill 1640, 77th Texas Legislature), establishing a pharmacy school at Texas A&M University-Kingsville</p>	<p>On motion by Mr. Griffin, seconded by Ms. Sitton, the Board approved the Impact Statement and authorized the Board Chair to forward it to the Governor, Lt. Governor, Speaker, Chairs of the House Higher Education and Senate Education Committees, and the Board of Regents of the Texas A&M University System.</p>

AGENDA ITEM	ACTION
<p>K. Consideration of the educational impact of Texas Education Code, Section 86.981 (House Bill 910, 77th Texas Legislature), establishing the South Texas Center for Rural Public Health in McAllen</p>	<p>On motion by Mr. Shepard, seconded by Mr. Hobbs, the Board approved the Impact Statement and authorized the Board Chair to forward it to the Governor, Lt. Governor, Speaker, Chairs of the House Higher Education and Senate Education Committees, and the Board of Regents of the Texas A&M University System.</p>
<p>L. Consideration of adopting amendments to Section 5.153 of Board rules, concerning the requirement for Board approval before offering doctoral or special professional degree programs through distance education or off-campus instruction (Second Consideration)</p>	<p>This item was adopted on the Consent Calendar.</p>
<p>M. Report of compliance with recommendations resulting from Institutional Effectiveness peer review visits</p>	<p>No action required.</p>
<p>N. Consideration of proposing an amendment to Section 9.93(a) of Board rules, concerning certification of review of applicable skill standards in the design of the proposed curriculum (First consideration)</p>	<p>On motion by Mr. Shepard, seconded by Dr. Cigarroa, the Board proposed the amendments to the rules. The rules as proposed are in the Agenda.</p>
<p>VII. Matters relating to the Committee on Campus Planning</p>	
<p>A. Consideration of requests for Board approval of construction and rehabilitation projects and property purchases</p> <ol style="list-style-type: none"> 1. <u>University of North Texas</u> Purchase 1500 South Bonnie Brae Street, Denton 2. <u>University of North Texas</u> Purchase 911 North Texas Boulevard, Denton 3. <u>The University of Texas at San Antonio</u> Construct Biotechnology Sciences and Engineering Building 4. <u>The University of Texas at Austin</u> Renovate Benedict, Mezes and Batts Halls – Phase 1 5. <u>The University of Texas at Austin</u> Construct Jack S. Blanton Museum of Art – Phase 1 6. <u>The University of Texas – Pan American</u> Reapprove the Redesign and Rehabilitation of Main Entrance Site 7. <u>Texas Southern University</u> Renovate Leased Space in the Texas Medical Center 8. <u>Stephen F. Austin State University</u> Purchase 2201 North Street 	<ol style="list-style-type: none"> 1. On motion by Ms. Sitton, seconded by Mr. Fernandez, the Board approved purchase of the property. 2. On motion by Mr. Fernandez, seconded by Mr. Griffin, the Board approved purchase of the property. 3. On motion by Mr. Eltife, seconded by Mr. Fernandez, the Board approved the project. 4. On motion by Mr. Ransom, seconded by Mr. Griffin, the Board approved the project. 5. On motion by Mr. Eltife, seconded by Mr. Ransom, the Board approved the project. 6. On motion by Dr. Cigarroa, seconded by Dr. Basaldua, the Board approved the project. 7. On motion by Mr. Eltife, seconded by Mr. Griffin, the Board approved the project. 8. On motion by Mr. Eltife, seconded by Mr. Griffin, the Board approved purchase of the property.

