

**SUBJECT:** Authorizing general obligations 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, Inc.  
Against — None  
On — John Barton, Texas Bond Review Board; Tim Deithloff, Dan Weaver, Texas Higher Education Coordinating Board

**BACKGROUND:** Texas Constitution, Art. 3, secs. 50b-4, 50b-5, and 50b-6 authorize the Hinson-Hazlewood College Student Loan Program (HH loan program) for loans to Texas residents who attend public or private higher education institutions in Texas.

Under Education Code, sec. 52.01, the Texas Higher Education Coordinating Board, or its successors, is authorized to administer the 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. The program is intended for students with insufficient resources to finance a college education.

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 the coordinating board, about \$400.4 million of unissued bond authorization

remains. It is projected that the remaining authority will be exhausted by 2013.

**DIGEST:**

SJR 50 would add Art. 3. sec. 50b-7 to the Constitution, authorizing the Legislature to allow the coordinating board to issue and sell general obligation bonds to finance educational loans to college students in the manner provided by law. The principal amount of outstanding bonds issued would have to at all times be equal to or less than the aggregate principal amount of state general obligation bonds previously authorized for that purpose by any other provision or former provision of the Constitution.

The bonds would be executed in the form, on the terms, and in the denomination, bear interest, and be issued in installments as prescribed by the coordinating board.

The maximum net effective interest rate to be borne by bonds issued could not exceed the maximum rate provided by law. The Legislature could provide for the investment of bond proceeds and could establish and provide for the investment of an interest and sinking fund to pay the bonds. Income from the investment would have to be used for the purposes prescribed by the Legislature.

Any of the bonds issued or interest on the bonds would be outstanding and unpaid, money appropriated in each fiscal year, not otherwise appropriated by the Constitution, a sufficient amount to pay the principal and interest on the bonds that mature or become due during the fiscal year, less any amount in an interest and sinking fund at the end of the preceding fiscal year that is pledged to the payment of the bonds or interest.

After the approval by the attorney general, registration by the comptroller of public accounts, and delivery to the purchasers, the bonds would be incontestable.

The proposal would be presented to the voters at an election on Tuesday, November 8, 2011. The ballot proposal would read: "The constitutional amendment providing for the issuance of general obligation bonds of the State of Texas to finance educational loans to students."

**SUPPORTERS  
SAY:**

SJR 50 would authorize the issuance of general obligation bonds for the Hinson-Hazlewood loan program. 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.

SJR 50 would propose amending the Constitution to authorize the coordinating board to issue additional general obligation bonds so long as the aggregate amount did not exceed the total amount already authorized by previous legislatures and the voters. Authorizing the coordinating board to issue additional bonds through an ongoing, “evergreen” bond authority would allow it to secure uninterrupted bonding authority to fulfill its constitutional mission as well as simplify its bond authorization process by avoiding repeated and costly constitutional amendments.

In 2009, the 81st Legislature proposed a similar evergreen provision for the state bonds issued the Veterans’ Land Board to finance the state program that provides low-interest loans for land and home mortgages for veterans, and Texas voters overwhelmingly approved that provision. This session, the Legislature already has adopted and submitted for voter approval SJR 4 by Hinojosa, which would adopt a similar evergreen provision for water development bonds.

The HH student loan 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. Over the life of the program, the coordinating board has issued \$1.4 billion in general obligation bonds to support the program.

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 is constrained by fiscal challenges.

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 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 did not improve and there was a high rate of default on the loans, the cost to the state could be considerable.

SJR 50 would re-authorize the issuance of bonds originally authorized as long as 40 years ago and since paid off and retired. The Legislature and the voters should retain their oversight authority to approve the issuance of state bonds periodically to determine the need for this level of state borrowing.

**NOTES:**

The enabling legislation for SJR 50, SB 1799 by West, was reported favorably from the House Higher Education Committee on May 18 and was placed on the May 23 General State Calendar.