

School District Financing Options

The chart below provides a brief summary of financing tools available to school districts. **Consult your financial advisor and/or bond counsel to assess the practicality and appropriateness of any particular option for your district prior to pursuing any of these options.**

| Type of Obligation | Legal Authorization | Approval Required? | | | Allowable Purposes | Other Requirements or Limitations |
|--------------------------|---------------------------------|--------------------|-------|-------------------------|--|--|
| | | Board | Voter | Atty Gen'l | | |
| General Obligation Bonds | Tex. Educ. Code §§ 45.001, .003 | Yes | Yes | Yes ("50 cent test") | <p><u>General Purposes (single ballot proposition allowed):</u></p> <ul style="list-style-type: none"> • Construction, acquisition, and equipment of school buildings, including school safety compliance. • Acquisition or refinancing of property financed under the Public Property Finance Act (see below), regardless of whether payment obligations are due in the current year or a future year. • Purchase of necessary sites for school buildings. • Purchase of new school buses. • Retrofitting of school buses with emergency, safety, or security equipment. • Purchase or retrofitting of vehicles to be used for emergency, safety, or security purposes. <p><u>Other Purposes (separate ballot proposition required):</u></p> <ul style="list-style-type: none"> • Construction, acquisition, or equipment of <ul style="list-style-type: none"> ○ Stadium with seating capacity for more than 1,000 spectators; ○ Natatorium. | <p>There are numerous requirements applicable to both the bond election and issuance. Work closely with bond counsel and financial advisors.</p> <p>Notable requirements:</p> <ul style="list-style-type: none"> • Secured by and payable from debt service taxes. • Maximum maturity of 40 years. • The ballot must state in all caps: "THIS IS A PROPERTY TAX INCREASE." The Public Finance Division of the AG's office recently stated that there is no basis for the voter information document or other election materials to include language contradicting this required statement. <p>For more on school district bond ballot requirements, see <i>To All Bond Counsel (ABC)</i> letters dated <u>December 29, 2023</u> and <u>December 27, 2019</u>.</p> |

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| | | | | | <ul style="list-style-type: none"> ○ Recreational facility other than a gymnasium, playground, or play area. ○ Performing arts facility. ○ Housing for teachers determined to be necessary to have a enough teachers for the district. ● Acquisition or update of technology equipment, other than equipment used for school security purposes or technology infrastructure integral to the construction of a facility. | |
| Refunding Bonds | Tex. Gov't Code Ch. 1207; Tex. Educ. Code § 45.004 | Yes | No | Yes | Make payments on or retire outstanding bonds. | <ul style="list-style-type: none"> ● Maximum maturity of 40 years. ● Payable from taxes of the same nature as those pledged to the payment of the obligations being refunded. |
| Maintenance Tax Notes | Tex. Educ. Code § 45.108 | Yes | No | Yes, if negotiable or principal exceeds \$1 million. (See Tex. Gov't Code § 1202.007 (a)(8)) | Maintenance expenses, including costs of environmental cleanup and asbestos cleanup and removal programs or maintenance, repair, rehabilitation, or replacement of heating, air conditioning, water, sanitation, roofing, flooring, electric, or other building systems of existing school properties; no new construction. | <ul style="list-style-type: none"> ● Loans may not exceed 75% of prior year's income. ● Payable from and secured by any available funds, including maintenance tax revenue. ● Maximum maturity of 20 years. ● Term greater than one year is treated as "debt" under Texas Tax Code § 26.012(7). ● Issued only after budget is adopted. |

