Overview Of Proposed Legislation To Modify The “50-Cent Debt Test”
History of the “50-Cent Debt Test”

- Voters typically approve an “Unlimited Tax” to repay Texas school district bonds authorized in a bond election.

- However, the “50-Cent Debt Test” (the “Test”) was enacted in year 1991 (20-years ago) which is currently incorporated within Chapter 45 of the Texas Education Code. As implemented, the Test essentially limits a school district’s maximum Interest & Sinking Fund (“I&S”) tax rate to 50.0 cents, equating to a “debt limit” of 7% of a district’s taxable assessed valuation.

- Prior to the “50-Cent Debt Test,” the “debt limit” for school districts was 10% of taxable assessed valuation.

- Prior to a new bond sale, the Test requires a school district to demonstrate to the Attorney General its new and existing bonds may be repaid from a maximum I&S tax rate of 50.0 cents or less.
  - The Subchapter B portion of a district’s Tier I State funds, Existing Debt Allotment (“EDA”) and Instructional Facilities Allotment (“IFA”) State funds can be pledged to the repayment of bonds to comply with the Test.
  - **Once pledged, Tier I State funds must be used for bond payments prior to a district levying an I&S tax rate above 50.0 cents.**

- During the 81st Legislative Session, Rep. Aycock (Killeen) filed H.B. 3697 to amend the “50-Cent Debt Test.”

- H.B. 3697 garnered support from the Equity Center, Fast Growth School Coalition, Texas School Coalition, TASA, TASB, the Municipal Advisory Council of Texas, industry participants and numerous school districts.

- H.B. 3697 was folded into Rep. Hochberg’s H.B. 3646 (i.e. the House of Representative’s School Finance Bill). Prior to the final reading, the proposed legislation was removed by Rep. Hancock.
The Results of Increasing Student Enrollment, Declining State Funding Assistance, Slowing Property Value Growth and Rising Construction Costs for School Facilities

- Due to limited current debt capacity and the need to comply with the “50-Cent Debt Test”, school districts are being forced to extend the repayment term on bonds for up to 40-years. The extended repayment terms is estimated to increase the interest cost borne by taxpayers by over $20.0 billion over the next 5-years.

- As bond repayments are deferred to comply with the Test, school districts become more leveraged as bonds are being added faster than they are being repaid: reducing future bond capacity, adding pressure to bond ratings, and increasing the total cost to taxpayers and the State of Texas. The recent economic and credit crisis is a direct result of “too much leverage” within the financial markets – There is a reason there are not 40-year home mortgages.

- Many school districts have been required to annually pledge $ millions of Tier I State funds for bond payments to comply with the Test, further diminishing the dollars available to school districts for instruction.

- Inherent conflict in school district bond market, investors purchased bonds based upon “Unlimited Tax” pledge – not “Unlimited Tax Pledge” once Tier I State funds to maintain school district operations have been depleted.

- School districts have been forced to delay the construction of school facilities approved by voters. We estimate school districts have over $2.5 billion of bonds previously approved by voters that cannot be issued due to the “50-Cent Debt Test.”

- Negatively impacts the economy of the State of Texas by directly reducing the dollar amount of school construction projects being completed, resulting in less: Employment, Consumer Spending, Demand for Materials, Home Construction, Sales Tax, etc. and lower property value growth.
What Has Caused the Need to Amend the “50-Cent Debt Test”?

- Increasing Construction Costs for School Facilities;
- Increasing Student Enrollments;
- Additional Facility Mandates;
- Taxable Valuation Growth Has Lagged the Cost of Construction; and
- Declining State Funding for Bond Payments.
Construction Costs Have Dramatically Increased

Since year 2004 prices of construction materials have risen by 115% more than consumer costs as shown below.

Since 2001, student enrollment within Texas public schools has increased by 611,178 students or an average increase of 76,397 students per year. This equates to approximately 750 new elementary schools, 475 new middle schools or 240 new high schools.

Despite the economy, student enrollment continues to grow.

Source: Texas Education Agency - PEIMS.
The dollar amount of bonds outstanding within Texas school districts has increased from $26.3 billion to $59.7 billion, representing an increase of 127.3%. This increase is due to increasing construction costs, rapid student enrollment increases, unfunded State mandates and the longer repayment period of bonds required to comply with the Test.