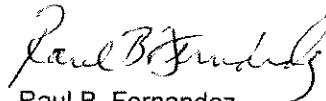
AGENDA ITEM	ACTION
<p>9. <u>Texas A&M University – Commerce</u> Renovate Temple Building</p> <p>10. <u>Texas Tech University</u> Construct Marsha Sharp Center for Student Athletes</p>	<p>9. On motion by Mr. Hobbs, seconded by Dr. Cigarroa, the Board approved the project.</p> <p>10. On motion by Ms. Sitton, seconded by Mr. Hobbs, the Board approved the project.</p>
<p>B. Campus Planning Committee actions</p>	<p>No action required.</p>
<p>C. Consideration of proposing amendments to Section 17.4(b) of Board rules, concerning authority of the Commissioner to re-approve projects (First Consideration)</p>	<p>On motion by Mr. Fernandez, seconded by Ms. Margo, the Board proposed the amendments to the rules. A copy of the rule as proposed is in the Agenda.</p>
<p>VIII. Commissioner's Report</p>	<p>No action required.</p>
<p>IX. Matters relating to the Committee on Administration and Financial Planning</p>	
<p>A. Meeting of committee with Internal Auditor</p>	<p>No action required. A copy of the Agenda for the Internal Audit Committee meeting is on file with these minutes.</p>
<p>B. Consideration of supplemental recommendations to formula funding recommendations approved at the April Board meeting</p>	<p>On motion by Ms. Sitton, seconded by Mr. Shepard, the Board adopted the core curriculum completers and field of study completers as additional measures of success supplements.</p> <p>On motion by Mr. Ransom, seconded by Ms. Green, the Board adopted an increase to 20 percent in the teaching experience supplement.</p> <p>On motion by Ms. Margo, seconded by Mr. Ransom, the Board approved the report and authorized the Commissioner to send the report to the Legislative Budget Board.</p>
<p>C. Consideration of funding formula for Texas A&M University System agencies located outside Brazos County in accordance with Section 50, page III-67, 2002-2003 General Appropriations Act</p>	<p>This item was adopted on the Consent Calendar.</p>
<p>D. Public hearing and consideration of the issuance of State of Texas College Student Loan Refunding Bonds, in an aggregate principal amount of up to \$147 million</p>	<p>On motion by Mr. Fernandez, seconded by Mr. Shepard, the Board authorized the staff, bond counsel and financial advisors to proceed with the necessary steps to issue up to \$103,190,000 in principal amount of state of Texas college student loan refunding bonds and authorize the review and approval of the final proposal by the Administration and Financial Planning Committee prior to the October meeting. Supplementary Agenda Materials were provided to the Board. A copy can be found at Attachment B to these minutes.</p>
<p>E. Consideration of a request to the Governor and the Legislative Budget Board to increase the Coordinating Board's capital budget to begin the migration of the student loan database from the mainframe to a server-based system in Fiscal Year 2003</p>	<p>On motion by Mr. Ransom, seconded by Ms. Margo, the Board approved the request of an increase of \$4,617,407 in the capital budget from student loan funds.</p>

AGENDA ITEM	ACTION
F. Consideration of the Coordinating Board's budget for Fiscal Year 2003	<p>On motion by Mr. Fernandez, seconded by Ms. Green, the Board approved the Coordinating Board budget for Fiscal Year 2003.</p> <p>Supplementary Agenda Materials were provided to the Board. A copy is on file with these minutes.</p>
G. Consideration of the Coordinating Board's Legislative Appropriation Request for the 2004-2005 biennium	<p>On motion by Mr. Shepard, seconded by Ms. Sitton, the Board approved the request to the Legislature for funding in FY 2004 and FY 2005 including the attachment to preserve our right to look at an increase for the Commissioner's salary.</p> <p>Supplementary Agenda Materials were provided to the Board. A copy is on file with these minutes.</p>
H. Consideration of a report on the disparity of salary and benefits between part-time and full-time faculty at institutions of higher education, in accordance with Section 61.0816, Texas Education Code (HB 2397, 77th Texas Legislature)	This item was adopted on the Consent Calendar.
I. Consideration of the allocation of funds trusted to the Coordinating Board for undergraduate medical education at Baylor College of Medicine, in accordance with the General Appropriation Act, Section 9, page III-56, 77th Texas Legislature	This item was removed from the Consent Calendar. On motion by Ms. Margo, seconded by Mr. Ransom, the Board approved the allocation.
J. Consideration of proposing new Board rules 1.80-1.83 concerning the procedures for correcting incorrect information contained in Board records (First Consideration)	<p>On motion by Mr. Shepard, seconded by Ms. Green, the Board proposed the new sections to the Board rules. A quorum was not present.</p> <p>On motion by Mr. Shepard, seconded by Dr. Cigarroa, the Board proposed the new sections to the Board rules. The rules as proposed are in the Agenda.</p>
X. Matters relating to the Committee Planning	
A. Consideration of the Annual Report on Progress Towards Closing the Gaps	<p>A report was given by Dr. David Gardner, Assistant Commissioner, Planning and Information Resources Division.</p> <p>On motion by Mr. Hobbs, seconded by Dr. Cigarroa, the Board adopted the report.</p>
B. Report on Methodology to Develop a Regional Plan for Texas Higher Education	No action required. A report was given by Dr. David Gardner, Assistant Commissioner, Planning and Information Resources Division.
XI. Matters relating to the Committee on Legislative Relations	
A. Discussion of Coordinating Board issues for the 78th Legislature	No action required. A report was given by Ms. Lora Weber, Office of Governmental Relations and Public Information.
XII. Matters relating to Board Operations	
A. Report on Sunset Review process	No action required. A report was given by Mr. Mike Collins, Assistant to the Commissioner.

