



## 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 81<sup>st</sup> 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

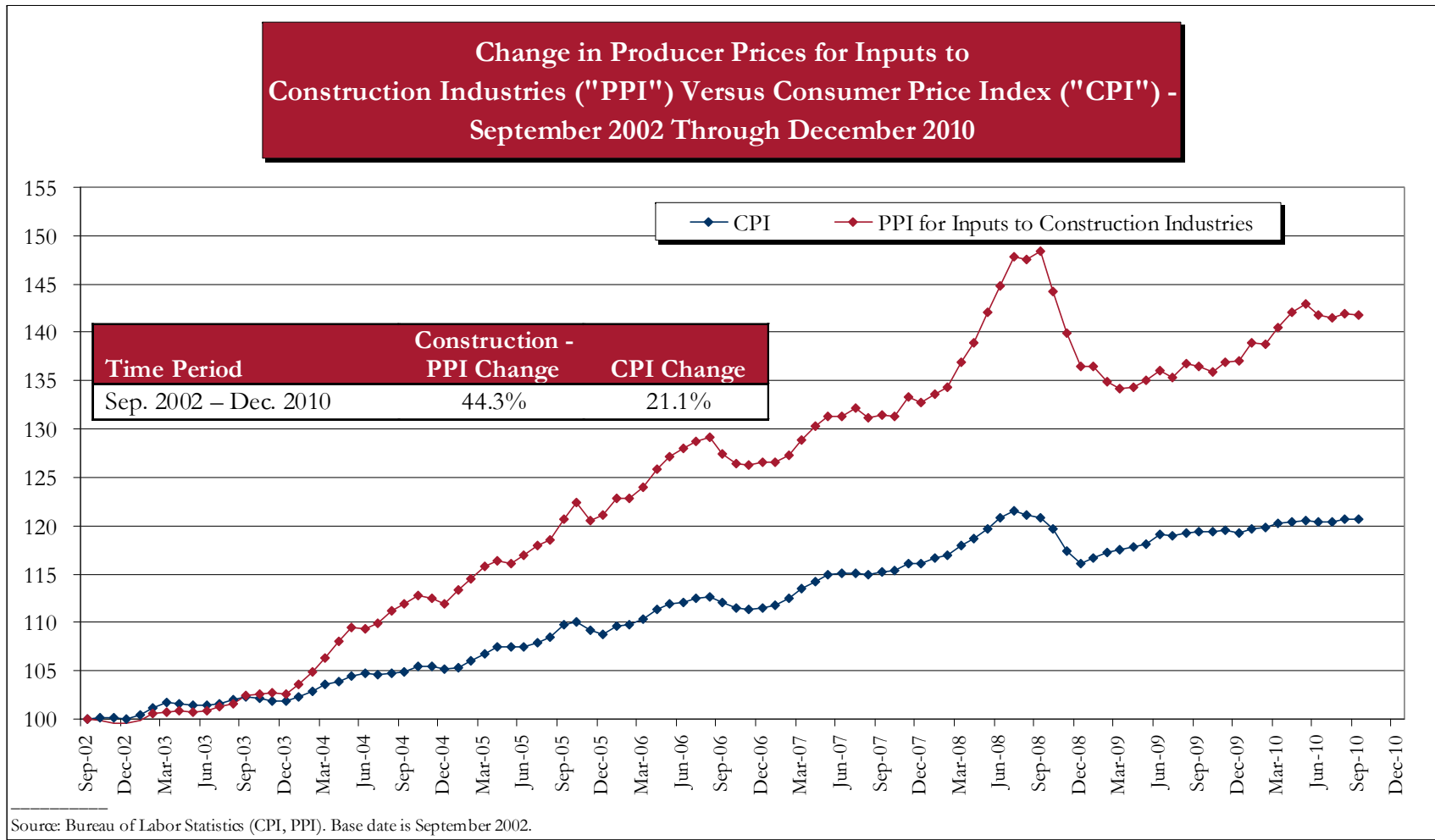
- Due to limited current debt capacity and the need to comply with the “50-Cent Debt Test”, school districts are being forced to extend the repayment term on bonds for up to 40-years. **The extended repayment terms is estimated to increase the interest cost borne by taxpayers by over \$20.0 billion over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

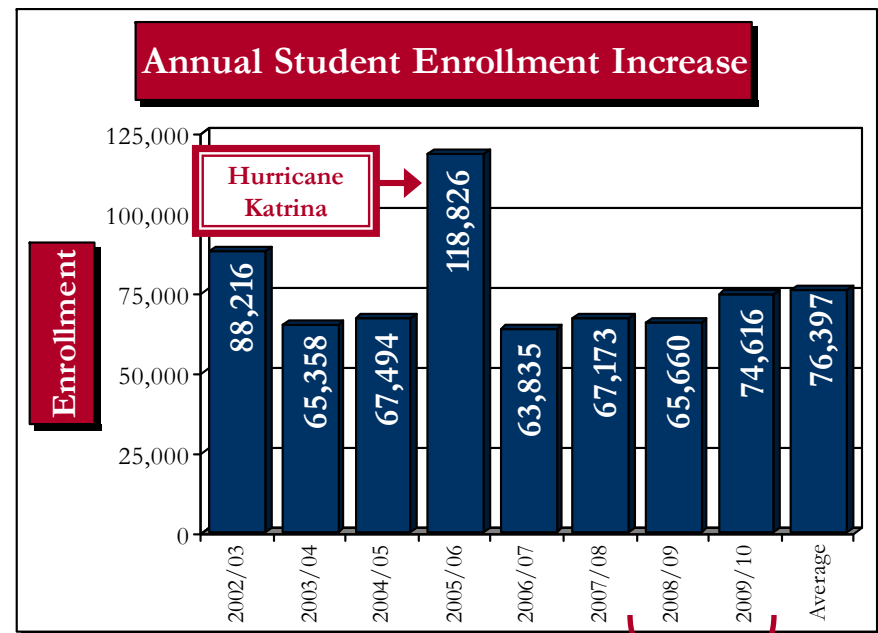
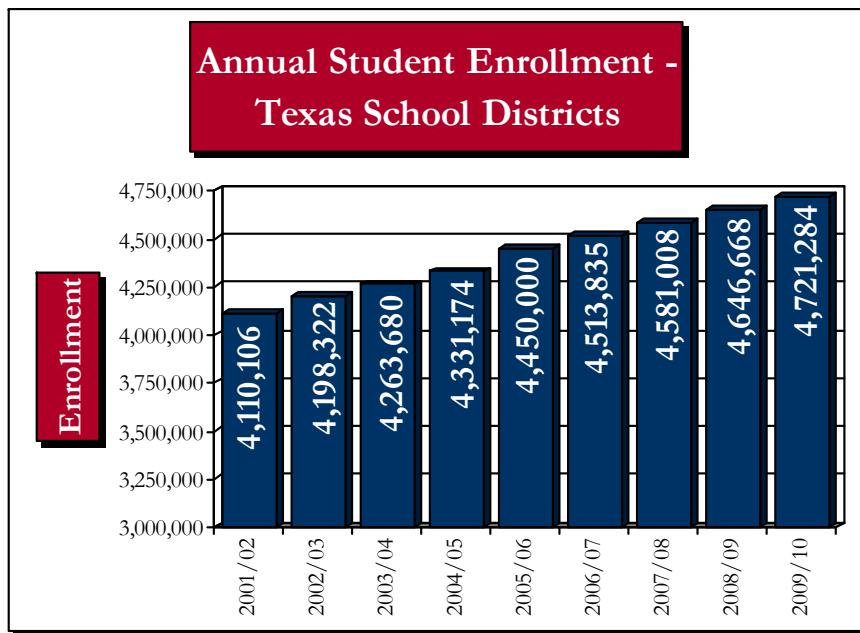
# Construction Costs Have Dramatically Increased

