HOUSE RESEARCH ORGANIZATION bill analysis	5/14/2001	SB 1671 Jackson (J. Davis, Kitchen)

SUBJECT: School district bonding authority to buy new school buses

COMMITTEE: Public Education — favorable, without amendment

VOTE: 7 ayes — Sadler, Dunnam, Grusendorf, Hochberg, Oliveira, Olivo, Smith

0 nays

2 absent — Dutton, Hardcastle

SENATE VOTE: On final passage, April 2 — 28-2 (Fraser, Staples)

WITNESSES: *(On House companion bill, HB 1488:)*
For — Bill Carpenter, Houston Independent School District; Robert N. Jocius, Eanes Independent School District; Robert Hart, Lake Travis Independent School District

Against — None

BACKGROUND: Education Code, sec. 45.001 allows school districts to use bonds to finance:

- the construction, acquisition and equipping of buildings;
- the acquisition or refinancing of real or personal property under the Public Property Finance Act (Local Government Code, ch. 271, subchapter A); or
- the purchase of school building sites.

The bonds must mature in 40 years or less, receive voter approval, and may be repaid with ad valorem tax revenue.

DIGEST: SB 1671 would make new school buses eligible for purchase through school district bonded indebtedness. The bill also would repeal the term "negotiable coupon" in reference to bonds that school districts may issue.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

SUPPORTERS SAY:

Current law caps school districts' property tax rates for maintenance and operations (M&O) at $1.50 per $100 assessed valuation. Many districts have reached or are approaching that cap. They are struggling to meet property and equipment expenses under the current school finance system. By allowing school districts the option of using bonds to finance purchase of new school buses, SB 1671 would give districts greater budgetary flexibility within the constraints of the existing school finance system.

School buses currently must be paid for out of M&O budgets, either through outright purchases or expensive leases. Buses are a major capital outlay costing as much as $70,000 per 72-passenger bus. Allowing districts to finance bus purchases through bonds would give them much-needed flexibility to acquire new buses when enrollment increased or bus attrition so dictated.

The bill would be permissive and merely would increase districts' options. Voters still would have to authorize the bonds as general obligations, and the attorney general still would have to approve them before issuance. If properly maintained, most school buses should last 20 years, depending on routes and equipment. That could make bond financing attractive to cash-strapped districts, especially if buses were included in a package with buildings.

Requiring buses bought with bonds to burn a certain type of fuel would be arbitrary and discriminatory. It would be unfair to put fuel restrictions on one group of buses based on their method of financing and not on all buses.

OPPONENTS SAY:

School bonds are intended for high-dollar projects involving fixed assets, not cheaper durable goods that must be replaced. Bond issues under $3 million are not cost-effective, nor are issues for items whose useful lives are less than the bond maturity period. Districts would have to buy several buses or a fleet to make bonding worthwhile. Combining them with buildings would not be feasible if the buses had shorter useful lives than the buildings.

Allowing bonding for vehicles without limiting the bond terms could tempt some school boards to issue too much debt. Borrowing their way out of a short-term transportation problem could prove detrimental to districts' long-term financial health.

Interest always increases the cost of buying through borrowing. In addition to interest, school districts issuing bonds also incur fees for bond counsel, underwriting, and financial consulting. A better option for districts that could not afford outright purchasing would be lease-purchasing. Furthermore, some manufacturers will lease buses directly to districts, which also could be less expensive than bonding.

Buses also could be purchased through certificates of participation or commercial paper programs. The law already allows districts other financing options besides bonds, such as interest-bearing time warrants and negotiable notes.

Property-poor districts likely would not benefit from this bill. They typically have difficulty obtaining bonding authority from voters, often low-income families who cannot afford tax increases. Besides, many of those districts already have access to state revenue for equipment and vehicle acquisition. Some property-rich districts could use bonded bus purchases to shift expenditures from M&O to interest and sinking funds not subject to state recapture. That would reduce the amount of local tax revenue they would have to send the state under the current “Robin Hood” system. This could allow an unfair circumvention of the law that only would serve to increase funding inequities for many Texas schoolchildren.

As more districts approach the $1.50 cap, it is apparent that the state’s school finance system is headed for yet another crisis. Districts should not be allowed to circumvent the property tax cap through bonding. Rather, the state should avoid such “quick fixes” and deal with the persistent problems underlying the entire system, instead of postponing the inevitable and letting the courts decide the issues. The Legislature should postpone consideration of “cap-busting” measures at least until completion of an interim school finance study.

OTHER OPPONENTS SAY:

Buses are a major source of air pollution, especially in large urban and upper Gulf Coast areas. If the state is going to expand bond purchasing authority to school buses, they should be required to burn clean diesel fuel or natural gas.

NOTES: The companion bill, HB 1488 by Kitchen, was considered in public hearing April 10 by the House Public Education Committee and referred to a subcommittee.