

House Bill 3697: Relating to the issuance of certain tax-supported Bonds.

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TALKING POINTS

- **History of the “50-Cent Debt Test”**
 - In 1991, the Texas Legislature enacted **Senate Bill 351**, which included the introduction of the **“50-Cent Debt Test”** (the “Test”) for Texas school districts.
 - The **“50-Cent Debt Test”** is found in **Section 45.0031 of the Texas Education Code**. The **purpose of this legislation** was to **place a limitation on the issuance of tax-supported, school district bonds**. Prior to completing a bond sale, a **school district is required** to demonstrate to the Attorney General that it has the projected ability to **pay the principal and interest on its existing and the proposed bonds** from a **maximum Interest & Sinking (“I&S”) fund tax rate of 50-cents or less**.
 - Most school district bonds are sold with an **“unlimited” tax**, meaning a school district is able to raise its I&S tax rate to any amount necessary to repay the principal and interest on its bonds.
 - **Currently, a school district has the option to demonstrate compliance with the Test by pledging:**
 - Chapter 42 – Subchapter B portion of **Tier I State funding assistance**; and Chapter 46 – **Existing Debt Allotment (EDA)** and **Instructional Facilities Allotment (IFA) State funding assistance**.
 - To the extent a school district pledges the funds above, the **school district can only exceed a 50-cent I&S tax rate after using such funds to repay its bonds**.
 - In 2001, **House Bill 2888** was enacted.
 - **HB 2888 allowed school districts** to use a future **projection of taxable assessed valuation** in order to comply with the Test.
 - If a school district elects to **use a projection of future taxable assessed valuation** and later must **exceed a 50-cent I&S tax rate to repay its bonds**, the Test requires a **subsequent bond sale be limited** to a threshold of **45-cents**.
- **House Bill 3697 – As Proposed**
 - A **school district is required to demonstrate, on a pro forma basis**, that it has the **projected ability to pay the principal and interest** on its existing and new bonds **with an I&S tax rate of 50-cents or less**.
 - Once a school district passes the Test stated above, HB 3697 provides a school district with the **local option to issue new bonds with a shorter repayment period** if an **actual interest cost savings of at least 10% can be demonstrated**.

- **Benefits of the Proposed 50-Cent Debt Test Amendment** – Many school districts are being required to defer the repayment period on bonds in order to comply with the “50 Cent Debt Test”. Under current law, a school district has the ability to repay its bonds over a 40-year period.
 - The local option would enable a school district to reduce the repayment period on new bond sales, which could **reduce the interest costs of school districts and local taxpayers by millions.**
 - By reducing a school districts interest cost, a **lower I&S tax rate is required for bond sales needed in the future;**
 - Over time, shorter bond repayment periods **increase the capacity of the Permanent School Fund Guarantee Program.**
 - **A shorter bond repayment period** will enable school districts to comply with the **recommended “bond repayment guidelines”** of bond rating agencies, thereby **potentially improving a school district’s bond ratings.**

- **Possible Questions**
 - **Will the new H.B. 3697 amendment require** a school district to comply with the **new test?** *No, it is a local option. A school district can decide if it wishes to use the alternative test.*
 - **Can a school district exceed an I&S tax rate of 50-cents** by selecting the alternative test? *Yes, but a school district **must still demonstrate** to the Attorney General that it **can pass the “50-Cent Debt Test” on a pro forma basis** and also prove that it can issue the new bonds with a structure that saves **a minimum of 10% in interest costs.***
 - **Does this bill grant any new authority** or have **any fiscal impact** for the State? *No.*
 - **Why have** so many school districts **I&S tax rates recently exceeded 40 cents?** *The combination of two events has contributed to the recent increase of I&S tax rates. Texas **student population** has grown on average of 79,000 students over the last five years causing a dramatic need for additional school facilities and **construction costs** are estimated to have increased by 300% since the Test was enacted in year 1991.*
 - **Of the approximate 70 school districts** with an I&S tax rate **above 40-cents**, how many are **“Chapter 41” vs “Chapter 42”?** *The majority are “Chapter 42”*
 - **Of the approximate 70 school districts** with an I&S tax rate **above 40-cents**, how many are **“Fast Growth School Districts” versus “Non Fast Growth Districts”?** *It is split about 50/50.*
 - How much in interest costs can **potentially be saved by school districts and taxpayers?** *It is **difficult to quantify an exact savings** due to the number of variables, such as volume of bonds to be issued in the future, etc., but **the interest cost** on all **outstanding school district bonds** is currently **\$38.9 billion** and a **10% savings** would equal **\$3.89 billion.***