SUBJECT: $400 million in bonds for student loans

COMMITTEE: Financial Institutions— favorable, without amendment

VOTE: 8 ayes — Marchant, Carona, Elkins, Giddings, Grusendorf, Gutierrez, Patterson, Romo

0 nays

1 absent — Hudson

WITNESSES: For — Carol McDonald, Independent Colleges and Universities, Inc.

Against — None

On — Kenneth Ashworth, Mack C. Adams and James McWhorter, Texas Higher Education Coordinating Board

BACKGROUND: Texas voters have approved a total of $660 million in general obligation bonds since 1965 for the state's Hinson-Hazlewood College Student Loan Program. The latest vote, in 1991, authorized $300 million in bonds. All but $50 million of the bonds authorized have been sold.

Art. 3, sec. 49, of the Texas Constitution prohibits state debt, but voters have amended the article numerous times to authorize debt in the form of general obligation bonds. Repayment of debt from general obligation bonds is guaranteed by the state, and payments are made from the first money coming into the Treasury each year.

The amendments for the Hinson-Hazlewood Program are found in Art. 3, sec. 50b, adopted in 1965, for $85 million in general obligation bonds for loans to Texas residents who attend public or private institutions of higher education in Texas; $200 million authorized in 1969, by sec. 50b-1; $75 million in 1989, by sec. 50b-2; and $300 million in 1991, by sec. 50b-3.

Education Code sec. 52.82 (d) prohibits the higher education coordinating board from issuing more than $100 million in bonds a year. The bonds are subject to review and approval of the Bond Review Board.

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 (HHCSLP).

DIGEST:

HJR 50 would authorize the Legislature to allow the Texas Higher Education Coordinating Board to issue up to $400 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.

A sufficient amount of monies would be appropriated each fiscal year to pay the principal and interest on outstanding bonds, not covered by the interest and sinking fund.

HJR 50 would be submitted to voters during the first election in which any constitutional amendment was submitted by the Legislature, or on November 7, 1995, whichever occurred first.

The ballot proposal would read: "The constitutional amendment providing for the issuance of $400 million in general obligation bonds to fiance educational loans to students."

SUPPORTERS SAY:

The state bonds authorized by HJR 50 are necessary so that the Higher Education Coordinating Board can meet the demand for student loans to financially needy students. If HJR 50 is not approved, approximately 10,000 college students will not receive Hinson-Hazlewood loans and will not have enough money to enroll in the spring semester of 1996. Hinson-Hazlewood loans go only to students who otherwise could not afford to attend college.

The additional $400 million in bonds authorized by HJR 50 should fund the Hinson-Hazlewood program for the next four to five years. A smaller bond-sale authorization would 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.

The Hinson-Hazlewood program has assisted more than 223,000 needy Texas students by lending more than $900 million in student loans. In fiscal 1994 the program assisted over 19,000 students.

The Hinson-Hazlewood program operates as a self-supporting fund, 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 from HJR 50 would help fund the program until payments on recent loans begin to come in.

Unlike state bonds that are utilized for financing large capital projects, like prisons for example, the bonds authorized by HJR 50 would be paid back by borrowers, with interest, and 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. Therefore, these bonds do not affect the state's debt-limit ratio.

The default rate on Hinson-Hazlewood loans is below 5 percent. Nearly 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 guarantee fund have a co-signer who could be held responsible for the loan if the student defaults.

Since 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.

The future of 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 thousands of students who depend on the loan program. Hinson-Hazlewood loans are attractive to students because they offer a 1 percent rebate that is applied to the principal of the loan. Commercial lenders do not offer this benefit on student loans.

OPPONENTS SAY: The state should be wary of piling up additional debt. As of November 30, 1994 the state bond debt totaled $10.1 billion, of which 4.5 billion was general obligation bonds. Any new debt-creating measure needs to be examined in view of the overall debt.

NOTES: HB 686 by Hernandez, also on today's calendar, would implement provisions of HJR 50.

The LBB estimates that if $400 million in bonds were sold, debt service would be approximately $3.6 million in fiscal year 1996, $9.9 million in FY 1997, $15.3 million in FY 1998, $20.8 million in FY 1999 and $28.3 million in FY 2000. The LBB estimates the cost of a constitutional amendment election at $90,000.