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



# Student Enrollment Continues to Increase

- Since year 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.**

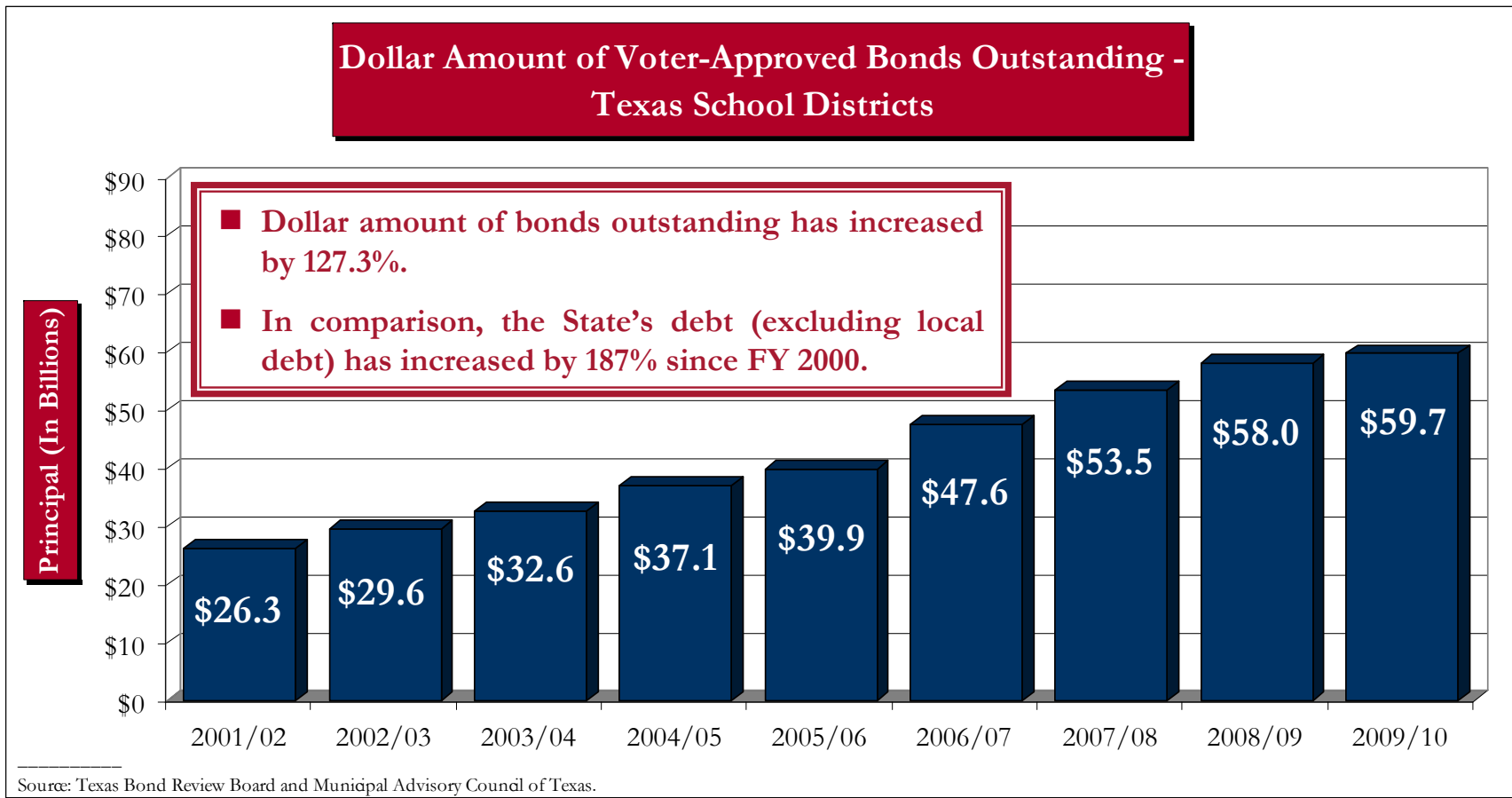


**Despite the economy, student enrollment continues to grow.**

Source: Texas Education Agency - PEIMS.