Dollar amount of bonds outstanding has increased by 127.3%.

In comparison, the State’s debt (excluding local debt) has increased by 187% since FY 2000.

Source: Texas Bond Review Board and Municipal Advisory Council of Texas.
Since year 2001, the taxable assessed valuations of Texas school districts increased from $960.4 billion to $1.66 trillion, representing an increase of 72.9%. However, taxable values have actually declined by $8.9 billion or 0.53% over the last 2-years.

Source: Texas Comptroller of Public Accounts - Property Tax Division.

*2010/11 Tax Data is Preliminary
State Funding for Bonds Has Declined

- State funding assistance received by Texas school districts for the payment of bonds has decreased by $213.2 million or 26.9%.

With bond payments increasing and State funding decreasing, the percentage of annual bond payments covered by State funding has declined from 35.4% to 12.1%.

Source: Texas Education Agency - PEIMS and Texas Bond Review Board.
Texas School Districts – Summary

Year 2001/02 Through 2009/10

Tax base growth of school districts and State funding assistance is not paying for the increase in the bonds needed and approved by voters for school facilities, resulting in ongoing pressure on I&S tax rates and limited future bond capacity.
Fast Growth School Districts - Summary

Fast Growth School Districts - Years 2001/02 Through 2008/09 - Percentage Change In Student Enrollment, Principal Amount Of Bonds, Taxable Assessed Valuation, State Funding Assistance For Bonds And Median Interest & Sinking Fund Tax Rate

Tax base growth of school districts and State funding assistance is not paying for the increase in the bonds needed and approved by voters for school facilities, resulting in ongoing pressure on I&S tax rates and limited future bond capacity.

Source: Texas Education Agency - PEIMS and Texas Bond Review Board.
Result – Increasing I&S Tax Rates and Diminishing Bond Capacity

Historical Trend of Interest & Sinking Fund Tax Rates
Years 2001/02 - 2010/11

Over the last 5-years, the number of school districts with a I&S tax rate of 40.0 cents or higher has increased by 938%.

Source: Texas Comptroller of Public Accounts - Property Tax Division.
No. of I&S Tax Rates Above 40.0 Cents By Region – Year 2010/11

- Region 1 – High Plains
- Region 2 – Dallas-Fort Worth Metroplex
- Region 3 – East Texas
- Region 4 – Houston Metroplex
- Region 5 – Central Texas
- Region 6 – South Texas
- Region 7 – West Texas
Subcommittee on Public Education Funding – Representative Listing of Texas School Districts With An I&S Tax Rate of 40.0 Cents or More

- **Senator Florence Shapiro**
  - Allen Independent School District
  - Irving Independent School District
  - Lovejoy Independent School District
  - McKinney Independent School District
  - Melissa Independent School District
  - Princeton Independent School District
  - Prosper Independent School District
  - Wylie Independent School District

- **Senator Robert Duncan**
  - Frenship Independent School District
  - Lubbock-Cooper Independent School District
  - Panhandle Independent School District
  - Robert Lee Independent School District

- **Senator Dan Patrick**
  - Katy Independent School District
  - Spring Independent School District
  - Waller Independent School District

- **Senator Eddie Lucio, Jr.**
  - None

- **Senator Kel Seliger**
  - None

- **Senator Craig Estes**
  - Anna Independent School District
  - Aubrey Independent School District
  - Bland Independent School District
  - Blue Ridge Independent School District
  - Celina Independent School District
  - Community Independent School District
  - Denton Independent School District
  - Gunter Independent School District
  - Jacksboro Independent School District
  - Krum Independent School District
  - McKinney Independent School District
  - Melissa Independent School District
  - Millsap Independent School District
  - Princeton Independent School District
  - Prosper Independent School District
  - Sherman Independent School District
  - Van Alstyne Independent School District

- **Senator Royce West**
  - Cedar Hill Independent School District
  - DeSoto Independent School District
  - Grand Prairie Independent School District
  - Irving Independent School District
### I&S Tax Rates of 40.0 Cents or Higher – Year 2010/11

