

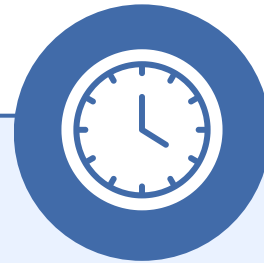
Why Do School Districts Need Bonds?

Key Takeaways



School districts in Texas fund major projects such as facilities construction and repair through voter-approved bonds, which allow them to borrow money for those projects.

- Districts request voter approval to use bonds for specific major projects such as new school buildings.
- Districts specify the projects for voter authorization and then use the proceeds from bond sales to plan and execute the voter-approved projects.
- Districts then repay bond investors using local property tax revenue supplemented by a small amount of state aid.



Most districts in Texas pass a new bond around every five years, but HISD has not passed a new bond since 2012.³

- That means HISD has been unable to make major repairs and upgrades to its facilities, increasing the amount the district spends on maintenance while subjecting students to heating issues and other challenges.

What are school bonds, and how do they work in Texas?

Essential Points

- School bonds are debt that voters allow districts to use to pay for major purchases such as school construction and major repairs.
- School bonds are essential because they are the primary mechanisms for school districts to pay for those purchases.

What is a bond, and why are they necessary?

A bond is a form of debt that school districts use to pay for facilities construction.¹ They are how school districts in Texas borrow money to pay for school construction, major repairs, and other major projects.² Texas school districts receive money for facilities through the bond process, making them dependent upon bonds to build, maintain, and improve schools.¹

The school bond process in Texas follows these steps:

1



A need for improvements to district facilities is identified.

2



A bond package is prepared.²

Typically a planning committee is created to prepare the bond package.^{2 3} The bond package contains a list of projects that will be paid for using money from the bond.²

3



The bond package is authorized by voters through a bond proposition ballot initiative.²

A simple majority of the vote is required to pass bond propositions in Texas.⁴

4



The district takes out bond debt up to the amount authorized in the bond proposition.²

Voters authorize the district to use bonds, but no debt is taken on by the district until it chooses to do so.²

5



The district uses the money raised to fund large scale projects such as school construction and repair or buying school buses.²

All funds must be spent on the projects described in the bond package.² Any funds in excess of those needed for proposed projects can only be spent on projects which align to the language from the bond proposition.²

6



The district pays back the bond debt over subsequent years.

Districts may adopt an Interest & Sinking tax rate for bond repayment based upon their annual debt payments, and the state provides aid through a combination of an assistance program districts apply for and an allotment that guarantees districts a minimum yield on their debt repayment taxes.^{5 6}

Do other states also use bonds to finance school construction?

Yes, bonds are used to finance school construction across the United States.⁴ Additionally, all but three states require voter approval for bonds.⁴ Most other states also provide aid for bond repayment, but local funding is the primary source of money for school construction in most states.⁷

Data Sources

1: KXXV, "What is a bond?"; 2: PFISD, "School Bonds in Texas"; 3: HoustonLanding, "HISD might ask taxpayers to back a multibillion-dollar bond"; 4: EducationWeek, "How Much Voter Support Schools Need to Fix Their Buildings, by State"; 5: IEA, Texas Public School Finance Overview 2022-2023 Biennium; 6: IEA, 2024 Tax Rate Calculation Worksheet; 7: Barbara Biasi, Julien Lafortune, and David Schonholzer, "Effectiveness and Efficiency of School Capital Investments Across the U.S."

How do School Districts in Texas Pay Back Bonds?

Essential Points

- Because bonds are loans for major purchases, school districts must pay back the bond debt over the years following the bond being issued.
- In Texas, districts use a dedicated local property tax supplemented by a small amount of state aid to pay back bond debt.
- While tax revenue is needed to pay back bond debt, passing bond propositions does not necessarily mean the local property tax rate will increase.

School districts adopt a dedicated property tax rate that covers repaying bonds, which is referred to as their interest and sinking (I&S) tax rate.⁵ This tax rate is different than the maintenance and operations (M&O) tax rate that pays for districts' day-to-day operations.⁵

Money from the I&S tax rate is used to pay for the bond debt that districts have, which means they finance schools and other major expenditures paid for with bonds.⁵ The tax rate districts may adopt is based upon a combination of districts' debt payments and taxable property value.⁸

Does the State of Texas assist school districts with bond payments?