# Amount of Voter-Approved Bonds Outstanding Has Increased

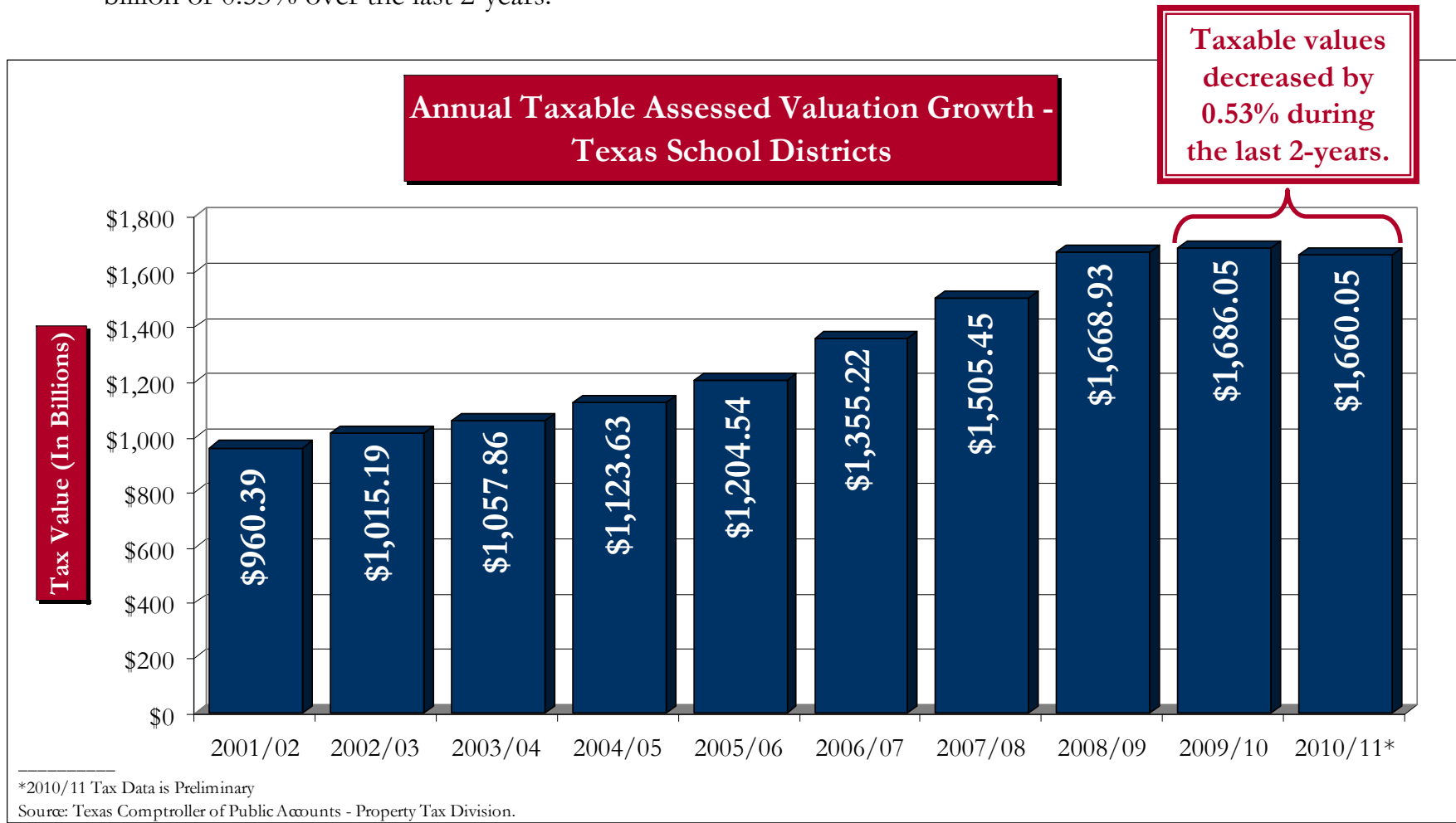
- The dollar amount of bonds outstanding within Texas school districts has increased from \$26.3 billion to \$59.7 billion, representing an increase of 127.3%. This increase is due to increasing construction costs, rapid student enrollment increases, unfunded State mandates and the longer repayment period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





# Taxable Assessed Valuation Growth Has Slowed/Stopped

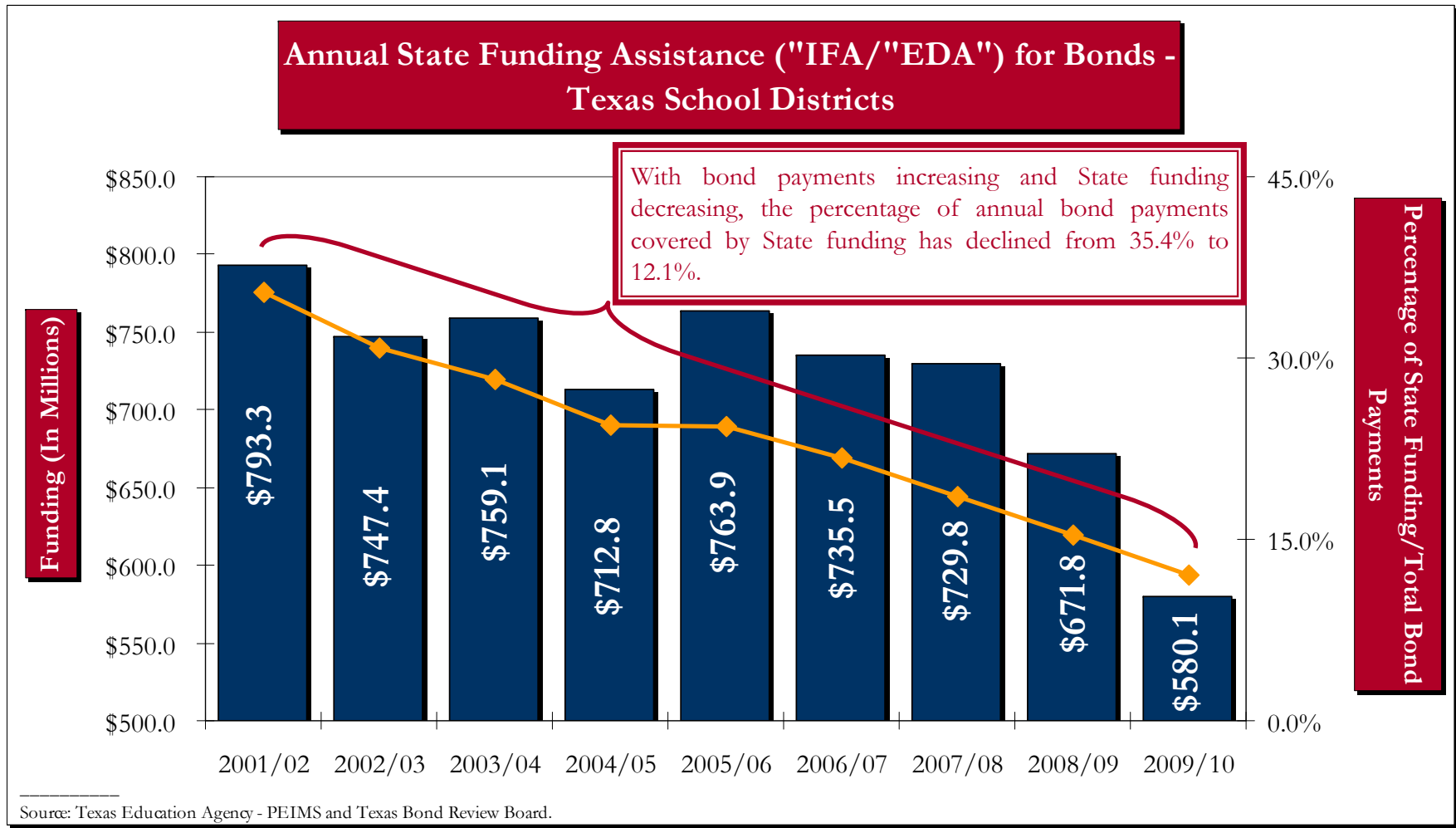
- Since year 2001, the taxable assessed valuations of Texas school districts increased from \$960.4 billion to \$1.66 trillion, representing an increase of 72.9%. However, taxable values have actually declined by \$8.9 billion or 0.53% over the last 2-years.





