BILL ANALYSIS

Senate Research Center S.B. 389
By: Shapiro
Education
5/24/2007
Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Currently, Section 45.053, Education Code, and Internal Revenue Service (IRS) arbitrage restrict the amount of bonds guaranteed by the Permanent School Fund (PSF) to two-and-a-half times the market value or the cost value of the PSF, whichever is less. Projections forecast that the capacity of the PSF will be consumed by new district bond issuances in two to three years. The existing multiplier is not set at the maximum level to allow the highest bond rating. Consequently, the state has flexibility to modify the multiplier rate and provide additional capacity without a subsequent loss in the rating afforded by the bond-backing guarantee. Incremental changes to the multiplier could potentially jeopardize federal authorization because there is no guarantee that the IRS will grant a review each time the state raises the multiplier.

S.B. 389 increases the maximum for the multiplier to five times the cost value of the PSF and authorizes the State Board of Education to raise the current multiplier to the level consistent with federal regulations that also guarantees the highest bond rating.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the State Board of Education in SECTION 1 (Section 45.053, Education Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 45.053, Education Code, by amending Subsections (a) and (b) and adding Subsection (d), as follows:

> (a) Deletes the market value of the permanent school fund (PSF) from the value considerations included in the formula that the commissioner of education (commissioner) uses to determine appropriate approval of bonds for guarantee. Creates an exception as provided by Subsection (d).
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> (b) Makes a conforming change.
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> (d) Authorizes the State Board of Education (SBOE), by rule, to increase the limit prescribed by Subsection (a) to an amount no more than five times the cost value of the PSF, provided that the increased limit is consistent with federal law and regulations and does not prevent the bonds to be guaranteed from receiving the highest available credit rating. Requires SBOE to consider at least annually whether to change any limit in accordance with this subsection, and prohibits this subsection from being construed to impair, limit, or remove the guarantee of bonds that have been approved by the commissioner.

SECTION 2. Effective date: upon passage or September 1, 2007.