LEASE PURCHASE FINANCING: THE PROCESSES AND IMPACT ON NEW SCHOOL CONSTRUCTION IN TEXAS

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The purpose of this study was to review and explore the concept of lease purchase financing for the construction of new facilities in Texas. It sought to determine the impact of lease purchase financing and the characteristics of those districts that have utilized lease purchase financing for the purpose of new school construction. A two pronged approach was used for the study, both quantitative and qualitative. The study examined all school districts that utilized lease purchasing and examined various traits of the districts. Data was acquired from the Texas Education Agency and the Texas Bond Review Board. The qualitative portion of the study included interviews with superintendents of nine different Texas school districts that have utilized lease purchase financing. The study concluded that lease purchase districts were generally small school districts that were property poor and have high property tax rates. The study also concluded that the major reason for districts to use lease purchase financing was to avoid having to hold an election in order to gain approval for the sale of traditional general obligation bonds. Another factor identified was the availability of state funds through the state Instructional Facility Allotment. The study also concluded that while districts sought to provide better programs for their students through better facilities, that students actually suffer due to instructional funds being used for the payment of long term debt.

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CHAPTER 1

INTRODUCTION

An important factor in educating the citizenry of a country can be reduced to a simple question: Where will the educational process take place? Historically, the physical location of educating the youth of the community has been in a common use, or public facility. Early mandates required that children be educated and made the provision of educational facilities the responsibility of the local community. Community members decided where to locate, and more importantly, how to provide financially for the educational facilities of their community.

The issue of financially providing for educational facilities has been a concern of citizens and communities for many years. Moffat and Rich (1956) identified the financial constraints in meeting the demands and needs for educational facilities, including the political realities of who had the responsibility of providing the resources for public school facilities. This responsibility fell squarely on the local community to provide the necessary resources for the construction of public school facilities. The same taxpayers who paid the bills for the construction were the taxpayers that gave consent and approval for that expenditure. Such consent, coming through voter approval of bond issues or through approval of locally elected trustees serving on school boards, became increasingly difficult to obtain. The consent was difficult to obtain because the results of

such action meant that local citizens paid for expenditures through higher taxes, most often imposed through tax levies on property.

The state role of providing funds for educational facilities in the state of Texas was limited until 1990, when Senate Bill 1 was enacted; this legislation resulted from court cases calling for equal funding for all schools in the state. A provision was added to allow districts to use monies generated through state-equalized funding for facilities and equipment. Thus began the first change in funding mechanisms for the state of Texas.

The problem for school districts was how to leverage such funds in a manner besides traditional methods of facility funding. The solution for this problem came about during the 1993 session of the legislature. The solution allowed districts to form entities that could borrow funds on the behalf of school districts, with the district making payments for such debts through the utilization of excess state foundation funds. Instead of waiting over a period of time to save enough funds to build a desired facility, the district was able to build the facility at the time it was needed by going into debt and utilizing their excess state-equalized funds to make annual debt payments. The concept, known as *lease purchase*, allowed districts the opportunity to utilize excess monies within their own maintenance and operation budget to make debt payments for the construction of educational facilities.

Given the ever-increasing need for school facilities and the demands of taxpayers to keep school tax rates as low as possible, traditional means of school financing were not solutions to meet many districts' facility needs. New financing solutions were needed to help meet the facility problems of Texas school districts.

Solutions were necessary that would allow districts to better utilize existing resources and not be a burden on the local taxpayer.

Purpose of Study

This study reviewed and explored the concept of lease purchase financing for the construction of new school facilities in Texas. It examined the benefits and disadvantages of this form of facility financing. This study also attempted to determine what impact lease purchasing has had on the facilities in Texas school districts which have utilized this method of facility financing.

Research Questions

This study sought to provide a description of those districts that utilize lease purchasing and the outcomes they experienced.

1. What are the characteristics (specifically, size, wealth, and financial capacity) of districts utilizing lease purchase financing?