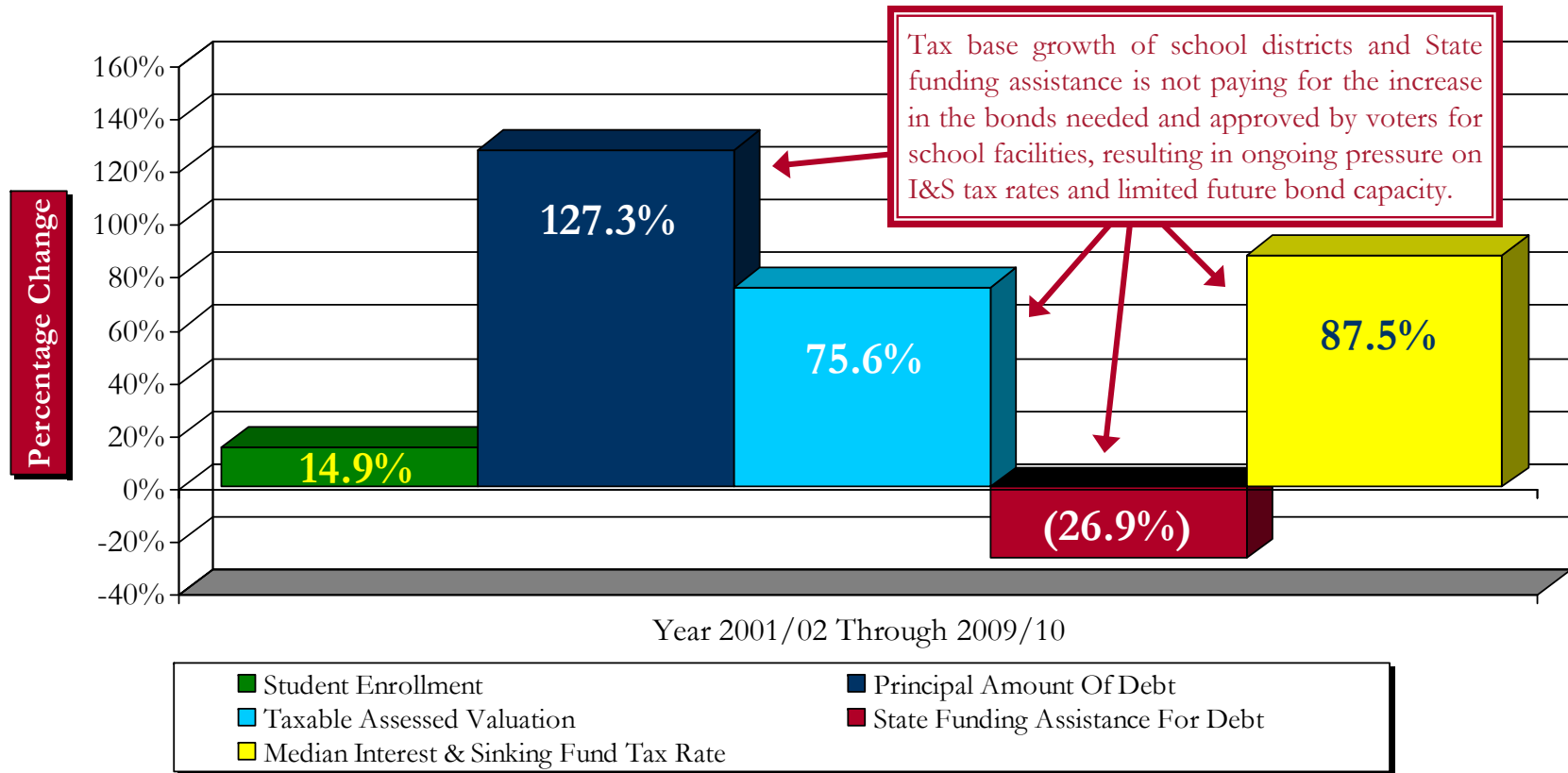
# State Funding for Bonds Has Declined

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



# Texas School Districts – Summary

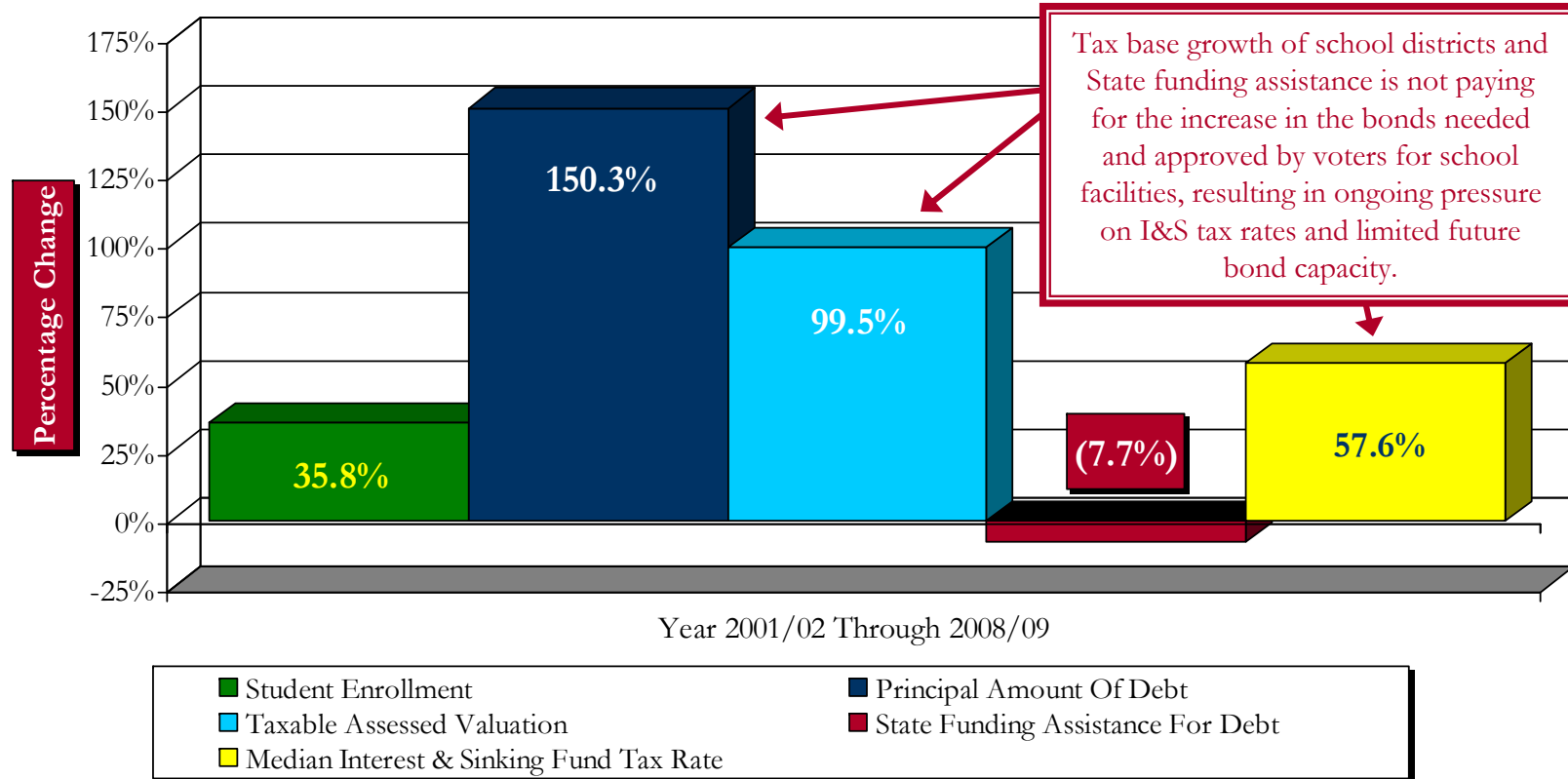
**Texas School Districts - Years 2001/02 Through 2009/10 -  
Percentage Change In Student Enrollment, Principal Amount Of Bonds,  
Taxable Assessed Valuation, State Funding Assistance For Bonds And  
Median Interest & Sinking Fund Tax Rate**



