

The State of Texas used a debt ratio limit of 10% for most of the 20th century for school bonds issued by independent Texas school districts that were classified as "Unlimited Tax Bonds." School Districts still issue Unlimited Tax Bonds, but the 10% debt ratio limit is no longer the determining factor of whether the District may sell the voter authorized bonds. The State now uses the "50 cent test." Approximately 90% of independent school districts in Texas receive State funding assistance to help pay principal and interest each year. These Districts are classified as "Chapter 42" school districts. When a Chapter 42 school district sells new voter authorized, unlimited tax school building bonds, they must first demonstrate to the Texas Attorney General that the maximum annual payment for the proposed new bonds when added to all existing bonds sold since 1991, may be paid from an Interest and Sinking (I&S), or Bond Tax Rate, of 50 cents or less.

Many schools are not able to pass this simple test. If they are Chapter 42 school districts, they are afforded the opportunity, under State law, to add State funding received under the Existing Debt Allotment (EDA) and Instructional Facilities Allotment (IFA) programs administered by the Texas Education Agency.

Some still do not pass the test. State law allows these Chapter 42 school districts the opportunity to also add a portion of their State funding for maintenance and operations to pass the test. The Texas AG will approve the sale of these bonds with the provision that should the tax base not grow sufficiently to actually keep the I&S tax rate at or below 50 cents, those Districts which included State funded maintenance and operations (M&O) money in the 50 cent test must actually transfer that reported amount of M&O funds to their I&S funds before they exceed a 50 cent I&S tax rate to avoid default and pay their annual principal and interest payment due.

Most current School Building Bonds were approved by voters and issued as Unlimited Tax Bonds, which means the tax rate may be set without any limit as to rate or amount in the future to meet the scheduled principal and interest payment. This Unlimited Tax nature provides a high level of security for the bondholders and leads to the lowest possible interest rates for the bonds, which saves taxpayers and the State of Texas millions of dollars of bond interest cost. It is also a requirement of the Permanent School Fund Guarantee program that only voted, unlimited tax school building bonds may be guaranteed by that program to elevate their bond ratings to triple A.

The other 10% of school districts in Texas are classified as Chapter 41 school districts. Chapter 41 school districts do not receive ANY STATE FUNDING for debt service. Before they may issue voter approved, Unlimited Tax School Building Bonds they must also pass the 50 cent test. Unfortunately, many fast growing Chapter 41 school districts are not able to pass this test, even if their actual I&S tax rate is well below 50 cents.

In north Texas, Frisco ISD is a good example. The current I&S tax rate is \$0.39, well below the 50 cent limit. However, the existing principal and interest payments are scheduled to increase over the life of the outstanding bonds and using the maximum annual future payment and excluding other local funds available to Frisco ISD under an existing Tax Increment Financing District (TIF) set up in the late 1980's to help pay for school facilities, the calculated I&S tax rate under the 50 cent test presented to the Texas Attorney General for his review was \$0.463, which is just under the 50 cent test limit.

The current debt ratio in Frisco ISD is 6.65%.

We suggest allowing Chapter 41 school districts an additional option under the 50 cent test to issue bonds so long as their debt ratio, using current assessed values and including new bonds, is less than 10%. By way of comparison, Texas Law currently permits Counties that issue Unlimited Tax Bonds approved by their voters, the ability to sell Unlimited Tax Bonds so long as their debt ratio would not exceed 25%.

Chapter 41 school districts are not able to add funds to what 50 cents would collect unlike Chapter 42 school districts that are able to add EDA, IFA and even a portion of State funding for maintenance to their 50 cent test in order to issue voter authorized unlimited tax school building bonds.

Should the actual future I&S tax rate exceed 50 cents, due for example to a drop in the assessed value, then that Chapter 41 school district, issuing bonds under the optional 10% rule, would be prohibited from selling more voter approved bonds until the actual rate fell below 50 cents.

In Frisco ISD, this would help Frisco ISD issue bonds less frequently and with shorter maturity schedules, which could save the district and the taxpayers an estimated \$500,000,000 in interest cost on our 2006 bond program because bonds paid over 25 to 30 years will pay much less interest and at lower average rates, than bonds issued for more than 35 years. Shorter maturity schedules would also help us earn better bond ratings, which would also help to lower our interest cost, especially if the Permanent School Fund Guarantee program reaches its program capacity in the next few months. With the present 50 cent test, Frisco ISD may soon be forced to sell bonds with close to the maximum 40 year maturity schedule in order to pass the 50 cent test in its present form.

We believe the option to issue bonds so long as the ratio of outstanding bond principal to current district assessed value is less than 10%, is a fair and equitable manner to help Chapter 41 school districts meet their facilities needs without costing the State of Texas any money while saving district taxpayers money over the life of new bonds approved by the voters to best meet the educational and instructional standards of the community.