The vast majority (over 95% for the 2022-2023 school year) of funding to repay bond debt comes from local taxes, but the State of Texas provides some supplemental funding through programs such as the Instructional Facilities Allotment and the Existing Debt Allotment.⁹

How does passing a bond proposition affect the property tax rate?

Passing bonds can lead to increased tax rates or maintaining existing tax rates for a longer time to pay back the new debt. However, school districts can propose bonds that can be repaid by their current I&S tax rate, effectively maintaining the level of public support provided via property taxes on an annual basis.^{10 11}

While bond propositions on ballots are required to say "This is a property tax increase," in many cases the end of payments on previous debt, an increase in property values, or a combination of both allow new bonds to be approved without homeowners seeing an impact on their tax bills.^{10 11}

What does the state’s school bond system mean for Houston Independent School District (HISD)?

Essential Points

- Texas school districts depend on bonds for major facilities improvements, but HISD has not passed a bond since 2012 despite most districts issuing bonds around every five years.
- The lack of a new bond has left HISD with aging facilities, which negatively impact students and are more expensive for the district to maintain.

Because Texas school districts depend on bonds for facilities funding, HISD needs to pass bonds to make major improvements to its schools.

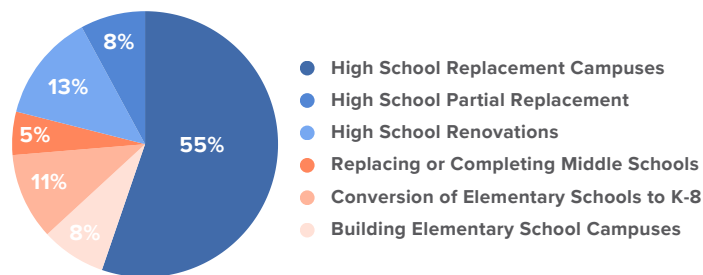
Most districts in Texas pass a bond about every five years, but HISD most recently passed a bond in 2012.³ This means that **HISD has gone for a long time without new funding to perform major school repairs and construction.** District leadership has expressed interest in passing a bond more recently, such as in 2019, but has faced challenges passing a bond due to lack of confidence in its leadership at the time.¹² HISD did not place a bond on the 2019 ballot.¹³

What did HISD’s 2012 bond do?

HISD’s most recent bond had a total value of \$1.89 billion.¹⁴ The projects financed by the bond included new campuses for twenty-one high schools, partially replacing three high schools and renovating four more, converting five elementary schools to K-8 campuses, building three elementary school campuses, and replacing or completing two middle school campuses.¹⁴

In addition to the school-specific projects, HISD funded district-wide projects such as technology upgrades, athletics facility improvements, middle school restrooms, and safety and security improvements.¹⁴

2012 HISD Bond School Upgrades¹⁴



Finally, HISD used leftover funds and sale of property to rebuild two more schools.¹⁴

What are the consequences of HISD not passing a bond since 2012?

When districts don’t pass bonds, they must find the money for essential projects elsewhere.¹⁵ That can lead to tough decisions and budget cuts to other functions.¹⁵

In HISD’s case, the lack of a bond in over ten years has left the district with many buildings that are breaking down, and many buildings with heating and cooling issues.³ This has a direct impact on students, such as students being stuck in freezing schools during a cold spell last January.³

Additionally, because the 2012 bond focused on high schools, elementary and middle schools have not seen significant investments since the 2007 bond.¹⁶

In addition to the consequences to students of learning in aging facilities, **HISD must also spend more of its operating budget on maintaining them.** HISD uses a greater share of its total spending on maintenance (around 12%) than the state average (around 10%).¹⁷ This creates an additional challenge for the district’s operating budget.

Data Sources

³: [Houston Landing](#), “HISD might ask taxpayers to back a multibillion-dollar bond”, ¹²: [CHRON](#), “Amid tumult, Houston ISD leadership pitches \$1.7B bond vote for next year”, ¹³: See [Harris County Elections](#), 2019 Election Results, ¹⁴: [HISD](#), “Building Programs Overview”, ¹⁵: See e.g. [KXAN](#), “What happens if AISD’s 2022 bond doesn’t pass?”, ¹⁶: [HISD](#), 2007 Bond Projects, ¹⁷: [Houston Landing](#), “Like an icebox’: Two-thirds of HISD schools had heating problems during January freeze”