Source: Texas Education Agency - PEIMS, Municipal Advisory Council of Texas, Texas Comptroller of Public Accounts - Property Tax Division and Texas Bond Review Board.

# Fast Growth School Districts - Summary

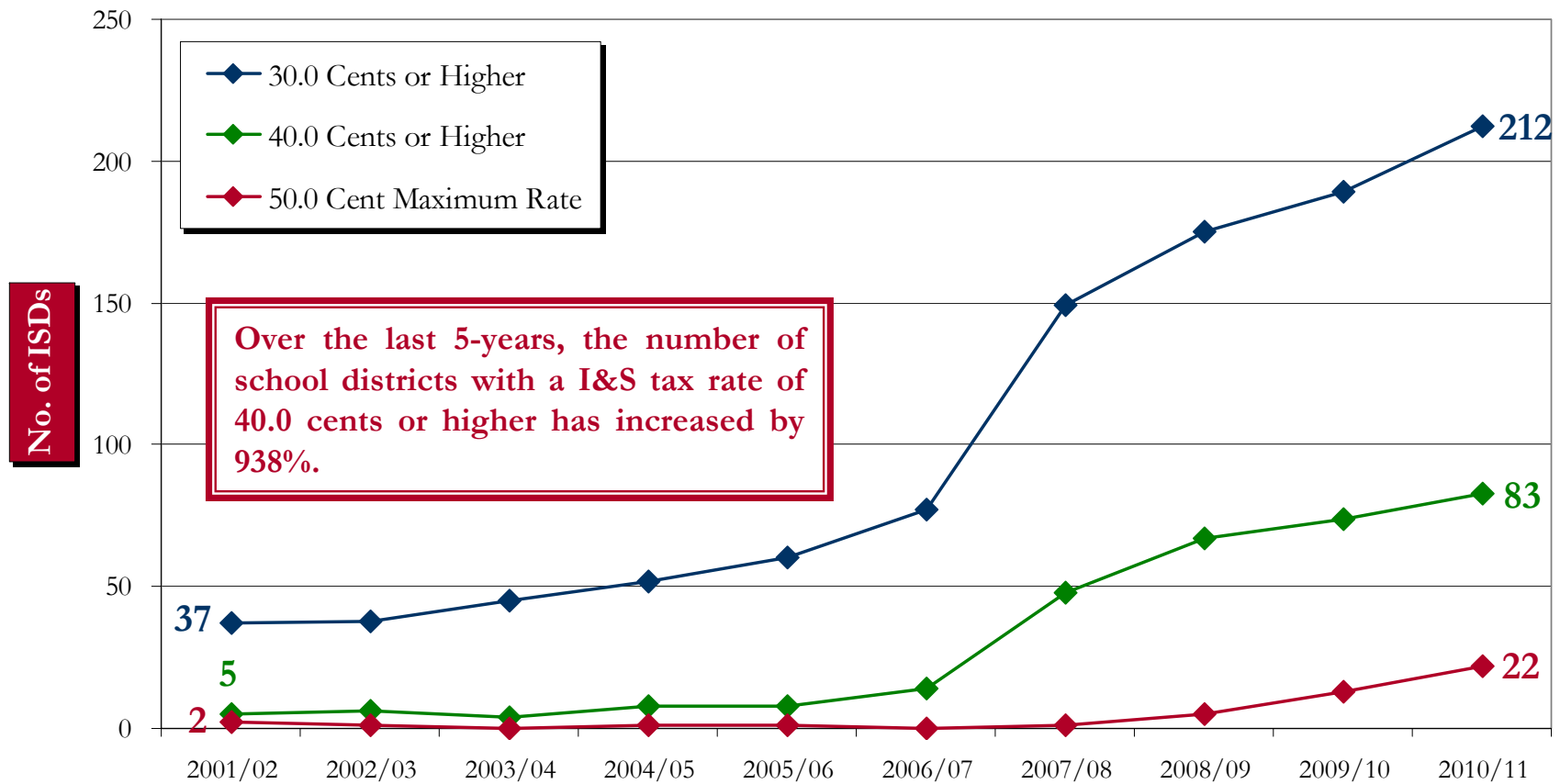
**Fast Growth School Districts - Years 2001/02 Through 2008/09 -  
Percentage Change In Student Enrollment, Principal Amount Of Bonds,  
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Median Interest & Sinking Fund Tax Rate**



Source: Texas Education Agency - PEIMS and Texas Bond Review Board.