AGENDA ITEM	ACTION
B. Report on 2002 Texas Higher Education Star Award process	No action required. A report was given by Dr. Glenda Barron, Assistant Commissioner, Community and Technical Colleges Division.
C. Report on Customer Service	No action required. A report was given by Mr. Mike Collins, Assistant to the Commissioner.
D. Discussion of actions taken during Board meeting to close the gaps	No action required.
E. Report on program and facilities decisions made by the Commissioner since the previous Board meeting	No action required.

Being no further business, the meeting adjourned at 10:57 a.m. on July 19, 2002.

Respectfully Submitted,



Raul B. Fernandez
Secretary of the Board

ATTACHMENT A

8. It does appear, however, that the location of residency training positively influences practice location, particularly in primary care disciplines.

B. "Opportunities" Issues

1. The state's higher education plan – *Closing the Gaps* – calls for major increases in the numbers of students participating in and succeeding in higher education by 2015. One anticipated aspect of that "success" is a significant increase in the number of students attaining baccalaureate degrees.
2. As compared to the 10 most populous states, Texas now offers its baccalaureate graduates – on a statewide level – *about an average level of opportunity* to attend an in-state medical school.
3. However,
 - *IF* Texas produces additional baccalaureate graduates
 - *and* the proportion of baccalaureate graduates seeking admission to (and qualified for entry into) the state's medical schools remains the same,
 - *and* the state wishes to continue to provide at least the same chance of entry into a Texas medical school that it now provides,
 - *THEN* the state must increase the number of openings available in its medical schools. The state could increase the class size of existing schools, increase the number of schools, or pursue some combination of both approaches.

V. **Summary Findings and Recommendations**

- A. Texas now has fewer physicians per 100,000 population than the national average, fewer than the 10 most populous states' average, and is at the low end of the U. S. Department of Health & Human Services recommended ratio of physicians per population. Texas' population is increasing; if the number of physicians does not increase, those ratios will become increasingly unfavorable.
- B. Texas – like many other states – also has physician maldistribution problems that continue to resist solution.
- C. Before creating new medical schools, expanding existing schools, or starting new extension initiatives, the Legislature should ensure that existing schools and regional academic health centers have funding sufficient to support their missions.

