LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 10, 2003

TO: Honorable Florence Shapiro, Chair, Senate Committee on Education

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB1295** by Hochberg (Relating to the total amount of public school bonds that may be guaranteed by the permanent school fund.), **As Engrossed**

No fiscal implication to the State is anticipated.

This note is based on analyses made by the Texas Education Agency and the Comptroller's Office.

The bill modifies the limit on the value of bonds that may be guaranteed through the Permanent School Fund (PSF) bond guarantee program authorized in Chapter 45, Texas Education Code. The limit is increased to conform generally with the limit established by private letter ruling from the Internal Revenue Service.

The capacity of the PSF to guarantee bonds under the Guarantee Program is limited in two ways, by State law and by Internal Revenue Service ("IRS") regulations (the "IRS Regulations"). State law limits the capacity of the program to two times the lower of cost or fair market value of the PSF's assets, exclusive of real estate, as estimated by the SBOE and certified by the State Auditor. IRS regulations limit the capacity of the program to two and one-half times the lower of cost or fair market value of the PSF's assets adjusted by a factor that excludes additions to the PSF made since May 14, 1989. At August 31, 2002, the IRS Regulations were more restrictive than State law, with the capacity of the PSF under the IRS Regulations being $33,933,044,725 (the State law capacity, had it been applicable, would have been $34,094,490,424). At August 31, 2002, there were $25,950,594,344 of outstanding school bonds (excluding accreted value of capital appreciation bonds) guaranteed under the Guarantee Program.

There is no direct cost to the state from this change in the authorized limit. If the state limit under current law were to become the more restrictive, the state would stop guaranteeing bonds. The program revenues from application fees generally offset the costs to operate the program, and the risks of default and resulting state payment is very low.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency
LBB Staff: JK, CT