# Result – Increasing I&S Tax Rates and Diminishing Bond Capacity

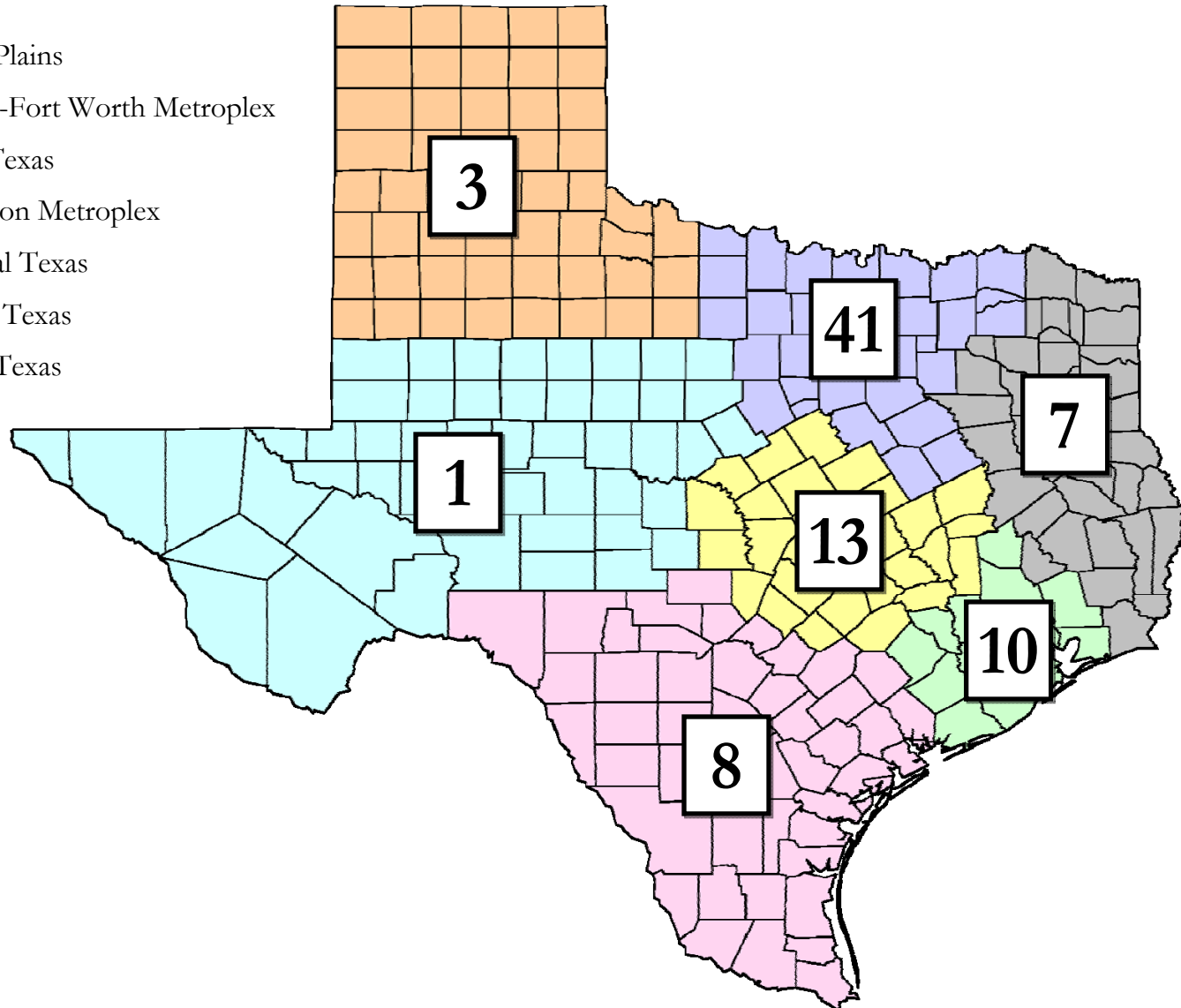
**Historical Trend of Interest & Sinking Fund Tax Rates  
Years 2001/02 - 2010/11**



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”

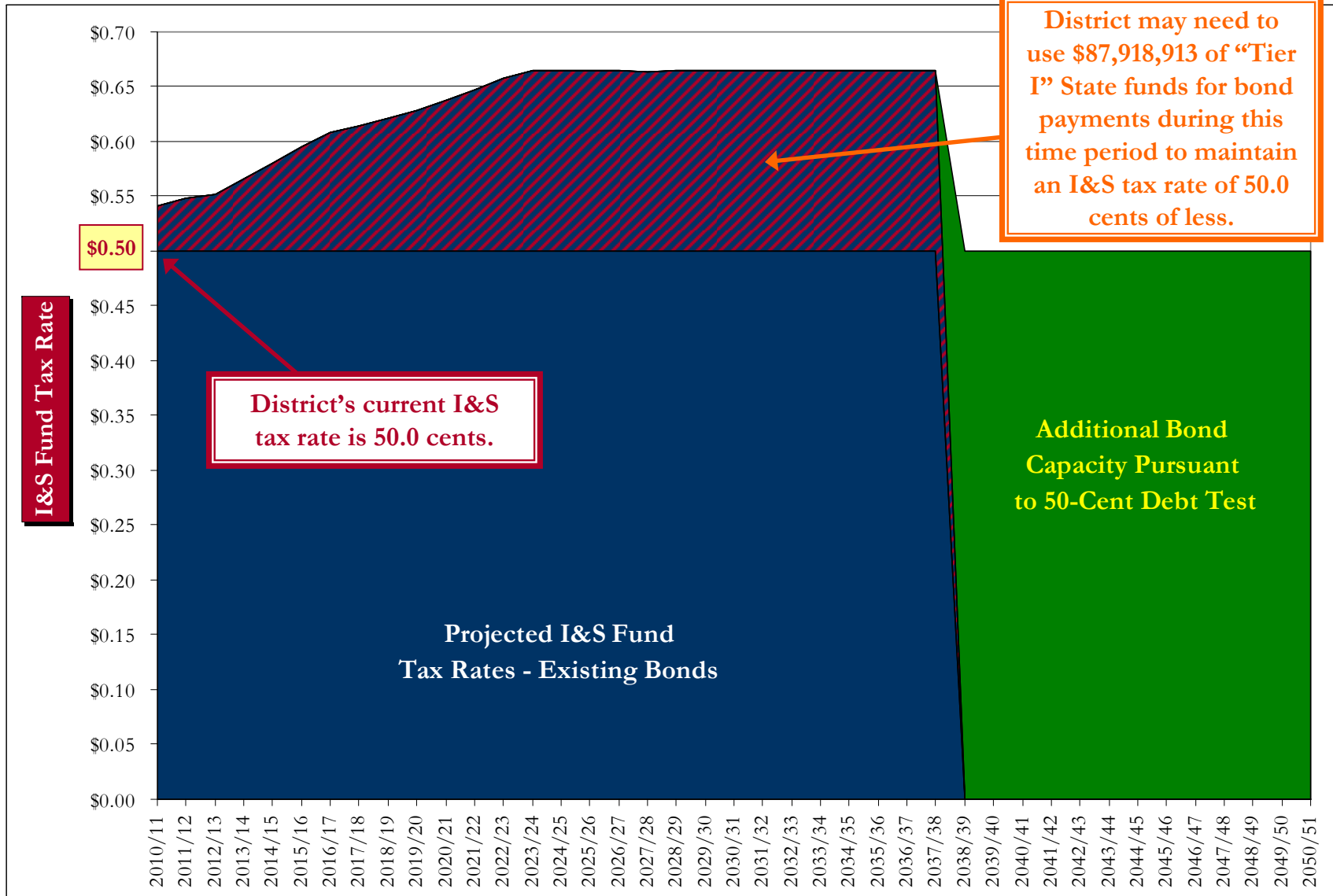
■ <b>Royal ISD (59.00 Cents)</b>	■ Denton ISD (49.00 Cents)	■ <b>Canton ISD (43.10 Cents)</b>
■ <b>Bishop Consolidated ISD (52.38 Cents)</b>	■ McKinney ISD (48.80 Cents)	■ <b>Huffman ISD (43.00 Cents)</b>
■ <b>Joaquin ISD (51.80 Cents)</b>	■ <b>Needville ISD (48.00 Cents)</b>	■ Rockwall ISD (43.00 Cents)
■ Allen ISD (50.00 Cents)	■ <b>Floresville ISD (47.58 Cents)</b>	■ <b>Taylor ISD (43.00 Cents)</b>
■ <b>Anna ISD (50.00 Cents)</b>	■ <b>Bloomington ISD (47.50 Cents)</b>	■ <b>Commerce ISD (42.51 Cents)</b>
■ <b>Aubrey ISD (50.00 Cents)</b>	■ Lovejoy ISD (47.50 Cents)	■ Grand Prairie ISD (42.50 Cents)
■ <b>Blue Ridge ISD (50.00 Cents)</b>	■ Manor ISD (47.50 Cents)	■ <b>Irving ISD (42.50 Cents)</b>
■ Burleson ISD (50.00 Cents)	■ <b>Longview ISD (47.30 Cents)</b>	■ Judson ISD (42.30 Cents)
■ <b>Caddo Mills ISD (50.00 Cents)</b>	■ Wylie ISD (47.00 Cents)	■ Hays Consolidated ISD (42.13 Cents)
■ <b>Celina ISD (50.00 Cents)</b>	■ Forney ISD (46.00 Cents)	■ Pflugerville ISD (42.00 Cents)
■ Dickinson ISD (50.00 Cents)	■ Frenship ISD (46.00 Cents)	■ Spring ISD (42.00 Cents)
■ Eagle Mountain-Saginaw ISD (50.00 Cents)	■ <b>Hitchcock ISD (46.00 Cents)</b>	■ <b>Franklin ISD (41.80 Cents)</b>
■ Elgin ISD (50.00 Cents)	■ <b>Jacksboro ISD (46.00 Cents)</b>	■ <b>Angleton ISD (41.52 Cents)</b>
■ <b>Ennis ISD (50.00 Cents)</b>	■ Hubbard ISD (45.99 Cents)	■ Lindale ISD (41.50 Cents)
■ Lake Dallas ISD (50.00 Cents)	■ Lubbock-Cooper ISD (45.90 Cents)	■ South San Antonio ISD (41.49 Cents)
■ Lake Worth ISD (50.00 Cents)	■ Mansfield ISD (45.60 Cents)	■ Leander ISD (41.48 Cents)
■ Little Elm ISD (50.00 Cents)	■ <b>Community ISD (45.50 Cents)</b>	■ <b>Central Heights ISD (41.00 Cents)</b>
■ <b>Melissa ISD (50.00 Cents)</b>	■ <b>Crandall ISD (45.36 Cents)</b>	■ <b>Giddings ISD (41.00 Cents)</b>
■ New Caney ISD (50.00 Cents)	■ DeSoto ISD (45.00 Cents)	■ <b>Gunter ISD (41.00 Cents)</b>
■ Prosper ISD (50.00 Cents)	■ Dripping Springs ISD (45.00 Cents)	■ <b>San Diego ISD (40.49 Cents)</b>
■ <b>Spring Hill ISD (50.00 Cents)</b>	■ Princeton ISD (45.00 Cents)	■ <b>Iola ISD (40.34 Cents)</b>
■ White Settlement ISD (50.00 Cents)	■ Bastrop ISD (44.10 Cents)	■ Argyle ISD (40.00 Cents)
■ Crowley ISD (49.50 Cents)	■ <b>Krum ISD (44.00 Cents)</b>	■ Cedar Hill ISD (40.00 Cents)
■ Hutto ISD (49.50 Cents)	■ <b>Overton ISD (44.00 Cents)</b>	■ Katy ISD (40.00 Cents)
■ <b>Millsap ISD (49.50 Cents)</b>	■ <b>Panhandle ISD (44.00 Cents)</b>	■ <b>Sherman ISD (40.00 Cents)</b>
■ Keller ISD (49.06 Cents)	■ <b>Robert Lee ISD (44.00 Cents)</b>	■ <b>Van Alstyne ISD (40.00 Cents)</b>
■ <b>Bland ISD (49.00 Cents)</b>	■ Harlandale ISD (43.48 Cents)	■ <b>Waller ISD (40.00 Cents)</b>
■ Del Valle ISD (49.00 Cents)	■ Banquete ISD (43.34 Cents)	

