SUBJECT: Permanent School Fund guarantee of refinanced charter school bonds

COMMITTEE: Public Education — committee substitute recommended

VOTE: 11 ayes — Aycock, Allen, J. Davis, Deshotel, Dutton, Farney, Huberty, K. King, Ratliff, J. Rodriguez, Villarreal

0 nays

WITNESSES: *(On original bill:)*
For — Wayne Alldredge, NYOS Charter School; David Dunn, Texas Charter Schools Association; Martha Fernandez, Rosa Olmos Garner, and Ann Stevenson, Uplift Education; (*Registered, but did not testify:* Matthew Abbott, Wayside Schools; Michelle Bonton, Natalie Leffall, and Angeil Washington, The Rhodes School; Mark DiBella, YES Prep Public Schools; Andrew Erben, Texas Institute for Education Reform; Eric Glenn, Texas Charter School Association; Richard Rickey, Orenda Education; Nelson Salinas, Texas Association of Business; Larkin Tackett, IDEA Public Schools; Justin Yancy, Texas Business Leadership Council; and three individuals)

Against — (*Registered, but did not testify:* Tiffany Wennerstrom)

On — Lisa Dawn-Fisher, Texas Education Agency; (*Registered, but did not testify:* David Anderson, Texas Education Agency

BACKGROUND: In 2011, the 82nd Legislature, 1st called session, enacted SB 1 by Duncan, which allows open-enrollment charter schools that meet certain financial standards to apply to the commissioner of education for designation as a charter district. A charter district may apply for bonds guaranteed by the Permanent School Fund (PSF).

The law limits bond guarantees to the percentage of students enrolled statewide in charter schools compared to the total number of students enrolled in all public schools. Under current enrollment that number is 3 percent.

The bond guarantee program is on hold pending an IRS ruling, according to the Texas Education Agency (TEA).

DIGEST:

CSHB 885 would specify that charter districts could apply to refinance existing debt through bonds guaranteed by the PSF. The bill would cap the amount available for refunded or refinanced bonds at one-half of the total amount available for the charter district bond guarantee program.

The bill would take effect September 1, 2013 and would apply only to bonds issued, refunded, or refinanced after the effective date.

SUPPORTERS SAY:

CSHB 885 would help eligible charter schools save millions of dollars by allowing them to refinance existing bonds at lower rates. The assumed interest savings on a $10 million, 30-year bond with the PSF-backed guarantee would be $10 million.

The bill would clarify that the bond guarantee program for charter schools applies to refunded and refinanced bonds as well as new bonds. Charter schools that have purchased bonds to improve their facilities should have the opportunity to lower their interest rates for the remainder of the repayment period. Charter schools that are able to reduce their facilities costs could have more money for expansion to serve the 100,000 families who are on waiting lists statewide.

Charter schools are at a distinct disadvantage compared to public schools when it comes to facilities funding. They are not allowed to levy taxes to pay for their facilities and are not eligible for programs that provide state funding to help eligible school districts with facilities costs.

CSHB 885 would limit the refinance program to half of the available PSF funds to ensure sufficient money was available for charters schools planning new bond purchases. The bill also would not change the total amount of the PSF that could be tapped for charter school facilities funding.

Existing protections for the bond program would apply to refinancing. Charter schools must be designated as charter districts after undergoing a TEA review, which examines the school's accreditation and the total amount of outstanding guaranteed bonds. The schools must have an investment-grade credit rating. All charter districts with bond guarantees must remit 10 percent of the annual realized savings to a reserve fund in the state treasury as a safeguard in case of default.

Out of 500 charter schools, there are only 93 outstanding bond issues totaling about $1 billion. Not all of them would be eligible for refinancing, so the PSF should be able to handle the additional underwriting.

OPPONENTS SAY:

Existing law limits the amount of guaranteed charter school bonds to 3 percent of the $25 billion PSF, or $75 million. With limited available funds, the priority should be to guarantee new debt and not to refinance existing debt. New debt is more likely to result in expanded facilities, which would allow more children on charter school waiting lists to be served.

CSHB 885 would establish a bond guarantee policy for charter schools that is inconsistent with the policy that applies to public schools, which can only apply for refinancing of debt that was originally guaranteed by the PSF.

It is unclear who owns a charter school facility if a school fails. This could result in the state having to pay off bonds but not having any claim to the facility.

NOTES:

The committee substitute differs from the bill as filed in that it would cap refinanced bonds at an amount not to exceed one-half of the total PSF available for guarantee.