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HOUSE RESEARCH ORGANIZATION

special legislative report

1991
CONSTITUTIONAL AMENDMENTS: PART ONE

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Number 171

HOUSE RESEARCH ORGANIZATION

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July 8, 1991 Number 171

1991 CONSTITUTIONAL AMENDMENTS: PART ONE

Two proposed amendments to the Texas Constitution will be submitted for voter approval at an election to be held on Saturday, August 10, 1991. Nine other proposed amendments are scheduled to be submitted to the voters at the general election on November 5, 1991. The proposed amendments to be considered at the August 10 election are analyzed in this special legislative report; the other amendments will be analyzed in a subsequent report.

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CONSTITUTIONAL AMENDMENT PROCESS

Since its adoption in 1876, the Texas Constitution has been amended 327 times. This year will see two separate constitutional amendment elections, with two proposed amendments to be decided on Saturday, August 10, and nine at the general election on Tuesday, November 5.

Joint Resolutions

All amendments to the Texas Constitution must be proposed by the Texas Legislature in the form of joint resolutions, which must be submitted for voter approval. For example, SJR 42 on this year's ballot refers to Senate Joint Resolution number 42. Under Art. 17, sec. 1 of the Constitution, a joint resolution proposing a constitutional amendment must be adopted by a two-thirds vote of the membership of each of the two houses of the Legislature (100 votes in the House of Representatives; 21 votes in the Senate). The governor cannot veto a joint resolution.

A 1972 amendment to Art. 17, sec. 1 allows proposed constitutional amendments to be adopted by the Legislature during special sessions. Therefore, additional proposed constitutional amendments still could be submitted to the voters this year.

Contents of joint resolutions

Joint resolutions include the text of the proposed constitutional amendment and specify the date on which it will be submitted to the voters. A joint resolution may include more than one proposed amendment. If more than one amendment is submitted to the voters at the same election, the secretary of state conducts a random drawing and assigns a ballot number to each amendment.

Wording of ballot propositions

The joint resolution specifies the wording of the proposition that is to appear on the ballot. The Legislature has broad discretion concerning how the ballot proposition is to be worded. In rejecting challenges to proposed amendments on the basis that the ballot language was vague, incomplete or misleading, the courts generally have ruled that ballot language is sufficient if it identifies the proposed amendment for the voters. The courts have assumed that voters are already

familiar with the proposed amendments when they reach their polling place and do not rely solely on ballot language to make their decision.

Date of election

The Legislature may call a special election for voter consideration of proposed amendments on any date (as long as election authorities have sufficient time to provide notice to the voters and print the ballots). The last time that amendments were considered on an election date other than the November general election was 1975, when two proposed amendments concerning a legislative pay raise and public employee retirement were submitted to the voters in a special election held in April. The usual practice in recent years has been to submit most proposed amendments to the voters at the November general election in odd-numbered years.

Effective Date

Unless a later date is specified, joint resolutions proposing constitutional amendments take effect when the statewide majority vote approving the amendment is canvassed (i.e. when the votes are officially counted). Statewide election results are tabulated by the secretary of state and must be canvassed by the governor 15 to 30 days following the election.

Publication

Art. 17, sec. 1 of the Constitution requires that a brief explanatory statement of the nature of each proposed constitutional amendment, along with the wording of the ballot proposition for the proposed amendment, be published twice in each newspaper in the state that prints official notices. The first notice must be published no later than 50 days and no sooner than 60 days before the election. The second notice must be published on the same day of the subsequent week. Also, the secretary of state is to send a complete copy of each amendment to each county clerk, who must post it in the courthouse at least 30 days prior to the election.

The secretary of state prepares the explanatory statement, which must be approved by the attorney general. The Secretary of State's Office also arranges for the required newspaper publication, often by contracting with the Texas Press Association. The average estimated cost of publishing a proposed amendment twice in newspapers across the state is $60,000.