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

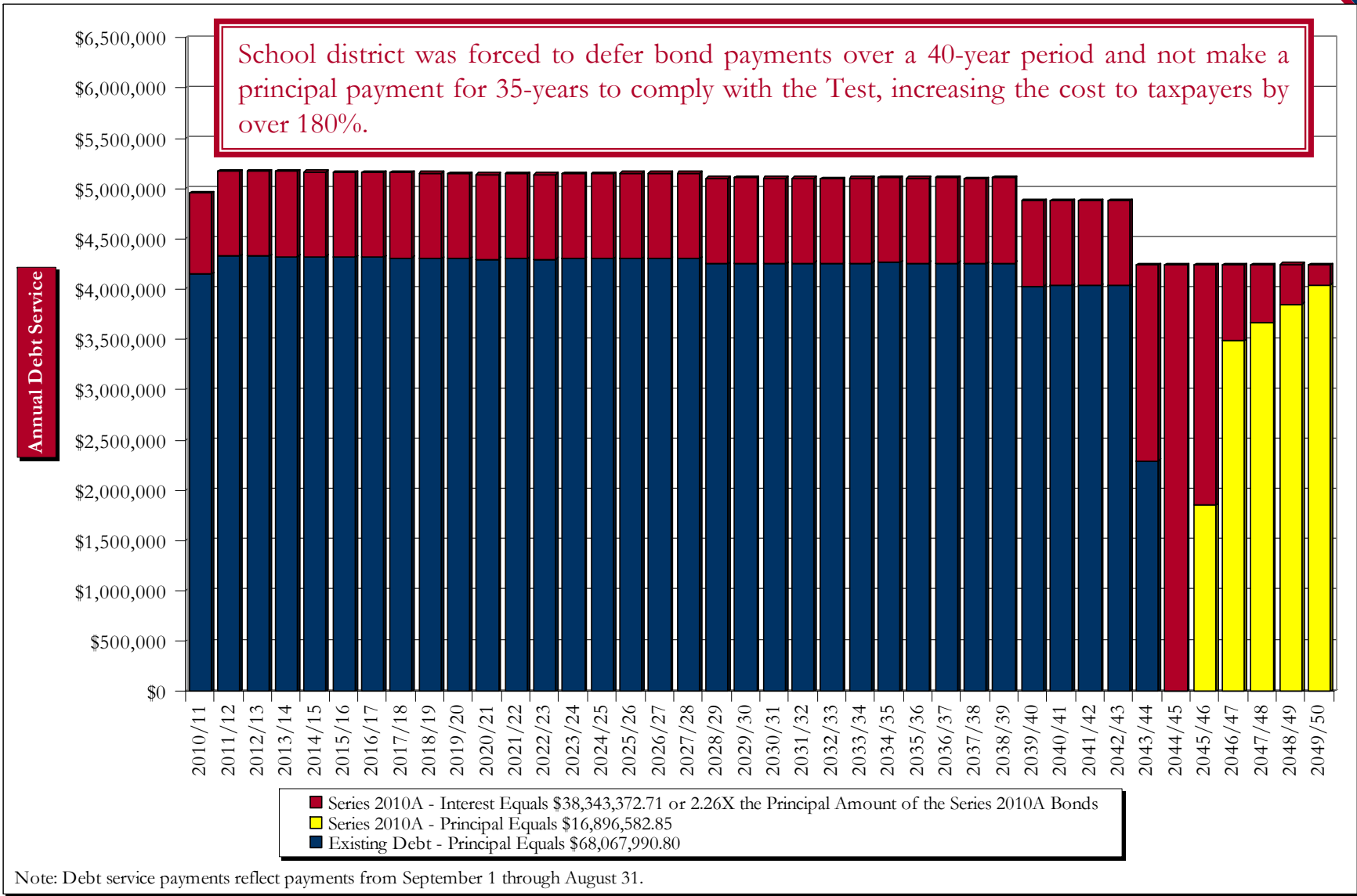
Source: Texas Comptroller of Public Accounts - Property Tax Division



