SUBJECT: General obligation bonds to finance student loans

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 6 ayes — Branch, Castro, Alonzo, Brown, D. Howard, Patrick

0 nays

3 absent — Bonnen, Johnson, Lewis

SENATE VOTE: On final passage, April 28 — 27-4 (Hegar, Nelson, Ogden, Seliger)

WITNESSES: For — Carol McDonald, Independent Colleges and Universities of Texas, Inc.

Against — None

On — John Barton, Texas Bond Review Board; Tim Deithloff, Dan Weaver, Texas Higher Education Coordinating Board; (*Registered, but did not testify*: Rob Latsha, Texas Bond Review Board)

BACKGROUND: Education Code, sec. 52.01 authorizes the Texas Higher Education Coordinating Board, or its successors, to administer the Hinson-Hazlewood College Student Loan Program (HH loan program), which was adopted in 1965 and uses general obligation bonds to finance low-interest loans to eligible students seeking an undergraduate, graduate, or professional education at public and private higher education institutions in Texas.

These alternative loans are intended for students with insufficient resources to finance a college education and are used to make up the difference between what a student can get from other sources and the cost of attendance. The program is self-supporting and receives no general revenue appropriations. It uses money from student loan repayments.

Education Code, sec. 52.82(d) prohibits the coordinating board from issuing more than $125 million in bonds per year. The bonds are subject to review and approval of the Bond Review Board.

Texas Constitution, Art. 3, secs. 50b-4, 50b-5, and 50b-6 authorize the HH loan program for loans to Texas residents who attend public or private higher education institutions in Texas. The Legislature has authorized the following amounts in general obligation bonds over the years: $200 million in 1969; $75 million in 1989; $300 million in 1991; $300 million in 1995; and $400 million in 1999. Most recently, in 2007, it authorized $500 million. According to coordinating board, about $400.4 million of unissued bond authorization remains. It is projected that the remaining authority will be exhausted by 2013.

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 1799 would authorize the Texas Higher Education Coordinating Board to issue up to $350 million in general obligations bonds to finance the student loan program authorized by ch. 52 of the Education Code, under Art. 3, sec. 50b-7, of the Texas Constitution. The principal amount of outstanding bonds issued under the bill would have to at all times be equal to or less than the amount provided by Art 3., sec. 50b-7, which would be added if SJR 50 by West, a proposed constitutional amendment, is adopted by the Legislature and approved by the voters.

The bill would redefine general obligation bond to include bonds issued under sec. 50b-7, Art. 3 of the Texas Constitution. It would delete language authorizing the coordinating board by resolution to authorize the issuance of general obligation bonds in total aggregate amounts not to exceed $300 million under former sec. 50b-3; $300 million under sec. 50b-4; $400 million under sec. 50b-5; and $500 million under sec. 50b-6, Art. 3, Texas Constitution.

The performance of official duties prescribed by current law regarding payment of the bonds being enforced in a court of competent jurisdiction by mandamus would include bonds issued under 50b-7, Art. 3, Texas Constitution.

The bill would take effect on the date SJR 50, the proposed constitutional amendment providing for issuance of general obligation bonds to finance student loans, took effect. If the amendment were not approved by the voters, the bill would not take effect.

SUPPORTERS SAY:

SB 1799 proposes to increase the amount of student loan bonds that the coordinating board could issue from $125 million each fiscal year to $350 million each fiscal year to meet the anticipated increased loan demand. Every four to six years, the coordinating board must seek a constitutional amendment to authorize additional bonding capacity to meet ongoing student loan demand. Texas voters have authorized seven constitutional amendments totaling $1.86 billion to provide funds for the HH loan program. This program has a demonstrated record of success and is self-supporting, depending not on tax dollars, but on money from student loan repayments to pay the interest and principal on the bonds.

The coordinating board has conservatively managed the program for more than 45 years and never relied on general revenue to pay the costs of issuing, serving, or repaying the bonds issued. Furthermore, these bonds do not count against the state bond debt cap because they are financed through loan repayments, not general revenue. It is critical to provide more options for students given the short-term challenges for other state-funded financial aid programs.

The fixed rate currently charged by the coordinating board for its College Access Loans (CAL), which is one of the loans that comprises the HH loan program, is 6 percent. This is one of the most competitive student loans in the country. Student demand for low-interest loans with stable rates is increasing as access to other financial aid programs are constrained by fiscal challenges.

Limiting the amount of bonds to $125 million each year limits the amount the coordinating board can offer to students. If the state ends up reducing student financial aid in the upcoming biennium, then Texas students would need additional sources of money for college. Increasing low-cost options for students to achieve their postsecondary education goals would support the state's Closing the Gaps goals by improving student access. Increasing the coordinating board's ability to take on a greater share of the alternative student loan market would provide far more competitive rates for students.

OPPONENTS SAY:

Now is not the time to increase state borrowing by authorizing the issuance of $350 million in additional bonds. Even though the program is self-supporting, this would add to overall state debt because the bonds are considered an obligation of the state. If the economy does not improve and there was a high rate of default on the loans, the cost to the state could be considerable.

NOTES: SJR 50 by West, the proposed constitutional amendment that would allow the Legislature to authorize issuance of an additional $350 million in student loan bonds, is on the May 24 Constitutional Amendments Calendar.