



OFFICE OF THE GOVERNOR

RICK PERRY
GOVERNOR

July 22, 2009

Mr. Timothy Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Mr. Secretary:

I am writing to respectfully request that you revise the current IRS regulations that limit Texas' ability to guarantee school district facilities' bonds using the Permanent School Fund (PSF). Without changing federal regulations to align IRS' guarantee limit with Texas law, Texas taxpayers could be forced to pay higher local property taxes to fund needed school facilities.

The Texas Bond Guarantee Program uses the corpus of our constitutionally dedicated PSF to guarantee the payment of local school district bonds approved by local voters. Because of the guarantee, districts receive a "AAA" rating on their facilities' bonds, which lowers interest rates and insurance costs, thereby reducing the amount of school facility costs borne by local property owners.

State law allows a guarantee up to five times the cost value of the PSF. However, the aforementioned IRS regulations restrict the guarantee capacity to two and a half times the lower of cost or market value of the PSF.

I have on two previous occasions asked your predecessor to revise the IRS regulations, increasing its guarantee limitation. In letters sent in November 2007 and February 2008 (enclosed), I explained the importance of this program to guarantee adequate facilities for the schoolchildren of Texas and ease the burden on local property taxpayers. The limits set by Texas law are a fiscally sound, conservative and responsible use of Texas resources

By changing IRS regulations to allow Texas to guarantee local school bonds up to five times the value of our PSF – rather than the existing 2.5 times the federal limit – you would be helping improve Texas school facilities and protect Texas taxpayers against unnecessary costs and potential tax increases. Thank you for your consideration. Please contact me if you need additional information.

Sincerely,

A handwritten signature in black ink that reads "Rick Perry". The signature is written in a cursive, flowing style with a prominent "R" and "P".
Rick Perry
Governor

RP:khp

Enclosures

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OFFICE OF THE GOVERNOR

November 16, 2007

RICK PERRY
GOVERNOR

Mr. Henry M. Paulson, Jr.
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Secretary:

I am writing to urge a change in an Internal Revenue Service (IRS) regulation that limits the ability of the Texas Permanent School Fund (PSF) to guarantee school district bonds. The current regulation will force Texas taxpayers to unnecessarily pay millions of dollars in financing costs for the construction of school facilities.

The Texas Bond Guarantee Program (the Program) backs school district bonds. The Program saves Texas school districts roughly \$110 million per year by allowing districts to receive a "AAA" rating on their facility bonds, thereby lowering their interest rates and insurance costs. By saving districts money, the Program substantially reduces the amount of school facilities taxes that must be levied on local property owners. To date, no district has defaulted, and the guarantee has never been used.

Texas law currently allows the Program's guarantee capacity limit to be up to five times the cost value of the PSF. However, the related IRS regulation restricts the guarantee capacity to two and a half times the lower of cost or market value of the PSF.

On November 7, 2007, voters in numerous Texas school districts approved bonds which exceed the Program's guarantee capacity limit by approximately \$1 billion. As a result, unless the IRS regulation is changed, \$1 billion in district bonds will not be guaranteed by the PSF. Without the PSF guarantee, bond financing and insurance costs will substantially increase, hurting Texas taxpayers. Further, the amount of taxpayer money needlessly spent will continue to mount with each new district bond election.

I have enclosed the change that needs to be made to the relevant IRS regulation. It is my understanding that you are currently considering revisions to regulations involving this subject. I would deeply appreciate your quick attention to this matter.

Sincerely,

A large, stylized handwritten signature in black ink that reads "Rick Perry".

Rick Perry
Governor

RP:kbp

Enclosure

Proposed Revision to Section 1.148-11(d)(1)(vi) of the Arbitrage Regulations Concerning Guarantees by State Public School Trust Funds, Including the Texas Permanent School Fund

(d) Transition rule excepting certain state guarantee funds from the definition of replacement proceeds — (1) Certain perpetual trust funds. A guarantee by a fund created and controlled by a State and established pursuant to its constitution does not cause the amounts in the fund to be pledged funds treated as replacement proceeds if —

(i) Substantially all of the corpus of the fund consists of nonfinancial assets, revenues derived from these assets, gifts, and bequests;

(ii) The corpus of the guarantee fund may be invaded only to support specifically designated essential governmental functions (designated functions) carried on by political subdivisions with general taxing powers;

(iii) Substantially all of the available income of the fund is required to be applied annually to support designated functions;

(iv) The issue guaranteed consists of general obligations that are not private activity bonds substantially all of the proceeds of which are to be used for designated functions;

(v) The fund satisfied each of the requirements of paragraphs (d)(1)(i) through (d)(1)(iii) of this section on August 16, 1986; and

~~(vi) The guarantee is not attributable to a deposit to the fund made after May 14, 1989, unless —~~

~~(A) The deposit is attributable to the sale or other disposition of fund assets; or~~

~~(B) Prior to the deposit, the outstanding amount of the bonds guaranteed by the fund did not exceed 250 percent of the lower of the cost or fair market value of the fund.~~

(vi) Either of the following limitations are satisfied —

(A) The guarantee is not attributable to a deposit to the fund made after May 14, 1989, unless — the deposit is attributable to the sale or other disposition of fund assets; or prior to the deposit, the amount of the bonds guaranteed by the fund did not exceed 250 percent of the lower of the cost or fair market value of the fund; or

(B) On the last business day of the month immediately preceding written preliminary approval of the guarantee of a particular issue of bonds issued after May 14, 1989, the amount of the bonds currently guaranteed by the fund and preliminarily approved for guarantee by the fund did not exceed 500 percent of the cost value of the fund.



OFFICE OF THE GOVERNOR

February 25, 2008

RICK PERRY
GOVERNOR

Mr. Henry M. Paulson Jr.
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson:

I am writing once again to urge you to revise IRS regulations that limit our state's ability to guarantee local school district facilities bonds with the Permanent School Fund (PSF). Specifically, I am requesting that the IRS increase its guarantee limitation to match the limit in state law. The requested change in IRS regulations is crucial to our state. Without the change, local Texas property taxes will be needlessly increased by an estimated \$110 million.

The Texas Bond Guarantee Program uses the corpus of our constitutionally-dedicated PSF to guarantee the payment of bonds approved by local voters and issued by our school districts. Because of the guarantee, districts receive an "AAA" rating on their facilities' bonds, thereby lowering district interest rates and insurance costs. State law allows the PSF to guarantee up to five times the cost value of the PSF. However, the related IRS regulation limits the PSF guarantee to a maximum of only up to two and one-half times cost or market value, whichever is lower. We are asking that the IRS limit be increased to match the state's.

Local school bond elections have already exceeded the IRS limit by \$1 billion and these bonds will not be guaranteed. As a result, school districts are facing higher costs to finance and insure these bonds and will have to raise the taxes levied on local property owners to pay for these costs. The situation will worsen with each successive district bond election, further increasing property taxes for Texans. School districts also need the PSF guarantee now more than ever because of the current problems in our nation's credit markets.

Your staff met in November 2007 with the Texas commissioner of education to review the changes to IRS regulations that would align the IRS limit with our state law and thereby increase the guarantee capacity. The Texas limits are conservative and safeguard the PSF. The relevant IRS arbitrage regulations are currently being revised by your office. As your staff finalizes them in the next few weeks, I again ask that you update your regulations which will protect Texas taxpayers.

Sincerely,

A large, handwritten signature in black ink that reads "Rick Perry".

Rick Perry
Governor

RP:afp