SUBJECT: Authorizing general obligation bonds to finance student loans

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 22 ayes — Chisum, Guillen, Allen, Branch, F. Brown, Chavez, Darby, J. Davis, Dukes, England, Hopson, Isett, Jackson, Kolkhorst, Lucio, McClendon, McReynolds, Otto, Taylor, Turner, Van Arsdale, Zerwas

0 nays

7 absent — B. Brown, Crownover, Gattis, Harper-Brown, Menendez, Noriega, Riddle

SENATE VOTE: On final passage, May 15 — 30-0

WITNESSES: No public hearing

BACKGROUND: 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 to finance loans to Texas residents who attended public or private higher education institutions in the state. The following amounts in general obligation bonds to finance the program 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.

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.

Between 1965 and 1998, Texas voters have approved constitutional amendments creating the Texas Opportunity 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: SJR 57 would amend Art. 3 of the Texas Constitution by adding secs. 50b-6 and 50b-6A to authorize the Legislature to allow THECB to issue up to $500 million in general obligation bonds to finance educational loans to college and university students, in addition to those already authorized under Art. 3, secs. 50b-4 and 50b-5.

The proposed amendment would authorize the Legislature to allow THECB to enter into bond enhancement agreements with respect to any bonds issued under sec. 50b-4, 50b-5, or 50b-6. Payments due from the THECB under the bond enhancement agreement would be treated as payments of the principal and interest on the bonds, and money appropriated for the purpose of paying the principal and interest on the bonds could be used to make payments under the bond enhancement agreements.

SJR 57 would be presented to the voters at an election on Tuesday, November 6, 2007. The ballot proposal would read: “The constitutional amendment providing for the issuance of $500 million in general obligation bonds to finance educational loans to students and authorizing bond enhancement agreements with respect to general obligation bonds issued for that purpose."

SUPPORTERS SAY:

SJR 57 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 proposed amendment 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: SB 1640 by Williams, which appears on today's Emergency Calendar, would implement the provisions of SJR 57.