2. How has lease purchase financing affected the fund allocation of school districts that have utilized it?

3. How has lease purchase affected the acquisition of facilities for those districts that have utilized it?

4. How has lease purchase financing impacted other construction needed in those districts that have utilized it in the past?

Definitions

For the purposes of this study the following definitions were used:

Public School District -- a public political entity created by the state legislature for the specific purpose of educating students in a particular geographic area, pre-kindergarten through twelfth grade graduation.

Lease-Purchasing Agreements -- a form of financing that allowed a local independent school district to borrow funds through a third party, to utilize the third party to construct a school facility, to allow the school district to lease the facility for a specific period of time, and to require ownership of said facility to revert to the school district at the end of the lease.

School facility -- any structure that was used by a school district for the purpose of its general operation. Such facilities mean actual construction of a new building or structure that was used solely by the independent school district.

Public Facility Corporation -- a legal corporation created by a school district, recognized and registered with the state of Texas, for the specific purpose of securing long-term financing for the construction of school facilities.

Maintenance and Operation (M&O) Budget -- the budget of a school district from which the bulk of all revenue flows into the district, including local property tax revenue and general state revenue, and from which the district expends funds for its day-to-day functions.

Maintenance and Operation (M&O) Tax Rate -- the rate of tax assessed by the local school district on the property owners within the school district for local revenue to be used in the maintenance and operation budget of the local district. The maximum tax rate allowed by state statute, at this time, is $1.50 per $100 of appraised property value.

Interest and Sinking (I&S) Tax Rate -- the rate of tax assessed by the local school district on the property within the school district for revenue to be used exclusively for the repayment of debt previously authorized by the voters through a local referendum. The maximum tax rate allowed by state statute, at this time, is $0.50 per $100 of appraised property value.

District Enrichment Tax Rate (DTR) -- the portion of the M&O tax rate over $0.86 per $100 recognized by the state, up to a limit of $0.64 per $100, which generates additional state revenue based on taxing effort of the district, up to the statutory maximum of $1.50.

Regional Education Service Center Area -- the geographically defined area of the state of Texas in which all Texas school districts are placed as predetermined by the state educational authority. Each area has a major population center which serves as the physical location for the regional education service center housing offices and conference space and are compromised of the following: (a) Region 1 - Edinburg, (b) Region 2 - Corpus Christi, (c) Region 3 - Victoria, (d) Region 4 - Houston, (e) Region 5 - Beaumont, (f) Region 6 - Huntsville, (g) Region 7 - Kilgore, (h) Region 8 - Mt. Pleasant, (i) Region 9 - Wichita Falls, (j) Region 10 - Richardson, (k) Region 11 - Ft. Worth, (l) Region 12 - Waco, (m) Region 13 - Austin, (n) Region 14 - Abilene, (o) Region 15 - San Angelo, (p) Region 16 - Amarillo, (q) Region 17 - Lubbock, (r) Region 18 - Midland, (s) Region 19 - El Paso, and (t) Region 20 - San Antonio.

Weighted Average Daily Attendance (WADA) -- the attendance average of a school district which also includes weights allowed for additional funding allowances for

students served through various programs including special education, bilingual, vocational/job training, and gifted and talented.

Fund Balance – the total amount of monies available to the local district which are not pledged or obligated in any manner.

Limitations

This study was limited to school districts in the state of Texas. The study was designed to obtain the perceptions and insight from practicing school superintendents who have utilized the lease purchase instrument. The responses were the opinions of the individuals interviewed.

This study was designed to seek out variables that affect the decisions made by school districts for selecting lease purchasing as the financial instrument for new school construction. The study also sought to learn what the financial impact of lease purchasing has been on Texas school districts, both individually and collectively.

Delimitations

This study focused solely on the use of lease purchase financing by public school districts for the purposes of new school construction in the state of Texas. Lease purchasing by public school districts was not limited to new school construction. Lease purchasing for the acquisition of personal property is used by school districts to purchase items with installment payments used as consideration. Lease purchases were used by public entities in other matters including energy-management retrofits, equipment acquisition, and school bus purchases. This study did not address lease purchasing for the purpose of these purchases.

