



Lawrence F. Alwin, CPA

April 23, 2001

Members of the Legislative Audit Committee:

We certify that the amount of bonds guaranteed by the Permanent School Fund Bond Guarantee Program (Program) is within the limit prescribed by Texas Education Code, Section 45.053(a). As of August 31, 2000, the Program guaranteed \$19,465,822,840 in bonds, or approximately 57.9 percent of the statutory limit. The maximum amount allowable for guarantee was \$33,602,740,378. In fiscal year 1999, this ratio was 60.4 percent. This certification is required by Texas Education Code, Section 45.053(b). The Program was created as a means for school districts to improve the credit rating and marketability of their bonds.

It appears that legislative action is not required at this time. However, the bond guarantee status must be monitored continually because Texas Education Code, Section 45.053(a), specifies that the Commissioner of Education may not approve bonds for guarantee if the approval would result in the total amount of outstanding guaranteed bonds exceeding the statutory limit. The guarantee status is affected by changes in school districts' bonded debt, the asset value of the Permanent School Fund (Fund), and oil and gas revenue from the Fund land.

Two regulations set maximums for the amount of bonds the Fund can guarantee. Texas Education Code, Section 45.053(a), sets the capacity at 200 percent of the cost or market value of the Fund (whichever is lower), excluding real estate. An Internal Revenue Service (IRS) Letter Ruling sets a limit of 250 percent of the amortized cost or market value of the Fund (whichever is lower), adjusted for land income after May 15, 1989.

We appreciate the Texas Education Agency's cooperation on this project. If you have any questions, please contact Carol Smith, CPA, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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cc: Mr. Jim Nelson, Commissioner of Education, Texas Education Agency
Members of the State Board of Education
Mr. Paul B. Ballard, Executive Administrator, Permanent School Fund

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A Report on Certification of the Permanent School Fund's Bond Guarantee Program

Objective, Scope, and Methodology

Our objective was to determine if the total amount of school district bonds guaranteed by the Fund exceeded the limits established by the statute or the IRS Letter Ruling. We limited the scope to the amount of outstanding guaranteed bonds as of August 31, 2000.

To analyze bond information, we (1) gained an understanding of governing statutes and business processes, (2) interviewed Texas Education Agency staff members, and (3) compared bond information with external sources including independent audit reports of certain school districts.

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