- D. An increase in the number of residency training opportunities in the state would probably yield additional numbers of physicians choosing to practice in Texas – whether they attended medical school in the state or elsewhere. The Legislature should consider efforts focused on increasing residency positions to the extent possible and consistent with the provision of high-quality residency training.
- E. To encourage physicians to practice in poorly served areas, the Legislature should consider additional funding to repay educational loans for physicians practicing in those areas.
- F. The Legislature should examine, and, to the extent possible, take steps to address issues that adversely affect physicians' decisions to remain in practice.
- G. Unless patterns of medical services delivery change markedly, an increasing population is likely to need additional medical services, provided by an increasing number of physicians. Therefore, over time, an additional number of physicians will be needed. To meet that need, while balancing important issues of opportunity, cost effectiveness, economic development, and other factors, the state should over time increase its in-state production of physicians by: a) increasing the class sizes at its smaller existing medical schools (Texas Tech University Health Sciences Center, Texas A&M University System Health Science Center, and the University of North Texas Health Science Center at Fort Worth) and b) carefully considering the creation of an additional school or schools.
- ~~H. If the class sizes of the state's smaller medical schools are increased, the state should consider establishing special programs that would help address critical issues affecting the provision of health care on a statewide basis, specifically the availability of physicians in rural and urban underserved areas and the ethnic diversity of the physician workforce. "The availability of physicians in rural and urban underserved areas and the under-representation of Hispanics and African-Americans are critical issues for Texas. The Coordinating Board will continue to examine these issues and forward additional findings and recommendations to the Legislature."~~
- I. If additional schools are created, they should be located where: a) areas of high population are served by significantly fewer than the state average number of physicians; b) the school location(s) could potentially address issues of geographic access, opportunity to attend medical school, and physician workforce diversity; and c) the state could build on significant prior

investments that it and other entities have made for the provision of medical education and services.

- J. Two areas of the state now meet each of those criteria: the El Paso region and the Lower Rio Grande Valley region. Appendix A-86 provides information on those two areas in regard to the criteria in G, above.
- K. Decisions about if, when, and where to create additional medical schools are, of course, legislative responsibilities that are carried out in the broad context of all of the state's needs, financial capabilities, and priorities. Nevertheless, because it takes considerable time to either develop or expand medical education, the Texas Legislature should give early attention to the issue.
- L. If the state does create a new medical school or schools, it should give careful attention to ensure that a strong, diverse resource base is available for support.

ATTACHMENT B

Supplementary Agenda Materials

Committee on Administration and Financial Planning

**Coordinating Board Meeting
July 18-19, 2002**

Agenda Item IX-D (Revised agenda item and blue and white pages)

Consideration of authorizing the issuance of up to \$103,190,000 in principal amount of State of Texas College Student Loan Refunding Bonds, in one or more series

The revised materials include:

Modification of the agenda item to more accurately reflect the action the Board will consider; and

New blue and white pages, including a specific description of the proposal for refunding student loan bonds and the staff recommendation for Board action.

AGENDA ITEM IX-D

Consideration of authorizing the issuance of up to \$103,190,000 in principal amount of State of Texas College Student Loan Refunding Bonds, in one or more series

- RECOMMENDATION: (1) Authorize the staff, bond counsel, and financial advisor to proceed with all necessary steps to issue up to \$103,190,000 in principal amount of State of Texas College Student Loan Refunding Bonds; and
- (2) Review and approval of the final proposal by the Administration and Financial Planning Committee prior to the October Board meeting

Background Information:

Student loan bonds issued in 1989, 1992, and 1993, with interest rates between 5.40 percent and 7.10 percent, are eligible for refunding. The outstanding principal on these three bond issues amounts to \$103,190,000.

The Federal Government establishes variable interest rates annually for the loans issued by the Board under the Federal Family Education Loan Program (FFELP). Effective July 1, 2002, the interest rate for *new* loans is 3.46 percent. The interest rates for the Board's approximately \$90 million in *existing* FFELP loans range from 3.46 to 5.01 percent, depending on when the loan was originated.

Following a preliminary analysis by the Board's financial advisor, First Southwest Company, staff requested that they prepare a proposal to refund \$103,190,000 in bonds, structured with \$90,000,000 as variable rate bonds and \$13,190,000 as fixed rate bonds (the final figures would depend on the exact amount of FFELP variable rate loans in the portfolio at the time of the sale). The First Southwest proposal is attached as white pages. The proposal contains two options: (1) issuing \$90 million in variable rate bonds and \$13,190,000 million in fixed rate bonds; and (2) issuing \$103,190,000 in variable rate bonds and swapping \$13,190,000 to fixed rates through a competitively bid swap agreement. There may be financial advantages to completing the issue as described in option (2) that are not present in option (1). Staff is awaiting a legal opinion from bond counsel assuring the Board that the proposal is legal and has no adverse tax consequences.