Lease purchasing for the purpose of new school construction is unique in the application of Texas state law toward leasing. School districts using lease purchase financing were required to follow special mandates from the state of Texas for the transaction to be considered legal. The Texas Attorney General, in a letter to school districts in the fall of 2001, warned school districts that lease purchases for the purpose of new facility construction fell under special rules and conditions that differ from those lease purchases that are used for the acquisition of personal property and/or equipment. The warning stressed the requirement for state attorney general approval for any debt transaction that would result in the construction of a school facility. This study focused on lease purchasing as it applied to new school construction.

Significance of Study

This study had significance due to the large number of school districts that were in need of constructing new school facilities and the realities that they faced in accomplishing this goal. Given that lease purchasing was such a relatively new financing instrument in Texas, experience in its use was limited and not fully understood.

The amount of information available for review to gain a working knowledge of the concept of lease purchasing was limited, which restricted practitioners in making important decisions regarding school facility construction.

Organization of the Study

This study consisted of five chapters. Chapter 1 provided introductory information regarding the topic of lease purchase financing. It provided the purpose of the study and

established the research questions of the study. Definitions of some key terms, limitations, and delimitations, and significance of the study were specified.

Chapter 2 reviewed the available research, legal statutes, and policies concerning lease purchasing. The review was divided into the following categories: historical context of school construction financing; historical perspective of Texas school construction financing; the concept of lease purchasing; the advantages and disadvantages of lease purchasing; the application of lease purchasing financing in individual states; and the impact of lease purchasing on equity.

Chapter 3 provided the methodology of the proposed study. The study included both quantitative and qualitative data. Descriptive statistics were used to determine the characteristics of Texas school districts that have used lease purchasing. The qualitative portion focused on interviews conducted with school superintendents whose districts have experienced lease purchasing for new school construction. Those superintendents interviewed represent a cross-section of various sizes and locations from across the state of Texas. The interviews tell the story of lease purchasing financing in particular situations and the lessons to be learned from those experiences.

Chapter 4 provided a review of the data collected and an analysis of those data. Through an examination of over 90 school districts that have utilized lease purchasing, the data provided insight into characteristics of lease purchasing. Analysis of the interviews showed trends between individual districts utilizing lease purchasing.

Chapter 5 presented the conclusions and findings of the entire study. It also included possible recommendations for further study on the issue of lease purchasing and new school construction.

CHAPTER 2

LITERATURE REVIEW

Historical Context of School Construction Financing

Historically, the responsibility for financing the construction of public educational facilities fell on the local community (Honeyman, 1994). The issue of financing school construction was not a high priority because schools were traditionally built by the community to meet the immediate needs of the community. Often resembling a barn raising, the construction of a school was a cooperative effort of the community with donations of materials, labor, and other resources coming from the local citizenry (Sielke, 2001). As schools were constructed, little thought was given to, “tax rates, bonds, or bond referendums” (Honeyman, 1994, p.95). The provision of school facilities fell squarely on the shoulders of the local community, utilizing conventional means of school financing.

Prior to the establishment of state constitutions, the issue of education was strictly a local and, more so, a personal issue. With the establishment of the U.S. Constitution and state constitutions, education became a primary responsibility of each state. That responsibility was delegated to local boards of education by state legislatures (Tantillo, 1985). The impact of the federal government on the construction of new facilities was almost nonexistent in the early years of the United States, with the exception of the Ordinance of 1785. The legislation passed by Congress under the

Articles of Confederation provided for a portion of lands being acquired by the federal government to be set aside for the provision of public schools (Tantillo).

Beginning in 1901 in Alabama, some of the first assistance provided by a state government was for the construction of rural school facilities. Louisiana, North Carolina, and Delaware followed, adding state assistance ranging from the issuing of bonds to providing matching state aid (Tantillo, 1985). By 1940, only 12 states provided some type of funding assistance for the construction of school facilities (Honeyman, 1994).

