

## A Review of the Charter School Bond Guarantee Reserve Fund

In 2013, the legislature passed House Bill 885 which allowed the use of the Permanent School Fund to back bonds issued by certain charter schools. The Texas Education Agency issued the first charter school bond guarantees in March of 2014 and has now guaranteed 16 bonds for nine charter districts. In total, the Permanent School Fund has guaranteed \$446.8 million in charter school debt, split between \$266.0 million in new money and \$180.8 million in refunding issues.

The provision of the Charter School Bond Guarantee allows charter operators to receive lower interest rates and thus a lower cost of borrowing. The Texas Education Code (TEC), §45.0571, requires charter schools that receive the guarantee to remit an amount equal to 10 percent of the savings resulting from the lower interest rate to the charter school bond guarantee reserve fund, which would be used to make bond payments in the instance of a default on guaranteed debt under the program.

The State Board of Education codified rules related to the calculation of payments into the charter school bond guarantee reserve fund in 19 Texas Administrative Code §33.67. These rules specify that charter schools receiving the guarantee must remit an amount equal to 0.1 percent of the principal outstanding into the charter school reserve fund on an annual basis. The table below shows the amount of principal guaranteed and the amount of each initial payment into the reserve fund for each bond guaranteed. Charter operators will continue to make annual payments of 0.1 percent of the remaining principal outstanding into the reserve fund until the bonds are defeased.

CDN	Charter Holder	Principal Amount	Initial Payment
057-807	LifeSchool of Dallas	\$85,645,000	\$85,645
057-807	LifeSchool of Dallas	\$6,515,000	\$6,515
015-827	Riverwalk Education Foundation	\$7,420,000	\$7,420
015-827	Riverwalk Education Foundation	\$310,000	\$310
057-806	Eagle Advantage Schools, Inc	\$19,065,000	\$19,065
057-806	Eagle Advantage Schools, Inc	\$1,000,000	\$1,000
101-813	KIPP, Inc	\$46,545,000	\$46,545
101-813	KIPP, Inc	\$5,195,000	\$5,195
015-828	Harmony Public Schools	\$101,555,000	\$101,555
057-813	Trinity Basin Preparatory	\$29,055,000	\$29,055
057-813	Trinity Basin Preparatory	\$550,000	\$550
108-807	IDEA Public Schools	\$90,600,000	\$90,600
227-820	KIPP Austin Public Schools	\$38,595,000	\$38,595
227-820	KIPP Austin Public Schools	\$5,623,000	\$5,623
015-828	Harmony Public Schools	\$8,880,000	\$8,880
015-828	Harmony Public Schools	\$260,000	\$260
<b>Total</b>		<b>\$446,813,000</b>	<b>\$446,813</b>

The TEC, §45.056, requires the commissioner to review the condition of the bond guarantee annually in order to determine the amount that must be deposited in the charter district bond guarantee reserve

fund and to determine if districts should be required to submit a greater percentage of the savings resulting from the guarantee. At this time, the agency does not recommend a change in the calculation of payments into the charter school reserve fund. With only eight months of experience issuing guarantees, the agency does not yet have sufficient data to determine whether districts should be required to submit a higher percentage of the savings resulting from the guarantee. Additional data will be required to better estimate the savings associated with receipt of the charter school bond guarantee as well the need for revenue in the charter school bond guarantee reserve fund.