The benefits of refunding student loan bonds through a mix of variable and fixed rate bonds include reducing the negative yield produced by the difference between the bond interest rates and the loan interest rates; providing the opportunity to offer new loan products with variable (and currently historically low) interest rates; and providing the opportunity, in effect, to lower the interest rates for current student borrowers by rebating to them a portion of their payments.

Because of the complexity of the bond issue, staff has been advised that the refunding bonds should be sold on a negotiated basis. Staff proposes to engage in a Request for Proposal process that would identify, on a competitive basis, the underwriter for the sale. The negotiation for the actual sale prices of the bonds would occur at the time of the sale based on current interest rates. The RFP process for the underwriter could occur during the next three months, with the contract executed only after the Board votes to authorize the sale at its October meeting.

Staff is recommending that the Board authorize staff, in conjunction with the Board's bond counsel and financial advisor, to initiate the process to refund bonds. At the October Board meeting the Board would consider authorizing the sale of the refunding bonds. Because this is the first time the Board would be asked to authorize the refunding of student loan bonds, staff is also requesting that the Administration and Financial Planning Committee review and approve the final proposal before it is submitted to the Board for adoption.

Teri E. Flack, Deputy Commissioner, will explain the staff recommendation. A representative from the Board's financial advisor, First Southwest Company, and the Board's bond counsel, McCall, Parkhurst, & Horton, will be available to answer questions.

MEMORANDUM

TO: Texas Higher Education Coordinating Board (THECB)
FROM: First Southwest Company
DATE: July 2, 2002
SUBJECT: Refunding Analysis for Certain THECB Student Loan Bonds

The following is a summary analysis of THECB's staff recommendation for refunding 100% of the callable maturities of Series 1989, 1992, and 1993.

The staff's recommendation consists of issuing \$103,190,000 of refunding bonds, approximately \$90,000,000 to be sold as Variable Rate (multi-mode) bonds and \$13,190,000 as Fixed Rate bonds. The size of the Variable Rate portion would be determined prior to closing and would be dictated by the size of THECB's variable rate student loan portfolio (match funding of variable rate assets to variable rate debt). The \$13,190,000 portion would be sold either as traditional fixed rate bonds or be synthetically fixed through the issuance of variable rate bonds swapped to fixed rates through a competitively bid swap agreement. The decision to issue natural fixed rate bonds or to synthetically fix the bond rate would be determined by market conditions at the time of sale.

Summary of Financing Structure

1. Refund the maximum amount of the callable bonds, totaling \$103,190,000.
2. Refunding is sold on a negotiated basis, structured either as:
 - i) approximately \$90,000,000 of Variable Rate (multi-mode) bonds and \$13,190,000 of Fixed Rate bonds, or as
 - ii) \$103,190,000 Variable Rate bonds, with approximately \$13,190,000 of the issue swapped to fixed rates through a competitively bid swap agreement.

The reason for swapping to fixed rates, as opposed to selling natural fixed rate bonds, are: (a) there may be a net interest rate advantage to the swap (currently approximately 35 basis points), and (b) using swaps increases recycling capacity.

3. Requires a Liquidity Facility with coverage equal to the par amount of the bonds plus 220 days interest thereon and a Remarketing Agreement/Agent.

