HOUSE RESEARCH ORGANIZATION bill analysis — 5/5/1999

SJR 16
Barrientos, et al. (Hunter)
(CSSJR 16 by Averitt)

SUBJECT: $400 million in general obligation bonds to finance student loans

COMMITTEE: Financial Institutions — committee substitute recommended

VOTE: 6 ayes — Averitt, Solomons, Elkins, Grusendorf, Marchant, Juan Solis

0 nays

3 absent — Denny, Ehrhardt, Pitts

SENATE VOTE: On final passage, April 8 — 30-0

WITNESSES: *(On House companion, HJR 83:)*
For — None

Against — None

On — Don Brown, Texas Higher Education Coordinating Board

BACKGROUND: Texas voters have approved a total of $960 million in general obligation bonds since 1965 for the state's Hinson-Hazlewood College Student Loan Program. The latest vote, in 1995, authorized $300 million in bonds. All but $150 million of the bonds authorized have been sold. The Texas Higher Education Coordinating Board plans to sell the remaining $150 million of authorized bonds by the year 2000.

Education Code sec. 52.82 (d) prohibits the coordinating board from issuing more than $100 million in bonds a year. The bonds are subject to review and approval of the Bond Review Board.

Art. 3, sec. 49, of the Texas Constitution prohibits state debt, but voters have amended the article numerous times to authorize debt in the form of general obligation bonds. Repayment of debt from general obligation bonds is guaranteed by the state, and payments are made from the first money coming into the treasury each year.

Several student loan programs are administered through the Texas Opportunity Plan Fund by the coordinating board under the umbrella of the

Hinson-Hazlewood College Student Loan Program. The Hinson-Hazlewood program is self-supporting, using money from student loan repayments, federal interest subsidies, lenders allowance, and depositor interest to offset state borrowing costs.

The amendments for the Hinson-Hazlewood Program are found in Art. 3, sec. 50b, adopted in 1965, for $85 million in general obligation bonds for loans to Texas residents who attend public or private institutions of higher education in Texas; $200 million authorized in 1969, by sec. 50b-1; $75 million in 1989, by sec. 50b-2; $300 million in 1991, by sec. 50b-3; and $300 million in 1995, by sec. 50b-4.

DIGEST: CSSJR 16 would authorize the Legislature to allow the Texas Higher Education Coordinating Board to issue up to $400 million in general obligation bonds to finance educational loans to college and university students, in addition to those authorized by the amendments to the Texas Constitution in Article 3.

CSSJR 16 would be submitted to voters during the first election in which any constitutional amendment was submitted by the Legislature, or on November 2, 1999, whichever occurred first.

The ballot proposal would read: "The constitutional amendment providing for the issuance of $400 million in general obligation bonds to finance educational loans to students."

SUPPORTERS SAY: The bonds that CSSJR 16 would authorize are needed for the coordinating board to meet the growing demand for financial assistance and to help meet the workforce needs of an expanding Texas economy. Without CSSJR 16, approximately 11,000 college students would not receive Hinson-Hazlewood loans and would not have enough money to enroll in the fall semester of 2001. The amount available for student loans would drop from about $77 million to $23 million.

The additional $400 million in bonds authorized by CSSJR 16 would fund the Hinson-Hazlewood program for four to five years. This important loan program aids students who otherwise could not afford to attend college. The Hinson-Hazlewood program has assisted more than 265,000 Texas students by lending nearly $1.2 billion in student loans. In fiscal year 1998, the program assisted almost 16,000 students.

Hinson-Hazlewood loans are attractive to students because they offer a one percent rebate that is applied to the principal of the loan. Commercial lenders do not offer this benefit on student loans.

The Hinson-Hazlewood program operates as a self-supporting fund, but because most of the many loans made in recent years are not yet due, the loan fund has not been replenished with loan payments. The bonds issued from CSSJR 16 would help fund the program until payments on more recent loans begin to come in.

The default rate on Hinson-Hazlewood loans is below seven percent. Nearly all of the coordinating board's student loans are insured by the federal government, so repayment is assured even if students default on the loans. The few loans not guaranteed by the federal government or the state guarantee fund have a co-signer who could be held responsible for the loan if the student defaults.

Since general obligation bonds are guaranteed by the state, they are a secure investment that is attractive to buyers. General obligation bonds cost the state less in interest than revenue bonds. Unlike state bonds used to finance large capital projects like prisons, these bonds would be paid back, not by taxpayers, but by borrowers with interest. The Bond Review Board classifies coordinating board college student-loan bonds as self-supporting and does not expect them to draw on general revenue. Therefore, these bonds do not affect the state's debt-limit ratio.

A smaller size bond program would only mean the coordinating board would have to request additional authority within the next two years or to request authority to sell revenue bonds, which are more a more expensive form of funding to the state.

OPPONENTS SAY:

The state should be wary of piling up additional debt. As of August 31, 1998, the state bond debt totaled $11.7 billion, of which $5.2 billion was general obligation bonds. Any new debt-creating measure needs to be examined in view of the overall debt.

Students also should be wary of building debt. Education is an investment that greatly increases an individual's lifetime earnings potential. However, as of August 31, 1998, student debt was $7,051 for each student enrolled in a Texas school. Of the $810 million of bonds sold over the life of the Hinson-Hazlewood program, $510 million is still outstanding. Students should carefully consider their loan decisions, balancing the lifetime investment against the debt burden incurred.

NOTES: CSSB 184 by Barrientos, also on today's calendar, would implement provisions of CSSJR 16.

The LBB estimates that if $400 million in bonds were sold, debt service would be approximately $5.9 million in fiscal 2001, $11.3 million in fiscal 2002, $16.9 million in fiscal 2003, and $22.6 million in fiscal 2004.

The committee substitute made technical corrections to the Senate version.