

SUBJECT: General obligation bonds to finance student loans

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 24 ayes — Chisum, Guillen, Allen, Branch, B. Brown, F. Brown, Chavez, Crownover, Darby, J. Davis, Dukes, England, Hopson, Isett, Jackson, Kolkhorst, Lucio, McClendon, McReynolds, Otto, Taylor, Turner, Van Arsdale, Zerwas

0 nays

5 absent — Gattis, Harper-Brown, Menendez, Noriega, Riddle

SENATE VOTE: On final passage, May 17 — 31-0

WITNESSES: No public hearing

BACKGROUND: Education Code, sec. 52 governs student loan programs. Sec. 52.01 authorizes the Texas Higher Education Coordinating Board (THECB) to administer the Hinson-Hazlewood College Student Loan Program. It provides low-interest loans to eligible students seeking an undergraduate, graduate, or professional education through public or independent institutions of higher education in Texas.

The loan program is totally self-supporting and receives no general revenue appropriations. It uses money from student loan repayments, federal interest subsidies, lenders allowance, and depositor interest to offset state borrowing costs and is used to fund the Hinson-Hazlewood Federal Stafford Loan, the Hinson-Hazlewood College Access Loan, the Hinson-Hazlewood Health Education Loan, and the Texas B-on-Time loan programs.

Texas Constitution, Art. 3, secs. 50b-4 and 50b-5 authorizes the Hinson-Hazlewood Program, which was adopted in 1965 and included the authorization of \$85 million in general obligations bonds for loans to Texas residents who attended public or private higher education institutions in the state. The following amounts in general obligation bonds have been authorized over the years: \$200 million in 1969; \$75

million in 1989; \$300 million in 1991; \$300 million in 1995; and \$400 million in 1999.

Between 1965 and 1998, Texas voters have approved constitutional amendments creating the Texas Opportunity Plan Fund and the Student Loan Auxiliary Fund, which are under the umbrella of the Hinson-Hazlewood College Student Loan Program, and have authorized a total of \$1.4 billion in general obligation bonds to help finance student loans in Texas. The last vote, in 1999, authorized \$400 million in bonds, and all but \$175 million of the bonds authorized have been sold. According to THECB projections, the current authorization will be exhausted by the spring of 2009.

Education Code, sec. 52.82(d) prohibits THECB from issuing more than \$125 million in bonds per 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 these bonds is guaranteed by the state, and payments are made from the first money coming into the treasury each year.

DIGEST:

SB 1640 would authorize THECB to issue up to \$500 million in general obligation bonds to administer the student loan program authorized by ch. 52 of the Education Code, under Art. 3, 50b-6 of the Texas Constitution.

The bill would eliminate references to sections of the Texas Constitution that have been repealed and would clarify that THECB could administer the loan program pursuant to any former provision of the Constitution authorizing bonds, as well as the provision established by the bill, to finance educational loans to students. It also would make conforming changes to other sections of the Education Code relating to repealed sections of the Constitution.

The bill would take effect on the date the constitutional amendment — SJR 57 by Williams — which would allow the Legislature to authorize issuance of the bonds, was approved by the voters for that purpose. If the amendment were not approved by the voters in November 2007, SB 1640 would not take effect.

**SUPPORTERS
SAY:**

SB 1640 would authorize bonds that are needed for the THECB to meet the growing demand for financial assistance and to help meet the workforce needs of an expanding Texas economy. This program has a demonstrated record of success and is self-supporting, depending not on tax dollars but on money from student loan repayments, federal interest subsidies, and other sources. Using state-issued general-obligation bonds as the funding source for the program allows a lower interest rate. While Hinson-Hazlewood bonds represent state debt, the borrowed funds are repaid by students, not by taxpayers, and the loan interest is recycled to help future students. The bonds do not affect the state's constitutional debt limit for taxpayer-funded bonds, such as those used to finance prison construction, because the Bond Review Board classifies college student loan bonds as self-supporting.

The additional \$500 million in bonds authorized by the bill would give THECB a total of \$675 million in available bonding authority, which would satisfy loan demands through 2015. This loan program makes higher education more affordable for students by giving them a reliable source of funds, often at more favorable rates than they could obtain otherwise. Access to higher education always has depended on a partnership between students, their families, private donors, and local, state, and federal government agencies. A more limited bond program would require the THECB to request additional bond authority within the next biennium or request authority to sell revenue bonds, which represent a more expensive form of funding for the state.

Other bond-issuing agencies, such as the Veterans Land Board and the Water Development Board, have authority to enter into bond enhancement agreements, which allows them to leverage bonds as much as possible. THECB should have the same authority because it would provide more money for student loans.

**OPPONENTS
SAY:**

Students should be wary of accumulating debt, and any new debt-creating measure needs to be examined in view of their overall debt. Students carefully should consider their loan decisions, balancing a lifetime investment against the debt burden incurred.

NOTES:

SJR 57 by Williams, the constitutional amendment that would authorize SB 1640, appears on today's Constitutional Amendments Calendar.