Implementing Legislation

Some constitutional amendments are self-enacting and require no additional legislation to implement their provisions. Other amendments grant general authority to the Legislature to enact legislation in a particular area or within certain guidelines. These amendments require implementing legislation to fill in the details of how the amendment will operate. The Legislature frequently adopts implementing legislation in advance, with the effective date of the legislation contingent on voter approval of a particular amendment. If the amendment is rejected by the voters, then the implementing bill, or at least those portions of the bill dependent on the constitutional change, does not take effect.

RESULTS OF THE 1990 CONSTITUTIONAL AMENDMENTS ELECTION

Only one proposed constitutional amendment appeared on the November 6, 1990, general-election ballot. The voters approved the proposed amendment, concerning the deadlines for Senate confirmation of gubernatorial appointments. According to the Secretary of State's Office, the final statewide results were:

For:	1,740,374 (65.5 percent)
Against:	916,162 (34.5 percent)

For additional information on last year's proposed amendment, see House Research Organization Special Legislative Report No. 161, *1990 Constitutional Amendment*, September 7, 1990.

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RGANIZATION constitutional amendment analysis

Amendment No.1
(SJR 42 by Green/Colbert)

IBJECT: County education district homestead exemptions, personal-property taxes

CKGROUND: Homestead exemptions. Under current law the state exempts from school-district property taxes a portion of the value of every residence homestead and allows local school districts to exempt additional value. About 25 percent of the districts grant the additional exemption. Both the state and some local school districts offer still other exemptions to disabled persons and persons at least 65 years old.

Residence homestead exemptions apply to the owner's principal residence, which may be a house and yard (up to 20 acres), condominium, townhouse or mobile home.

The exemptions are created under Art. 8, sec. I-b of the Texas Constitution. Art. 8, sec. I-b(c) exempts from public-school property taxes $5,000 of the market value of all residence homesteads. This mandatory statewide exemption is implemented by sec. 11.13(b) of the Tax Code. Sec. I-b(c) also permits the Legislature to exempt from public-school property taxes up to $10,000 of the market value of the homestead of a person who is disabled *or* is at least 65 years old. This optional statewide exemption is granted by sec. 1l.13(c) of the Tax Code. (A disabled person who is 65 or more may not receive both exemptions.)

According to the preliminary findings of the State Property Tax Board's *1990 Property Value Study of School and Appraisal Districts,* school district exemptions and abatements affecting state education aid totaled $38.5 billion in 1990. The mandatory statewide homestead exemptions accounted for more than 60 percent of this amount - $23.3 billion. A separate "freeze" on school taxes paid by persons when they reach age 65 (granted by Art. 8, sec. 1-b(d» accounted for another 30 percent, while tax abatements, "freeport" exemptions on goods in transit and other exemptions accounted for the remaining 10 percent.

In addition to the *statewide* exemptions, Art. 8, sec. 1-b permits the governing body of each political subdivision, including school districts, to grant further *local-option* homestead exemptions. Twenty percent of the market value of a homestead, or at least $5,000, may be exempted from

property taxes (sec. I-b(e)). Another $3,000 or more of the market value of the homestead of a person who is disabled or is at least 65 years old also may be exempted (sec. I-b(b)). (See chart in the NOTES section on page 8.)

About one-fourth of the over 1,050 school districts in Texas grant local-option homestead exemptions, with a total value of $15 billion, which affect more than 1 million homeowners (about one-fifth of all homeowners in the state).

In 1990, 267 school districts granted optional percentage homestead exemptions to all homeowners in the district, with a total value of $11.2 billion. Of these districts, more than 90 percent (241 of 267) granted the maximum 20 percent exemption. (See NOTES section on page 10).

School districts also granted $3.8 billion in local-option exemptions to elderly or disabled homeowners in 1990. About one-fifth of all districts (186 of more than 1,050) offered the exemption, which ranged from the minimum $3,000 value up to $267,290 (in Coppell ISD). Most districts (128 of the 186 granting the exemption) granted exemptions of $10,000 or less, while 10 districts exempted $30,000 or more. Some 335,000 elderly or disabled homeowners were affected by these exemptions. (Two-thirds of the districts offering the elderly or disabled exemption did not also grant a percentage-based homestead exemption for all taxpayers.) (See NOTES section on page 10.)

