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FGSC POLICY CONTACTS

Michelle Smith & David Anderson
HillCo Partners
(512) 480-8962
msmith@hillcopartners.com
danderson@hillcopartners.com

Dan Casey & Bob Popinski
Moak, Casey & Associates
(512) 485-7878
dcasey@moakcasey.com
bpopinski@moakcasey.com

Marty DeLeon
Escamilla & Poneck
(512) 415-9610
mdeleon@escamillaponeck.com

Colby Nichols
Powell & Leon
(512) 494-1177
cnichols@powell-leon.com

CONTACT FGSC

Guy Sconzo
Executive Director
(281) 352-8525
guy@fastgrowthtexas.org
401 West 15th Street, Suite 695
Austin, Texas 78701



Protect the Permanent School Fund and local taxpayers by opposing any expansion of the PSF Bond Guarantee Program

WHAT IS THE ISSUE?

As of November 30, 2016, charter schools have \$2.30 billion of school debt outstanding of which \$1.06 billion is guaranteed by the PSF (Permanent School Fund) Bond Guarantee Program. This guaranteed amount is expected to rise in the coming months which is of significant concern to those of us who seek to protect the PSF and our local taxpayers.

On August 24, 2016, the Texas Education Agency (TEA) updated its PSF Bond Guarantee Program disclosure to include a new section entitled “Charter School Risk Factors.” The disclosure referenced that in the event of a charter school default or revocation, TEA may not have the ability to reimburse the PSF and in certain circumstances, TEA’s access to the assets of a charter school may be subordinate to other charter creditors--mitigating its ability to recover the cost of future bond payments.

Meanwhile, the 75 fastest growing school districts in Texas represent 44 percent (\$51.39 billion) of total school district facilities debt. Unlike charter schools, this debt is voter approved and would be the responsibility of local taxpayers (not the state) if that school district were to default on its debt. If a PSF-backed charter school were to default on its debt, the state would be forced to pay back the debt and would put future bond ratings for school districts and charter schools in danger.

In 2001, the state supported 45 percent of local school district facilities debt through two allotment programs (the Existing Debt Allotment and Instructional Facilities Allotment) but that amount has declined to less than 7 percent today. Why would state legislators want to prioritize facilities funding for higher risk privately-owned charter schools while local taxpayers suffer the consequences of declining financial support from the state?

The members of the Fast Growth School Coalition look forward to a continued conversation with legislators as they seek to protect three of the state’s greatest assets: public school students, the Permanent School Fund and local taxpayers. Please see below for our specific recommendations.

AS A LEGISLATOR, WHY SHOULD YOU BE CONCERNED?

1. If a school district were to default on its debt, the district would either have to pay off its debt or be absorbed by a neighboring district. However, if a PSF-backed charter school were to default on its debt, the state would have to pay off the charter school’s debt.
2. If PSF-backed charters begin to default, ratings agencies will begin to lower ratings for every school district and charter in the state, resulting in higher interest costs for all involved.

3. The state's contribution to facilities debt for traditional districts has declined from 45% to lower than 7%. The state's contribution to our fastest growing school districts is less than 5%.
4. The premise behind charter schools is that they can get better results for less money. When charter operators sign their charter, they are agreeing to function with no facilities assistance. Furthermore, charter schools who receive high ratings under the new A-F rating system are clearly performing as intended without facilities assistance.

RECOMMENDATIONS TO PROTECT THE PERMANENT SCHOOL FUND AND TAXPAYERS

1. Leave the bond guarantee rate where it currently is and encourage the SBOE to protect the Permanent School Fund by not expanding charter school board guarantee access.
2. Encourage the SBOE to only consider future bond guarantee access based on available PSF capacity as opposed to total PSF capacity, as is current practice.
3. Strengthen the requirements for accessing charter school bond guarantees to include academic performance and student retention rates in addition to financial performance.
4. Incentivize communities to utilize in-district charters (as opposed to for-profit charters) which would allow them to access state facilities funding (EDA/IFA).
5. Incentivize communities to utilize municipal charters under Tx Ed Code Sec 12.132.
6. Prioritize debt relief for local taxpayers in traditional school districts through our existing state allotment programs.
7. Strengthen language regarding who owns a charter school campus in the event that a charter defaults or is revoked. (TEA currently has a significant amount of assets that are considered "abandoned property" thus putting the agency in the strange position of landowner.)
8. Require that the State be first lien holder on any property acquired through debt guaranteed by the PSF.
9. Require frequent audits and financial statements by approved independent audit firms to ensure that public funds are being utilized wisely during the construction and maintenance of privately-run charter schools.
10. Require TEA to define charter school wait lists and have these lists independently verified and published on an annual basis.

ON THE WEB

<http://www.mystatesman.com/news/state--regional-govt--politics/texas-charter-schools-get-500-million-boost-back-bonds/lidm0CyfJwCVpR8dcEyl9K/>