



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