Taxation of personal property. A few school districts (90 in 1990) tax non-income-producing tangible personal property; most do not. Art. 8, sec. 1 (d)(2) of the Constitution permits the Legislature to exempt from property taxes non-income-producing tangible personal property, except manufactured homes, and this provision is implemented by sec. 11.14(a) of the Tax Code. However, sec. l(e) permits the governing body of each political subdivision to tax property that would otherwise be exempted under sec. 1(d).

Property that may be taxed under these provisions includes automobiles, mobile homes, boats and airplanes. In 1990 taxes on personal vehicles,

which accounted for the bulk of taxable personal property, generated $3.85 million.

County education districts. SB 351 by Parker, the school finance act approved by the 72nd Legislature in April, created 188 county education districts, most consisting of a single county, for the purpose of levying a mandatory local tax of 72 cents per $100 of property valuation (the tax will increase to $1 per $100 in 1994-95) and redistributing the revenue per student among the school districts within the county district.

The county education districts were established by "consolidating" the local school districts within their boundaries for the limited purpose of levying the tax, which will be used to fund the "first tier" of a multilevel school-finance plan using both state and locally raised funds. Each county education district is governed by a board of trustees appointed by the boards of the component school districts, which retain operational authority over their schools and the authority to levy property taxes beyond the tax levied by the county education district.

Because county education districts are new taxing entities, no provision has been made concerning whether they may grant local homestead exemptions or tax personal property.

SB 351, and the county education districts, are under challenge in state court. District Judge F. Scott McCown of Austin, who is hearing the challenge, has allowed SB 351 to remain in effect pending a ruling.

iEST: Amendment No. 1 would allow voters of a county education district to exempt from property taxes a percentage of the market value of a residence homestead or at least $5,000, as provided by law. (See NOTES, page 7 - the percentage provided by law would be 20 percent). A district's voters also could exempt $3,000 or more of the market value of the residence homestead of a person who is disabled or is at least 65 years old. (See NOTES, page 7 - the exemption provided by law would be $10,000).

The proposed amendment also would allow voters of a county education district to provide for a tax on non-income-producing tangible personal property in the district.

The governing body of a county education district could not grant the homestead exemptions nor impose the personal-property tax.

The amendment would specify that its references to a county education district would neither validate nor invalidate county education districts.

The ballot proposal reads: "The constitutional amendment to allow the voters of a county education district to adopt certain exemptions from the district's ad valorem taxation for residence homesteads and to provide for the taxation of certain tangible personal property."

SUPPORTERS SAY:

Amendment No.1 would correct a problem that arose with the passage of SB 351 by Parker, the recent school-finance bill, which created county education districts to collect and distribute certain property taxes. Without the amendment, past exemptions granted by local school districts will be lost, causing substantial increases in property taxes on certain residence homesteads.

Under SB 351, county education districts will be required to levy a tax of 72 cents per $100 of property valuation in the 1992 tax year, rising to $1 by 1995. Without homestead exemptions, this tax will cause many homeowners in the state to face greatly increased property taxes. The amendment would simply allow the homestead exemptions to be continued, but at the option of the *voters*, rather than the option of the county education district governing board.

In order to strengthen the state's case in its legal defense of SB 351, it was necessary to keep the county education district boards from having any discretionary authority over decisions concerning taxation. The "one person, one vote" standard - which might be violated by creating a governmental unit whose members represent independent school districts of different sized populations - and the federal Voting Rights Act - which prohibits dilution of the voting rights of minorities - would not apply to a governing body with no discretionary authority. The Constitution currently gives the governing body of a political subdivision the option of granting a homestead exemption and overriding the personal-property exemption. But since giving a county district board that discretionary authority might cause

legal problems, the proposed amendment would instead give this power to the *voters.*

Under lIB 2885 by Luna, enacted by the Legislature during its regular session, each county education district's election on the homestead exemption and on imposing personal-property taxation will take place on August 10, as will the election on the proposed constitutional amendment. If the state's voters approve the amendment, the exemptions would take effect as of the election date. Since property tax bills are scheduled to go out in October, it is not possible to wait until the November election date for either election. Although it is unusual to adopt a constitutional amendment and to take action under its implementing legislation almost simultaneously, there is no legal barrier to this procedure.