Bonds to be Refunded:	Series 89, 92, & 93 (callable maturities only)
Total Amount of Principal to be Refunded:	\$103,190,000.00
Principal Amount of New Bonds:	\$103,190,000.00
Closing Date of Refunding:	TBD
Redemption Date:	Any Date after August 1, 2002
Redemption Price:	100%
Coupons:	5.60% - 7.10%
Maturities:	2003-2017
Projected NPV Benefit based on rate assumptions:	TBD
Projected NPV Benefit as % of Principal Called (\$103.19 MM):	TBD
Estimated Cost of Issuance:	\$280,677 (\$2.72/bond)
Estimated Underwriter's Discount:	\$464,355 (\$4.50/bond) - all multi-mode bonds

Advantages:

- Achieves economic match funding of THECB loan portfolio, thereby eliminating the negative yield on the approximately \$90MM of variable rate FFELP loans that will go to a 4.06% interest rate on 7/1/02, against a current average outstanding bond interest rate of 5.534%. (Variable rate FFELP loans in the THECB portfolio will range from 3.4% to 5.01%. Even if one assumes the best possible case (5.01%), after allowing 1.00% for admin/servicing expenses, the effective rate is 4.01%).
- Provides the ability to annually reset the bond interest rate to avoid negative yield on variable rate FFELP for as long as variable rate FFELPs are outstanding.
- Creates the capability to offer an alternative loan product(s) as principal receipts are received from either the variable rate FFELP loans or the fixed rate CAL/HELP loans. (SEE ATTACHMENT A).
- Maximizes the amount of recycling capacity (\$90,000,000 or \$103,190,000 times X rollovers, depending on structure of the Fixed Rate tranche) that can be achieved over time. Should the Fixed Rate portion of the bonds be synthetically fixed through a swap, principal receipts from the underlying fixed rate loans could be utilized for loan recycling. Under a natural fixed rate structure, principal receipts would need to be gathered and held in a Bond Redemption fund to redeem bonds at their stated maturity. Recycling would be limited.
- Preserves the “floor-yield” FFELP potential (\$103,190,000 of bonds originally issued prior to 10/1/93).
- Preserves the ability to “sculpt” the debt (\$90,000,000 of the debt) to fit the loan pool in the future.
- Achieves maximum flexibility for redemption, or conversion to fixed rate, of bonds as FFELP loans (or variable rate alternative loans) mature or their origination is “sunset” (\$90,000,000 of the debt).
- Bonds can be refunded any date after 8/1/02 and prior to 8/1/03 (eliminates time pressure).
- Reserve Fund requirement decreases from current level.

Disadvantages:

- First time for a negotiated sale.
- First time for a State Liquidity Facility (discussions underway regarding availability of capacity).
- First time for a Remarketing Agreement/Agent.
- Requires analysis or verification of appropriate application of Department of Education “floor yield” rules.
- Rebate liability and yield adjustment payment, if any, is due 60 days after redemption of Series 89, 92 & 93 bond issues, rather than at Stated Maturity (true of any refunding structure). Rebate and yield reduction liability is under review.
- Costs of Issuance, Underwriter’s Discount and part of the Escrow (funding of the escrow is under review by Bond Counsel) must be funded from THECB “general loan repayment or auxiliary funds”. They cannot be financed from bond proceeds.
- The creation of a fixed rate alternative program would occur on or about the time of the sale of the refunding bonds. The interest rate and terms on the fixed alternative loan product would need to be set at that point and would need to be fixed.

ATTACHMENT A

The majority of THECB's currently outstanding student loan portfolio consists of fixed rate alternative (non-guaranteed) loans. Loans are currently originated with proceeds from Series 2002, and are offered at a fixed 7.50% interest rate. Loan volume is very low because, in the current interest rate environment a 7.50% fixed rate loan is not attractive to most student borrowers. THECB does not currently offer a variable rate loan product as an alternative or option to Texas student borrowers.

The refunding structure recommended by the THECB staff provides the opportunity for THECB to begin offering an alternative loan product(s) as student loan receipts are received through regular loan amortization (recycling of receipts). Both a fixed and variable loan could be offered.

The variable rate alternative loan interest rate could be adjusted to reflect the then current interest rate environment. The reset could occur annually as do other variable rate student loans. The fixed rate alternative loan interest rate would need to be determined at the time of the sale of the refunding bonds.

Next year there would be an opportunity to execute a new refunding (8/1/03 maturities only - nothing further is callable until 8/1/04) and increase the pool of recyclable dollars by approximately \$18 million.