May 3, 2000

Members of the Legislative Audit Committee:

We certify that the amount of bonds guaranteed by the Permanent School Fund’s Bond Guarantee Program (Program) is within the limit prescribed by Section 45.053(a) of the Texas Education Code. As of August 31, 1999, the maximum amount allowable for guarantee was $28,281,801,658 and the bonds guaranteed by the Program totaled $17,095,928,584. This certification is required by Section 45.053(b) of the Texas Education Code. The Program was created as a means for school districts to improve the credit rating and marketability of school district bonds.

According to an analysis performed by Texas Education Agency (Agency) staff, the Program is projected to reach its capacity to guarantee school district bonds between 2003 and 2008. In our opinion, the Program will likely reach capacity in 2004. It appears that legislative action is not required at this time. However, the situation should be monitored and action taken if needed. Periodic monitoring is important, considering the high growth rate in school districts’ bonded debt in the past few years.

Two regulations set maximum bond amounts the Permanent School Fund can guarantee. The Texas Education Code sets the capacity at 200 percent of the cost or market value of the Permanent School Fund, excluding real estate (whichever is lower). An Internal Revenue Service (IRS) Letter Ruling sets a limit of 250 percent of the amortized cost or market value of the Fund adjusted for additions after May 15, 1989 (whichever is lower).

We appreciate the Agency’s cooperation on this project. If you have any questions, please contact Carol A. Smith, CPA, Audit Manager, at (512) 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cc: Mr. Jim Nelson, Commissioner of Education, Texas Education Agency
    Members of the State Board of Education

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 and the IRS Letter Ruling. We limited the scope to the amount of bonds as of August 31, 1999.

To analyze bond information, we (1) gained an understanding of governing statutes and business processes, (2) interviewed Agency personnel, (3) reviewed calculations and projections on debt capacity made by Agency personnel, and (4) compared bond information with external sources, including independent audit reports of certain school districts.