These tax exemptions would not affect the *state* aid received by a county education district or an independent school district, since property granted a local-option exemption is counted as fully taxable for purposes of calculating state aid. Adoption of the amendment also would have no effect on the pending legal challenges to the school-finance provisions of SB 351, since the amendment specifies that it is neutral on the issue of the validity of county education districts.

These proposed exemptions would be welcomed by residential property taxpayers, many of whom face sharply higher tax rates demanded by the new school-finance system. Older or disabled homeowners, who often live on fixed incomes, are especially in need of greater exemptions from increased taxes.

Allowing taxation of personal property would only give the county education districts the same access to local property wealth as local school districts and other local taxing entities already have. It also would help spread the increased tax burden more broadly by including those who own boats, recreational vehicles and similar expensive items.

lIB 2885, the implementing legislation for the proposed constitutional amendment, would limit to $10,000 the exemption for disabled persons or persons at least 65 years old. This would eliminate the disparity that exists

among the districts, which is illustrated vividly by the anomalous $267,290 exemption granted by Coppell ISD.

OPPONENTS SAY:

Only a minority of the school districts in Texas currently grant either the percentage homestead exemption or the flat-rate exemption to elderly or disabled persons. Offering voters an opportunity to grant themselves a tax break, rather than entrusting the decision to a governing body that can consider the budgetary ramifications of an exemption, would all but guarantee that the exemption will be granted in all county education districts. Adoption of these property-tax exemptions could give an unjustified windfall to the four-out-of-five homeowners across the state who now pay taxes on the full value of their homesteads (minus the mandatory statewide exemptions), and diminish the tax base of the county education districts. Even the districts that now grant exemptions for the elderly or disabled generally have chosen to exempt less than the $10,000 that would be required by lIB 2885, the implementing legislation for the constitutional amendment.

Allowing property tax exemptions by county education districts would only exacerbate the fiscal disparities that the new school finance bill is intended to alleviate. The impact of property tax exemptions on homesteads differs according to the type of property in a district, which is why they do not contribute to equality in school finance. A county that is largely residential would suffer a greater diminution of its tax base from the exemptions than one that contains primarily commercial property. This loss is not necessarily linked to the property wealth of a district. For instance, among independent school districts in Bexar County, Alamo Heights and Edgewood have the highest percentage of residential property, although they are at the opposite extremes in terms of property wealth.

Homestead exemptions shift the burden of local support of public schools from residential property to businesses. If homeowners are not taxed on the full value of their property, business have to make up the difference. Nearly 40 percent of the total school-district tax base is single-family residences ($252 billion of a total of $642 billion). Much of the rest is commercial and industrial real estate and personal property and utilities ($273 billion). Exempting a portion of one type of property unavoidably increases the tax burden on other types to make up the revenue lost.

The revenue produced by taxing non-income-producing personal property rarely covers even the cost of tracking and appraising individual automobiles, so few districts have chosen to impose this tax. However, in many cases voters already confused by an election on the proposed amendment as well as the three separate local-election questions inadvertently could approve personal-property taxation, causing unnecessary administrative problems and taxpayer resentment.

OTHER 'ONENTS ,"

The state already is forcing local districts to absorb too large a share of public school costs through local property taxes - now it would narrow the property base that must provide the local share of the public school funding. The state should absorb a much higher percentage of school expenditures in order to lessen the pressure on local property taxes and increase the equity of the school-finance system.