#### 48.2% are “Non-Fast Growth” School Districts and 51.8% are “Fast Growth”

<table>
<thead>
<tr>
<th>Non-Fast Growth School Districts</th>
<th>Fast Growth School Districts</th>
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<tbody>
<tr>
<td>Royal ISD (59.00 Cents)</td>
<td>Denton ISD (49.00 Cents)</td>
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<tr>
<td>Bishop Consolidated ISD (52.38 Cents)</td>
<td>McKinney ISD (48.80 Cents)</td>
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<tr>
<td>Joaquin ISD (51.80 Cents)</td>
<td>Needville ISD (48.00 Cents)</td>
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<tr>
<td>Allen ISD (50.00 Cents)</td>
<td>Floresville ISD (47.58 Cents)</td>
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<td>Anna ISD (50.00 Cents)</td>
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<td>Aubrey ISD (50.00 Cents)</td>
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<td>Blue Ridge ISD (50.00 Cents)</td>
<td>Manor ISD (47.50 Cents)</td>
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<td>Burleson ISD (50.00 Cents)</td>
<td>Longview ISD (47.30 Cents)</td>
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<td>Caddo Mills ISD (50.00 Cents)</td>
<td>Wylie ISD (47.00 Cents)</td>
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<td>Celina ISD (50.00 Cents)</td>
<td>Forney ISD (46.00 Cents)</td>
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<td>Dickinson ISD (50.00 Cents)</td>
<td>Frenship ISD (46.00 Cents)</td>
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<tr>
<td>Eagle Mountain-Saginaw ISD (50.00 Cents)</td>
<td>Hitchcock ISD (46.00 Cents)</td>
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<td>Elgin ISD (50.00 Cents)</td>
<td>Jacksboro ISD (46.00 Cents)</td>
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<td>Ennis ISD (50.00 Cents)</td>
<td>Hubbard ISD (45.99 Cents)</td>
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<tr>
<td>Lake Dallas ISD (50.00 Cents)</td>
<td>Lubbock-Cooper ISD (45.90 Cents)</td>
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<td>Lake Worth ISD (50.00 Cents)</td>
<td>Mansfield ISD (45.60 Cents)</td>
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<td>Little Elm ISD (50.00 Cents)</td>
<td>Community ISD (45.50 Cents)</td>
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<td>Melissa ISD (50.00 Cents)</td>
<td>Crandall ISD (45.36 Cents)</td>
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<td>New Caney ISD (50.00 Cents)</td>
<td>DeSoto ISD (45.00 Cents)</td>
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<td>Prosper ISD (50.00 Cents)</td>
<td>Dripping Springs ISD (45.00 Cents)</td>
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<td>White Settlement ISD (50.00 Cents)</td>
<td>Bastrop ISD (44.10 Cents)</td>
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<td>Crowley ISD (49.50 Cents)</td>
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<td>Robert Lee ISD (44.00 Cents)</td>
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<td>Bland ISD (49.00 Cents)</td>
<td>Harlandale ISD (43.48 Cents)</td>
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<td>Banquete ISD (43.34 Cents)</td>
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<td>Canton ISD (43.10 Cents)</td>
<td>Huffman ISD (43.00 Cents)</td>
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<td>Rockwall ISD (43.00 Cents)</td>
<td>Taylor ISD (43.00 Cents)</td>
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<tr>
<td>Commerce ISD (42.51 Cents)</td>
<td>Grand Prairie ISD (42.50 Cents)</td>
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<tr>
<td>Irving ISD (42.50 Cents)</td>
<td>Judson ISD (42.30 Cents)</td>
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<tr>
<td>Hays Consolidated ISD (42.13 Cents)</td>
<td>Pflugerville ISD (42.00 Cents)</td>
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<td>Spring ISD (42.00 Cents)</td>
<td>Franklin ISD (41.80 Cents)</td>
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<td>Angleton ISD (41.52 Cents)</td>
<td>Lindale ISD (41.50 Cents)</td>
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<td>South San Antonio ISD (41.49 Cents)</td>
<td>Leander ISD (41.48 Cents)</td>
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<tr>
<td>Central Heights ISD (41.00 Cents)</td>
<td>Giddings ISD (41.00 Cents)</td>
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<tr>
<td>Gunter ISD (41.00 Cents)</td>
<td>San Diego ISD (40.49 Cents)</td>
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<tr>
<td>Iola ISD (40.34 Cents)</td>
<td>Argyle ISD (40.00 Cents)</td>
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<tr>
<td>Cedar Hill ISD (40.00 Cents)</td>
<td>Katy ISD (40.00 Cents)</td>
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<td>Sherman ISD (40.00 Cents)</td>
<td>Van Alstyne ISD (40.00 Cents)</td>
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<tr>
<td>Waller ISD (40.00 Cents)</td>
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</tbody>
</table>

Note: District’s highlighted in “blue” represent “Non-Fast Growth School Districts.”

