

Overview of Possible Legislation to Modify the “50-Cent Debt Test”

Existing 50-Cent Debt Test

- ❑ Section 45.0031, Education Code, currently requires a school district to demonstrate prior to the issuance of new bonds that it has the ability to pay the principal and interest on its existing and new bonds from a maximum Interest & Sinking Fund (“I&S”) tax rate of 50.0 cents or less. A school district has the legal authority to repay their bonds over a 40-year period to comply with the 50-Cent Debt Test.

Proposed Legislation to Amend 50-Cent Debt Test by Providing a Local Option

- ❑ Provide a school district with the local option of shortening the repayment period of their bonds, thus reducing the interest cost borne by taxpayers by allowing such district to increase their I&S tax rate above 50.0 cents.
- ❑ A school district may only access this local option if it is able to demonstrate an actual interest cost savings of at least 10%.

Example – Denton ISD

- ❑ Assuming Denton ISD issues an additional \$250.0 million of bonds (i.e. the dollar amount sold over the last 3-years), Denton ISD is currently able to comply with the existing 50-Cent Debt Test, but would need to repay their bonds over a 40-year period and have an I&S tax rate of 49.4 cents. Interest cost would be \$731.8 million.
- ❑ In comparison, with an amendment to allow the local option, Denton ISD could use a repayment period of 25-years, a preference of the bond rating agencies. Denton ISD’s I&S tax rate would be approximately 63.1 cents; however, Denton ISD and its taxpayers would pay \$219.1 million and save \$512.7 million in interest costs and create additional debt capacity for future facility needs.

Summary Of Interest Cost Savings – Denton ISD			
Description	Example No. 1 – Structure To Meet 50-Cent Debt Test	Example No. 2 – Structure As 25 Year Level Annual Debt Amortization	Interest Cost Savings Due To 50-Cent Debt Test Amendment
Final Maturity Of Additional Bonds	40-Years	25-Years	15-Years
Maximum Interest & Sinking Fund Tax Rate	49.4 Cents	63.1 Cents	(13.7 Cents)
Estimated Interest Cost Of Additional Bonds	\$731.8 Million	\$219.1 Million	\$512.7 Million

Benefits of the Proposed 50-Cent Debt Test Amendment

- ❑ On a local option basis, provides flexibility to reduce the interest cost of school districts and taxpayers by millions of dollars, as bond repayments are reduced to less than 40-years.
- ❑ Generates future capacity within the Permanent School Fund Guarantee Program.
- ❑ Additional debt capacity is created for school districts to meet future facility needs at a lower I&S tax rate.
- ❑ Provides school districts the flexibility to meet published “bond repayment” guidelines of bond rating agencies, thereby potentially enhancing the bond ratings of Texas school districts.
- ❑ No new State funding programs are necessary.