Rather than engage in the charade of establishing county education districts with no real authority, the state should forthrightly impose a statewide property tax that would allow the burden of supporting public education to be shared equally by all property owners.

rES:

Amendment No. 1 would allow the voters to set the exemptions as *provided by law.* Provisions in SB 351 specify in law that the percentage homestead exemption granted by county education districts would be the maximum percentage now permitted by Art. 8, sec. I-b(e) - 20 percent. HB 2885 by Luna, which amended various provisions of SB 351 and made other changes in school finance law, would set the county districts' elderly and disabled exemptions at $10,000. HB 2885 also added the option of taxing non-income-producing personal property.

RESIDENTIAL PUBLIC EDUCATION PROPERTY TAX EXEMPTIONS

		HOMESTEAD	OVER 65 or DISABLED
CURRENT	STATEWIDE: (mandatory)	$5,000	$10,000
	LOCAL OPTION: • School Districts	up to 20% (at least $5,000)	$3,000 or more
SJR 42	• County Education Districts	20%	$10,000

The propositions before the voters at the August 10 election concerning the percentage homestead exemption, the elderly or disabled exemption and the taxation of personal property will appear as three separate questions on the ballot (in addition to the fourth, separate question on approval of the proposed constitutional amendment). The local elections will be conducted by independent school districts. The school districts will deliver the canvass of the vote to county education boards of trustees, which will conduct a final canvass and tabulate the total number of votes received. Each proposition will be approved only **if** it receives the majority of votes within each county education district, regardless of the distribution of votes within the school districts comprising the county district.

School districts that are located in more than one county are assigned to the county education district containing the county where the school district's administrative offices are located. For example, even though part of the Goose Creek CISD (Baytown) is located in Chambers County, voters in the portion of Chambers County covered by the Goose Creek district will be deciding taxation policies for the county education district composed of Harris County, where the Goose Creek district's administrative offices are located.

Attorneys for some property-wealthy school districts have charged that county education districts violate the federal Voting Rights Act (42 U.S.C. §1973 et seq.) and the equal protection provisions of the U.S. Constitution (Amendments 14 and 15), since the board of the county education districts is composed of one member from each school district, without regard to the district's size, allowing smaller districts to have representation far greater than is justified by their population. This system also would in many cases effectively deny access by minorities to representation on the boards, say the challengers.

The state has responded that since the county education districts governing bodies have no discretionary authority to set policy or take other actions but were established only to carry out state law, the representation requirements for elected governing bodies do not apply.

The districts challenging SB 351 also claim that county education districts are a subterfuge designed to circumvent the state constitutional prohibition (based on the 1931 Texas Supreme Court decision *Love* v. *City of Dallas*, 40 S.W.2d 20) against using taxes from one school district to pay educational costs in another school district. The challengers charge that the county-district tax, which would be imposed at the same minimum rate in all counties, amounts to a statewide property tax, which is prohibited by the Art. 8. sec. 1-e of the Texas Constitution. They also say that SB 351 violates the state constitutional requirement (Art. 7, sec. 3-b) that school districts receive citizen authorization through an election before levying taxes. The bill gives county education districts a portion of the taxing authority granted to component school districts, without an additional election, the challengers charge.

The state has responded that since the tax will be levied by the county education districts, not the school districts, there will be no shift from one school district to another of the revenue raised. The state argues that since the county education districts, not the state, will levy the tax, and the revenue will be distributed per student within the county education district, not statewide, the prohibition against a state property tax does not apply.

The state also asserts that the lack of a new tax-authorization election is specifically contemplated by Art. 7, sec. 3-b of the Constitution, which does not require an authorization election when new districts are created from old districts with pre-existing authorizations. This provision also applies when districts are

partially consolidated, as in the formation of county education districts, says the state.

In 1990, 267 school districts granted local-option percentage homestead exemptions with a total value of $11.2 billion. Of these districts, more than 90 percent (241 of 267) granted the maximum 20 percent exemption. The largest losses in value due to local-option exemption were in Houston Independent School District (20 percent exemption, $2.56 billion value lost), Dallas ISD (10 percent, $1.24 billion), Spring Branch ISD (20 percent, $824 million), Richardson ISD (15 percent, $746 million), Highland Park ISD (20 percent, $561 million), Cypress-Fairbanks ISD (20 percent, $518 million) and Irving ISD (20 percent, $334 million).

