SUBJECT: Raising the debt limit for certain fast-growth school districts

COMMITTEE: Public Education — committee substitute recommended

VOTE: 8 ayes — Aycock, Bohac, Deshotel, Farney, Galindo, González, K. King, VanDeaver

1 nay — Huberty

2 absent — Allen, Dutton

WITNESSES: For — Randy Reid, Fast Growth Schools Coalition; Drew Scheberle, Greater Austin Chamber of Commerce; Carter Scherff, Hays CISD; Keith Bryant, Lubbock-Cooper ISD, Fast Growth Schools Coalition; (*Registered, but did not testify*: Mike King, Bridge City ISD; Bill Hammond, Texas Association of Business; Barry Haenisch, Texas Association of Community Schools; Steven Garza and Daniel Gonzalez, Texas Association of Realtors; Casey McCreary and Doug Williams, Texas Association of School Administrators; Dominic Giarratani, Texas Association of School Boards; Mark Terry, Texas Elementary Principals and Supervisors Association; Colby Nichols, Texas Rural Education Association; Bob Popinski, Texas School Alliance; Ray Freeman, the Equity Center)

Against — Michael Dion; (*Registered, but did not testify*: Cobby Caputo)

On — (*Registered, but did not testify*: Lisa Dawn-Fisher, Texas Education Agency)

BACKGROUND: Education Code, sec. 45.0031(a) limits school districts from exceeding a rate of 50 cents per $100 property valuation for debt service on bonds issued for constructing and equipping school buildings, acquiring property, and purchasing new school buses.

DIGEST: CSHB 506 would allow districts to exceed the cap on debt service for school construction by 20 percent if the district:

- had an interest and sinking fund (I&S) tax rate of 45 cents or greater per $100 property valuation;
- was a high enrollment growth district in accordance with Texas Education Agency rules;
- had a current Financial Allocation Study for Texas (FAST) rating from the comptroller of at least three stars on a five-star scale or the equivalent on any subsequent system;
- had adopted a capital improvement plan required by the bill; and
- demonstrated to the attorney general that the proposed issuance would result in total interest costs to the district that were at least 5 percent less than if the district were to issue a capital appreciation bond or alternate debt instrument.

If a district used a projected future taxable property value to demonstrate to the attorney general its ability to comply with a higher debt limit under the bill, but had to exceed that limit to pay principal and interest, the attorney general could not approve a subsequent debt limit that exceeded the rate equal to 90 percent of the previously approved limit.

A district that wanted to exceed the I&S cap would be required to adopt a capital improvement plan that included an inventory of the district's facilities and a list of each proposed project for additional or renovated facilities. The proposed projects would be ranked in order of priority and accompanied by an explanation of the need for the facilities, timeline for completion, estimated expenses, assessment of district's capacity to fund the projects, and financing options. At a public meeting, the school board would adopt the plan not later than the first anniversary of the date the board adopted an I&S tax rate of 45 cents or greater per $100 property valuation.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2015.

SUPPORTERS

CSHB 506 would update the school bond debt limit to allow fast-growing

SAY: districts to provide the facilities needed to serve new students. The current cap of 50 cents per $100 property valuation was set by the Legislature in 1991 and fails to account for the 85,000 new students that enter public schools every year.

The bill would apply only to 60 districts designated as fast-growth districts by the education commissioner that have I&S rates at or above 45 cents per $100 property valuation. Districts that wanted to exceed the cap would have to be transparent and demonstrate that the proposed bond issuance would result in savings of at least 5 percent over alternate debt instruments, such as capital appreciation bonds. Districts also would have to adopt a detailed capital improvement plan explaining the need for the facilities and financing options.

School district taxpayers have the final say in determining whether a bond proposal should move forward. The bill would allow decisions about school facilities to be made by local voters without the limit of a cap set 24 years ago.

Without the bill, fast-growth districts could experience crowded classrooms and more portable buildings. They also could turn to less desirable funding mechanisms that could end up costing more in the long run.

OPPONENTS SAY: CSHB 506 could result in added debt and higher taxes for already burdened property owners. Texans already owe almost $75 billion in outstanding school bond debt, and that amount does not include interest. The comptroller's office reported in 2011 that Texas had the second-highest debt in the nation, and public school bonds account for the largest category of debt.

Some districts may have used alternate debt instruments such as capital appreciation bonds as a way to get around the 50-cent debt cap or to avoid raising the school tax rate for maintenance and operations. Capital appreciation bonds defer principal and interest payments until the bond reaches maturity in 30 to 40 years. Some districts are using these types of bonds, which do not require voter approval, to defer current costs of education to future generations of taxpayers. Districts that have used capital appreciation bonds, including some that were not even at the 50-cent cap, should not now be rewarded by being allowed to increase debt through traditional bonds.