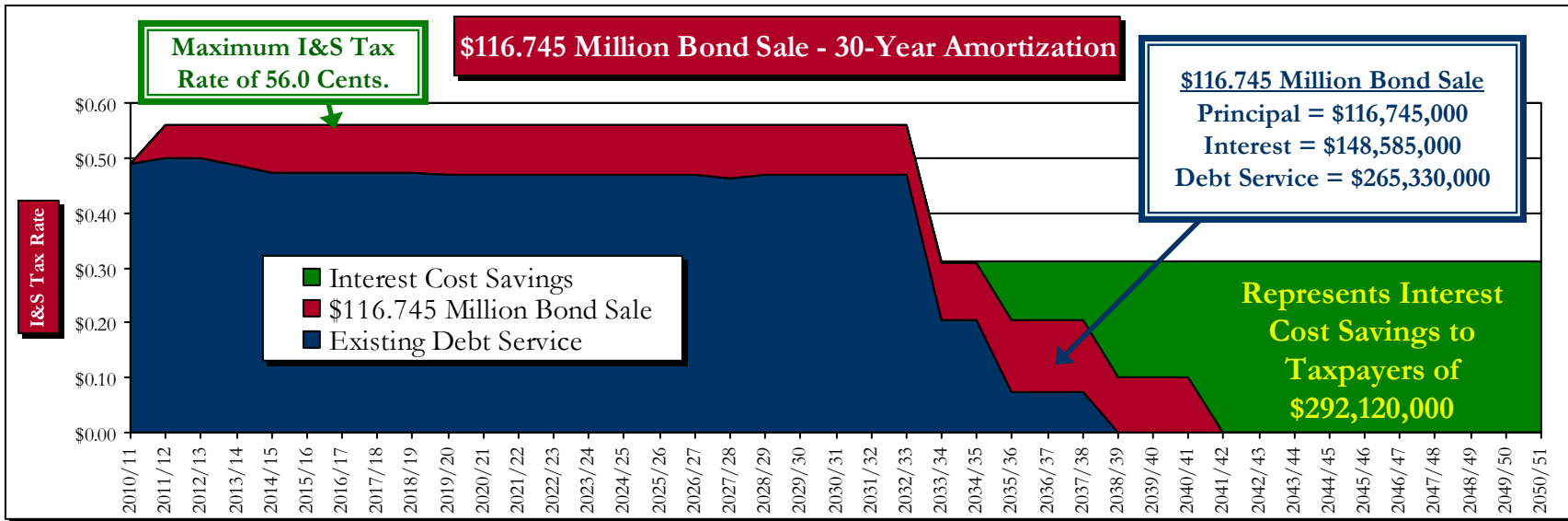
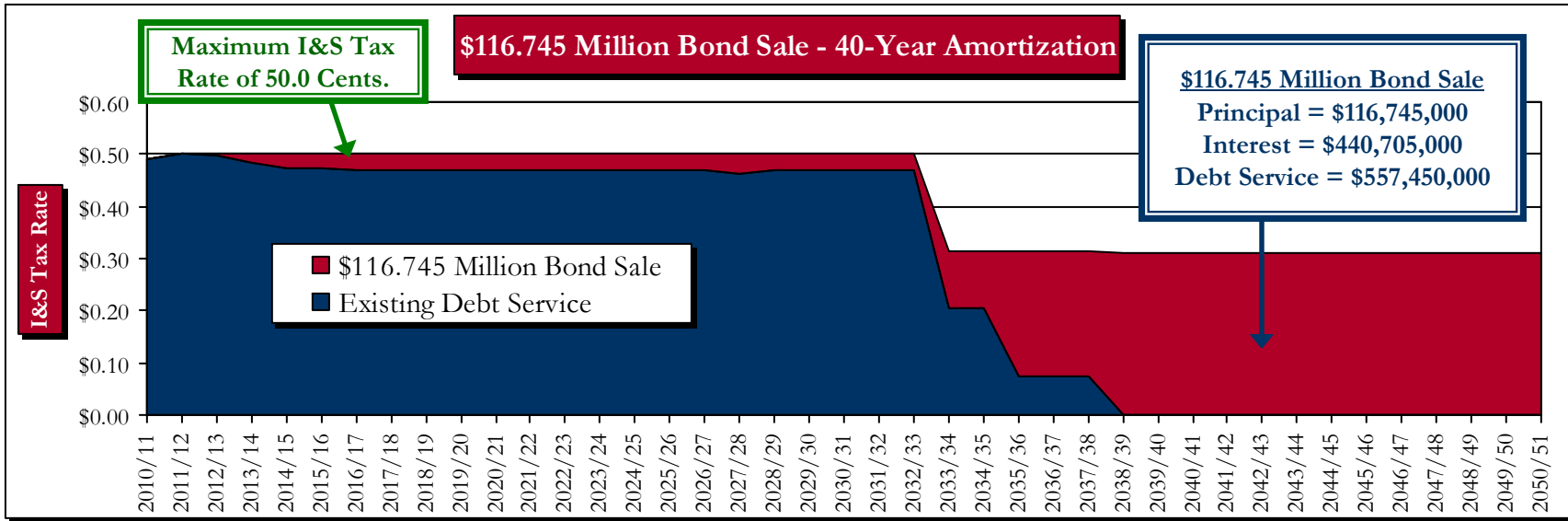
# Example No. 1 – Central Texas School District (ADA of 5,412) – Tier I State Funds Pledged for Bond Payments



# Example No. 2 – North Texas School District (ADA of 2,121) – Deferring Bond Repayment Terms



# 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.



# 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.

# BOSC, Inc. – Specialized Texas School District Finance Professionals

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