The largest losses in taxable value caused by the local-option, elderly-or-disabled exemption in 1990 in the 186 school districts offering the exemption were in the Dallas ISD ($60,000 exemption, $1.25 billion value loss), Austin ISD ($25,000 exemption, $380 million), Corpus Christi ISD ($60,000 exemption, $343 million), Houston ISD ($5,000 exemption, $297 million), North East ISD ($13,330 exemption, $163 million) and Spring Branch ISD ($21,400 exemption, $145 million).

3JECT: Authorizing $300 million in state bonds for student loans

BACKGROUND: Art. 3, sec. 49 of the Texas Constitution prohibits the Legislature from creating state debt without specific authorization in the Constitution. Art. 3, sec. 50 of the Constitution prohibits the Legislature from lending the credit of the state without specific constitutional authorization. Sees. 51 and 52 prohibit use of public funds for grants and loans to individuals.

Voters have approved numerous amendments to sees. 49 and 50 authorizing state debt in the form of state general-obligation bonds for college student loans, college and university land and buildings, farm and ranch loans and loan security, state park development, support for the superconducting super collider, correctional and mental health facilities, new product development and production and small business incubator funds, water development and veterans loans for land and housing. Repayment, with interest, of money raised from the sale of general obligation bonds is guaranteed by the state from the first money coming into the state Treasury each fiscal year.

Art. 3, sec. 50b, adopted in 1965, authorized the Legislature to allow the Texas Higher Education Coordinating Board to issue up to $85 million in general obligation bonds for loans to Texas residents who attend public or private institutions of higher education in Texas. Another $200 million for these loans was authorized in 1969, by sec. 50b-l, and an additional $75 million was authorized in 1989, by sec. 50b-2.

Several student loan programs are administered through the Texas Opportunity Plan Fund by the coordinating board under the umbrella of the Hinson-Hazlewood College Student Loan Program. The Hinson-Hazlewood program offers federally guaranteed student loans backed by the U.S. Department of Education, supplemental loans made primarily to students without family fmancial support whose need exceeds what they can borrow under the guaranteed loan programs, health education assistance loans (some backed by the U.S. Department of Health and Human Services) and College Access Loans made primarily to middle-income students.

To qualify for the loan programs, students must be Texas residents or eligible to pay in-state tuition and, except for the College Access Loans, must be financially needy. In fiscal 1990 about 26,000 students received about $81 million in loans. All loans are guaranteed by the federal government, the state or a co-signer.

DIGEST:

Amendment No.2 would add sec. 50b-3 to the Constitution, authorizing the Legislature to allow the Texas Higher Education Coordinating Board to issue up to $300 million in general obligation bonds to finance educational loans to college and university students.

The maximum interest rate would be set by law. An interest and sinking fund would be established to pay the principal of and interest on the bonds as they mature. The Legislature could provide for the investment of bond proceeds and the interest and sinking fund.

The ballot proposal reads: "The constitutional amendment providing for the issuance of general obligation bonds to provide educational loans to students."

SUPPORTERS SAY:

The additional $300 million in general-obligation bond authority is necessary so that the Texas Higher Education Coordinating Board can meet the spring 1992 demand for student loans to financially needy students. Hinson-Hazlewood loans, which have been funded with general-obligation bonds since 1965, serve about 26,000 students a year who otherwise could not afford to attend college; without immediate new bond authorization these students will not have enough money to enroll next year.

Access to higher education for many students is determined by the availability and affordability of loans. The state has a responsibility to continue to offer financial aid to students and to continue to support the 26,000 who already depend on the loan program. Hinson-Hazlewood loans are attractive to students because they are generally 1 percent to 4 percent below the interest rate charged by commercial lenders for student loans.