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| Interest-bearing Time Warrants | Tex. Educ. Code § 45.103 | Yes | No | Yes | Construct, purchase, equip, or improve school buildings and facilities; pay all or part of the compensation of a person to compile taxation data. | <ul style="list-style-type: none"> • May not exceed 5% of district's assessed value for the year of issuance; no more than \$1 million outstanding time warrants. • Payable from any available funds, including delinquent maintenance taxes. • Maximum maturity of 15 years. • Annual payments may not exceed district's anticipated surplus income for the year of issuance. • Delinquent taxes must be deposited to a special fund for payment. • Principal payments must occur within 3 months of fiscal year end unless proceeds are for maintenance expenses. |
| Interest-bearing Time Warrants for School Buses | Tex. Educ. Code § 34.005 | Yes | No | Yes | Purchase a school motor vehicle, including a bus, bus body, or bus chassis. | <ul style="list-style-type: none"> • For districts financially unable to pay. • Maximum maturity of 5 years. • Payable from any available funds. |
| Personal Property Contractual Obligations | Tex. Local Gov't Code Ch. 271, Subch. A (Public Property Finance Act) | Yes | No | Required if issued as a public security; if not, optional if contract is for payment of \$100,000 or more. | Purchase, acquire, or use personal property. | <ul style="list-style-type: none"> • Lease, lease-purchase, installment purchase, or public security. • Payable from a pledge of available revenues, funds, or taxes. • Maximum term of 25 years. |

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| Real Estate Lease Purchase | Tex. Local Gov't Code Ch. 271, Subch. A (Public Property Finance Act) | Yes | Yes, if petitioned by at least 5% of voters | Yes | Purchase, acquire, use real property or improvements. | <ul style="list-style-type: none"> • Notice publication requirements. • At least 5% of voters can petition for referendum on contract approval. • Payable from legally available funds. • Maximum term of 25 years. |
| Revenue Bonds | Tex. Educ. Code § 45.031, <i>et seq.</i> | Yes | No | Yes | Acquire, construct, improve, or equip a gymnasium, stadium, or other recreational facility. | <ul style="list-style-type: none"> • Secured by and payable from revenues from rentals, rates, charges, or other revenues from the facilities financed. • May be secured by mortgages/deeds of trust on real property on which facilities are located, or real or personal property incident or appurtenant to the facilities. |
| Loans Secured by Delinquent Taxes | Tex. Educ. Code § 45.104 | Yes | No | No (per 8.30.1996 ABC letter) | <ul style="list-style-type: none"> • Environmental cleanup and asbestos removal programs implemented by school districts. • Maintenance, repair, rehabilitation, or replacement of heating, air conditioning, water, sanitation, roofing, flooring, electric, or other building systems of existing school properties. | <ul style="list-style-type: none"> • Maximum maturity of 20 years. • Only delinquent M&O taxes. |
| Certificates of Indebtedness | Tex. Educ. Code § 45.111 | Yes | No | Yes | Funds for erecting or equipping school buildings in the district or refinancing outstanding certificates. | <ul style="list-style-type: none"> • Only districts in counties with population over 200,000 and an assessed valuation of at least \$1 million. |



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| | | | | | | <ul style="list-style-type: none"> • Payable from maintenance taxes pledged for repayment. • No more than \$250,000 outstanding certificates (limited further by the district's assessed valuation). • Maximum maturity of 25 years and maximum interest rate of 7%. |
| Short-term Loans for Salaries | Tex. Educ. Code § 45.105 | Yes | No | No | Payment of salaries before school funds are available. | Must be repaid out of funds for the current year. |
| School Bus Contracts | Tex. Educ. Code § 34.009 | Yes | No | Optional if contract is for payment of \$100,000 or more. | Contract for use, acquisition, or lease-purchase of a school bus | <ul style="list-style-type: none"> • Term of not less than 2 or more than 10 years • No termination penalties permitted. • Competitive bidding requirements apply. |
| Other Options for Athletic Facilities | Contracts for Athletic Facilities, Tex. Educ. Code § 45.109 Athletic Stadium Authorities, Tex. Educ. Code Ch. 45, Subch. F | | | | | Consult your financial advisor and/or legal counsel for additional information on these options. |

This information is provided for educational purposes to facilitate a general understanding of the law. This information is neither an exhaustive treatment on the subject nor is it intended to substitute for the advice of an attorney or other professional advisor. Consult your attorney or professional advisor to apply these principles to specific fact situations.

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