School District Bonds

Texas law authorizes school districts to issue bonds for a variety of purposes. Bonds are most commonly issued to purchase land and to construct and renovate school facilities. Laws and regulations govern how a district may issue bonds. Additionally, bonds are reviewed by public and private entities before they are issued to ensure that a school district is not issuing debt in a manner contrary to the public interest.

What is a Bond?
A bond is an agreement (between the school district and those who hold the bonds) that in exchange for money today, the district will pay bondholders interest over the term of the bond and the principal once the bond matures. Most school district bonds are “general obligation,” meaning that they are backed by the full faith and credit of the district as a taxing entity. Some district bonds are “revenue bonds,” as might be issued on an athletic facility with gate receipts guaranteeing repayment.

Why are Bonds Issued?
School districts may issue bonds for:
- construction, acquisition, and equipment of school buildings;
- acquisition or refinancing of property;
- purchase of necessary sites for school buildings; and
- purchase of new school buses.¹

How do Schools Determine the Need for Bonds?
Planning for a district’s current and future needs is one of the fundamental duties of school boards and district administrators. As such there is a constant evaluation of facilities and other needs in light of the changing district population, the age of district-owned structures, changes in law (for instance ADA-accessibility), and even changes in instruction that require space for computer or science labs.

If a district determines that it has needs beyond the capacity of the district’s maintenance and operations budget, it may suggest that the board issue a bond. The board will then request any relevant information needed to make a prudent decision and may appoint district residents to a bond advisory or review committee, engaging the community at the earliest stages to review and challenge staff recommendations and make recommendations to the school board. Finally, the school board decides whether or not to call a bond election for part or all of the items initially identified by the district staff.

From the Board to the Voter
After determining the need for a bond election but prior to calling for an election, a school district will engage the services of a finance team to help manage the process from the election call to the sale of issued bonds.² The board may also create

---

¹ Texas Education Code §45.001(a)(1).
² For a deeper knowledge of the duties of a finance team, please see the TASB publication “Understanding Bonds” at https://www.tasb.org/services/legal/esource/business/finance/documents/understanding_bonds.pdf
or restructure an existing bond advisory committee into a bond oversight committee to continue resident participation and guidance through the election and beyond when bond funds are disbursed for the purposes authorized by the election. The board will then call for an election through a board resolution or order that states the date of the election, the proposition(s) to be submitted and voted on, the polling place, and other matters deemed necessary or advisable. Between the time a bond election is called and the time the election is held, the district may expend funds for advertising that describes the factual reasons for the measure. The advertising may not, however, advocate the passage or defeat of a bond. In fact, state law specifically prohibits officers and employees of a school district from spending public funds for communications that are likely to influence a voter to vote for or against the measure.

On election day, the voter will see the bond proposition(s), which must ask whether the governing board, “may levy, pledge, assess and collect property taxes…to pay the principal and interest on bonds” in a format that is strictly prescribed by law. The district is then authorized to issue bonds upon approval by, “a majority of the qualified voters of the district, voting at an election held for that purpose.” No district may issue bonds without the consent of the citizens who will bear responsibility for bond repayment as expressed through this ballot referendum.

**Do School Districts Have too much Debt?**

Some take exception to the fact that local governments, including school districts, issue debt. They maintain that school debt is a burden left for future generations. In support of this view, they note that outstanding school debt exceeds $60 billion and the per-pupil cost of debt service is nearly $1,100 for each of Texas’ 4.9 million public school students. That argument ignores the role of such expenses in preparing future generations for the future, and the cited statistics fail to capture the unique nature of school district debt. First, most school-issued debt is for capital items that have a long lifespan and ultimately, a resale value. Second, per-pupil data is calculated from the number of students enrolled in a particular year, rather than how many students will make use of the facility purchased by bonds over the lifetime of the facility. This is an important distinction since it captures the use of the facility after the bonds have been paid.

The following examples illustrate each of these concepts:

**Example 1:** A 20-year, 4% bond with a face value of $26 million that is issued to purchase land and construct an elementary school will cost the school district $67.6 million in nominal dollars. However if one accounts for the time value of money (i.e. $100 today is worth more than $100 twenty years from now), the present value of those bond payments is not $67.6 million, but rather $33.8 million. In 65 years, the district sells the school and its land for $129.4 million, which if discounted to its present value is $29.5 million. Thus, the present value cost to the district of issuing this bond is $4.3 million ($33.8 million - $29.5 million).

**Example 2:** In 65 years, this school will provide facilities for education for 42,250 student seats (FTEs). Thus, the more accurate per student cost of this debt considers the number of student FTEs for which the facility will provide space. On that basis, the per-student FTE cost is $101 ($4.3 million present value cost to build school divided by the 42,250 classroom seats that will be filled over the 65-year useable life of the school).

**Conclusion**

Texas school district debt, in aggregate, might seem high, even excessive. However, the general public and policy makers would be well-served to understand the true cost of debt, the purpose for which debt is issued and the comprehensive statutory, private and public (including elections) controls on the school debt issuance process.

---

3. Texas Education Code §45.003(a)
4. Texas Elections Code §255.003
5. Texas Education Code §45.003(b)
6. Texas Education Code §45.003(a)
8. For simplification, all expenditure/revenue cash flows outside of bond costs and property resale are ignored.