The Hinson-Hazlewood program usually operates as a revolving, self-supporting fund. Loan repayments, with interest, are used to retire the bonds and to provide new loans. But because most of the many loans made in recent years are not yet due, the loan fund has not been replenished with loan payments. The bonds issued under this amendment would help fund the program until payments on recent loans begin to come in.

In January 1991 the coordinating board sold $25 million in general-obligation bonds, exhausting its current authority. The additional $300 million in bonds should fund the Hinson-Hazlewood programs for at least three years. SB 104 by Barrientos, enacted by the 72nd Legislature, would limit the bond sales to $100 million a year, enough to cover current demand of $80 million, plus an anticipated increase in loan requests of $20 million. A smaller bond-sale authorization would only force the coordinating board to request additional authority within the next two years or to request authority to sell revenue bonds, which are more expensive for the state.

Because general obligation bonds are guaranteed by the state, they are a secure investment that is attractive to buyers. General obligation bonds cost the state less in interest than revenue bonds, which are not backed by the full faith and credit of the state and therefore must be offered at a higher interest rate in order to attract investors.

The 72nd Legislature enacted HB 686, authorizing the coordinating board to issue up to $75 million in revenue bonds for student loans. The board is planning on using the revenue bonds only to meet the fall 1991 demand. This will be the first time the board has issued more costly revenue bonds. The board needs the general obligation bonds authorized by Amendment No.2 to meet the loan demand for spring 1992 and beyond. HB 686 prohibits the coordinating board from issuing additional, more expensive, revenue bonds if voters approve the constitutional amendment allowing general obligation bonds to be issued.

Changes in federal financial aid programs and the 1987 creation of the College Access Loan Program (designed to give students from middle-

class families loans for college educations) have caused the demand for Hinson-Hazlewood loans to increase from $12 million in 1986 to about $80 million in 1990. These factors, along with the increasing cost of a college education and increasing numbers of students, will cause the demand for Hinson-Hazlewood loans to continue to increase.

College Access Loans were suspended in September 1990 because of the shortage of funds. This loan program is important to many middle-class families and has been the best source of loan funds for students whose families' incomes make them ineligible for guaranteed student loans. The bonds that would be authorized by Amendment No.2 would allow the continuation of the College Access Loan program.

Unlike state bonds for financing prisons or the superconducting super collider, the student loan bonds that would be authorized by Amendment No.2 would be paid back, with interest, by borrowers, *not* by state taxpayers. The Bond Review Board classifies coordinating board college student-loan bonds as "self-supporting" and does not expect them to draw on general revenue. The default rate on Hinson-Hazlewood loans is low, about 5 percent. Almost all of the coordinating board's student loans are insured by the federal government, so repayment is assured even if students default on the loans. The few loans not guaranteed by the federal government or the state have a co-signer who can be held responsible for the loan if the student defaults.

The college loan bonds would be even more attractive to buyers because under SB 103, enacted by the 72nd Legislature, the coordinating board will be able to issue them as part of the limited number of "private activity" bonds that the federal government allows the state to issue annually. Although the bonds proceeds are used for private purposes, since they are issued by government entities the interest return is exempt from income taxes. Because the interest is tax-exempt, the interest rate on the bonds need not be as high in order to attract investors.

OPPONENTS SAY:

The state should not sink further into debt. As of May 31, 1991 the state bond debt totaled $7.7 billion, of which $3.0 billion was in general obligation bonds. This is up from $2.7 billion in general-obligation bond debt at the end of fiscal 1990 and $2.3 billion at the end of fiscal 1989. Another $3.0 billion in general-obligation bond authority has been approved, but the bonds have not yet been issued.

Any new debt-creating measure needs to be examined in view of the overall state debt. Although Texas ranks 49th among states in terms of state debt per capita, the state ranks 18th among states in terms of debt per capita, when debt carried by local authorities also is considered. Of the 10 largest states, Texas has the highest local debt burden. The Legislature needs a comprehensive evaluation of the state's debt structure and its future before more new debt is authorized.

NOTES:

The Legislative Budget Board estimates that annual debt service on $300 million in bonds would be approximately $28.5 million.