

SUBJECT: Changing limits on issuance of tax-supported bonds by school districts

COMMITTEE: Public Education — committee substitute recommended

VOTE: 8 ayes — Sadler, Dunnam, Grusendorf, Hardcastle, Hochberg, Oliveira, Olivo, Smith

0 nays

1 absent — Dutton

WITNESSES: For — David Dunn, Texas Association of School Boards; Mike Jolly; Jeff Robert, First Southwest Company; Keith Sockwell, Northwest ISD; Lou Spiegel, Mansfield ISD; David Thompson, Texas Association of School Administrators; Steve West, Allen ISD

Against — None

BACKGROUND: Education Code, sec. 45.003(e) provides that prior to issuing bonds, a school district must demonstrate to the attorney general (AG) that the district has a projected ability to pay the principal and interest of both the proposed bonds and any existing bonds, under a tax rate not to exceed \$0.50 per \$100 of property valuation, also known as the “fifty-cent rule.” If a district’s ability to comply is contingent on state assistance, the district may not adopt a tax rate for a year for purposes of paying principal and interest of bonds unless the district credits the state assistance it receives to the bonds’ interest and sinking fund.

DIGEST: HB 2888 would add sec. 45.0031 to the Education Code to create limitations on the issuance of tax-supported bonds. The bill would retain the requirement that a district demonstrate projected ability to pay bond principal and interest under the fifty-cent rule and would provide two means for compliance.

First, a district could demonstrate ability to pay by using the most recent taxable value of property in the district, plus state assistance from the Foundation School Program (FSP), Existing Debt Allotment (EDA), or

Instructional Facilities Allotment (IFA) that lawfully could be used for the payment of bonds.

Second, a district would be permitted to demonstrate ability to pay by using a projected future taxable value of property in the district — anticipated for either the tax year five years after the current tax year, or the tax year the final payment is due, whichever was earlier — plus the amount of FSP, EDA, and IFA that may lawfully be used for the payment of bonds.

In order to use the second option, a district would have to submit a certification of projected taxable value prepared by a registered professional appraiser who was certified under The Property Taxation Professional Certification Act (VACS, art. 8885) and who had professional experience projecting property values or could obtain assistance from a person with that experience. To demonstrate professional experience, an appraiser would have to provide written documentation regarding two previous taxable valuation projections. The superintendent of schools would have to sign the certification of projected taxable value. Until the AG approved or disapproved the proposed bonds, the school district would have to maintain the documentation and provide it to the AG or the comptroller on request. The bill would require the AG to base a determination of a district's demonstrated ability to pay under the second option on a taxable value of property that was equal to 90 percent of the certified value.

The bill would prohibit the AG from approving a subsequent bond issue if a district demonstrated ability to pay using projected taxable value of property and then imposed a tax exceeding the fifty-cent limit (\$0.50 per \$100 of valuation), unless the district had a projected ability to pay for the subsequent bonds and all previously issued bonds from a tax at a rate not exceeding \$0.45 per \$100 of valuation.

If a district's ability to comply were contingent on state assistance, the district still could not adopt a tax rate for a year for purposes of paying principal and interest of bonds unless the district credited the state assistance it received to the bonds' interest and sinking fund.

The bill would repeal Education Code, sec. 45.003(e), which would be integrated into the new section added by this bill.

The bill would apply only to school district bonds submitted to the AG for approval on or after September 1, 2001. Bonds submitted prior to that date would be governed by the law in effect on the date they were submitted for approval, and the bill would continue former law in effect for that purpose.

The bill would take effect September 1, 2001.

**SUPPORTERS
SAY:**

CSHB 2888 would allow districts to submit for consideration the reality of property value growth when calculating ability to repay bonded debt. Many fast growth districts have a difficult time proving ability to pay for bonds under the “fifty-cent rule.” Current law assumes no growth in property value, but in reality some districts have experienced 30 percent growth in value in one year.

The bill would save school districts interest money by allowing them to issue shorter-term debt instruments. Districts unable to meet the “fifty-cent rule” are working around the restrictions under current law by issuing longer-term bonds, such as 36-year bonds. These longer terms unnecessarily drive up the amount of interest a school district must pay on the bonds.

The bill also would allow poorer school districts to issue bonds to finance construction. The current law pre-dates the existence of the IFA and the EDA. The bill would allow poorer school districts to factor in their IFA and EDA receipts in determining ability to pay.

**OPPONENTS
SAY:**

The bill would allow school districts to issue more debt. If property values did not rise as projected, it could result in a tax rate higher than \$0.50 per \$100 of valuation because districts would be obligated to pay their bond debt.

NOTES:

The bill as filed only would have repealed the provision that a district must demonstrate ability to pay. The committee substitute authorized a district to demonstrate ability to pay for previous and proposed bonds based on the most recent taxable value of property or a projected future ability to pay.

HB 2888
House Research Organization
page 4

The bill as filed would have taken effect immediately if it received the required votes. The committee substitute would take effect September 1, 2001.