Source: Texas Comptroller of Public Accounts - Property Tax Division
District may need to use $87,918,913 of “Tier I” State funds for bond payments during this time period to maintain an I&S tax rate of 50.0 cents of less.

District’s current I&S tax rate is 50.0 cents.

Additional Bond Capacity Pursuant to 50-Cent Debt Test
School district was forced to defer bond payments over a 40-year period and not make a principal payment for 35-years to comply with the Test, increasing the cost to taxpayers by over 180%.
Example No. 3 – North Texas School District (ADA of 21,251) – Amendments Would Reduce the Total School “Tax Bill” of Taxpayers and Provides Future Bond Capacity.

$116.745 Million Bond Sale - 40-Year Amortization

- Principal = $116,745,000
- Interest = $440,705,000
- Debt Service = $557,450,000

Maximum I&S Tax Rate of 50.0 Cents.

Interest Cost Savings

- Represents Interest Cost Savings to Taxpayers of $292,120,000

$116.745 Million Bond Sale - 30-Year Amortization

- Principal = $116,745,000
- Interest = $148,585,000
- Debt Service = $265,330,000

Maximum I&S Tax Rate of 56.0 Cents.
Summary of Proposed Amendments to the “50-Cent Debt Test”

- Repeals Existing “50-Cent Debt Test” and Prior Pledges of Tier I State Funds for Bond Payments;

- Implements a “Debt Limit” Equal to 10% of Taxable Assessed Valuation with Adjustments for:
  - Smaller districts with less than 4,000 students;
  - Districts with student enrollment of at least 15% during the preceding 3-years; and
  - District’s receiving IFA/EDA State assistance to maintain “equity among districts.”

- Incorporates Debt Management Safeguards and Increases Accountability to Taxpayers
  - Require School Districts to Adopt a Debt Management Policy to:
    - Maintain financial stability;
    - Provide debt management flexibility to meet future facility needs;
    - Preserve public trust;
    - Minimize cost of taxpayers;
    - Preserve access to capital markets;
    - Improve bond ratings; and
    - Increase taxpayer oversight of bond programs.

- Require Development of 5-Year Capital Improvement Plan and Require Annual Public Hearing to Review.

- Limits the Amount of Bonds Allowed for “Athletic Facilities” to 10% of a District’s Bond Capacity.
Benefits of Amending the 50-Cent Debt Test

- Amending the “50-Cent Debt Test” benefits **ALL** Texas school districts.
- Requires **NO** additional State funding assistance.
- On a local option basis, provides school districts with the flexibility to reduce the interest cost associated with school facility construction by over $20 billion in the next 5-years by reducing the repayment term of bonds.
- Allows voter-approved construction projects to be fully completed, creating more jobs, consumer spending, home construction, sales tax, taxable values, etc. to help stimulate and stabilize the Texas economy.
  - Based upon an independent economic study, over the last 8-years school facility construction has had an $84 billion economic impact statewide, supported 50,000 jobs annually and generated $2.4 billion of additional State/local tax revenue.
  - Over the next 10-years, school facility construction is expected to have a $94 billion economic impact, support 55,000 jobs per year and produce over $2.6 billion of additional State/local tax revenue.
- Creates future bond capacity for school districts to meet future facility needs at a lower I&S tax rate, as interest costs and repayment terms are reduced.
- Provides school districts the flexibility to meet published “bond repayment” guidelines of bond rating agencies; potentially enhancing the bond ratings of Texas school districts and lowering interest costs.
- Generates ongoing capacity within the Permanent School Fund Guarantee Program.
- Mitigates the need to fund bond payments with “Tier I” State funds allowing such dollars to be maintained in the classroom.
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