As the cost of facilities continued to rise, the ability of school districts to raise enough funds in one tax year for the construction of a new facility was extremely limited. Further, for economic and political reasons, the practice of building fund balances until enough monies were held by the district for the construction of a new educational facility was also unlikely. Given these realities, the issuance of bonds for the purpose of raising capital for the construction of new facilities remained the primary and most widely accepted source of funding such capital endeavors (Tantillo, 1985). Carey (2000) noted that “there are many wonderful things about America, but our traditional way of financing school construction isn’t one of them” (p. 44).

The state of educational facility needs required more than the traditional approach of dependence on local funds derived from property taxes (Tantillo, 1985). Local school districts were quite simply on their own when it came to resources for the construction of facilities. State governments provided assistance in the realm of operations, but it fell to the local district to provide the actual facility in which to operate (Demers, 1989).

While in the past, taxpayer-supported bonds and levies had been the primary source for capital endeavors, there was a growing resistance by local taxpayers. In 1998, one third of all school bond elections for the purpose of school construction were defeated (Bunch & Smith, 2002). While various factors affect voter attitudes toward bond election and their success, Gamkhar and Olson (2003) identified five influences on their success:

> 1. If the district is nearing the statutory limit on its M&O tax rate, the election is less likely to carry.
> 2. If the district includes a higher proportion of renters, then the election is more likely to pass.
> 3. If the district includes a higher proportion of person of Hispanic ethnicity, then the election is less likely to pass.
> 4. If the district is in a large city, the bond issue is more likely to pass.
> 5. If there is a lot of (income) inequality in a district, then the district is more likely to pass the election because of the uneven distribution of costs of the public good on a few rich residents in the population; in this case income inequality could influence the election in a positive way. (pp. 13-14)

The resistance to seeking funds was becoming the impetus for the public and its district to understand the problems of traditional funding for school construction (Carey, 2000). Such resistance was becoming the driving force for school districts to find alternative methods to finance public school facilities (Tantillo, 1985). Innovative

financing and various methods of construction were becoming more prominent as school administrators sought new ways to address facility needs (Bloomfield, Westerling, & Carey, 1998). Capital stocks and commercial bonds were hybrid methods of providing capital resources through the more traditional means (Fitzgibbon, Thomas,& Simon, 1971). Other, more nontraditional methods for funding included the use of lottery proceeds and local option sales taxes dedicated to school facility funding (Sielke, 2001).

While local districts had been forced to look at their own revenue sources, many had begun to turn to the state for increased assistance. However, state policy was focused more on the funding of the operational expenses and equalization rather than helping districts address their capital needs. Some states had begun to look at the poorest districts and their facility needs and providing some state aid to meet those needs (Gamkhar & Olson, 2002). That aid took the form of flat grants, equalized grants, categorical grants, and possibly full state funding (Sielke, 2001). Other state programs included the use of state entitlements that were used to insure any debt incurred by the local district. For those districts that received some type of state assistance, the assistance received became a determining factor in the type of debt to be used (Gamkhar & Koerner).

The current state of educational facility needs required more than a traditional approach. In 2004, school districts in the United States spent over $20 billion on construction projects, with $12 billion spent on new schools and the remainder spent on additions to existing facilities, retrofits, and building modernization. Infrastructure

funding for 1998-1999 was $10.9 billion, up from $4.1 billion spent in 1993-1994 (Sielke, 2001).

It was estimated by the United States General Accounting Office that $112 billion was needed to renovate and repair schools in the United States (Honeyman, 1994). This number did not include any construction needed to absorb the growth that might exist in a school district, but rather looked at existing structures suffering from years of deferred maintenance and neglect (Honeyman, 1994). The United States Department of Education in 1999 estimated that the amount needed was $127 billion (National Center for Educational Statistics [NCES], 2000).

The U.S. Department of Education also noted that the average age of the country's school buildings was 40 years (NCES, 2000). Honeyman (1999) estimated that 50% of the nation's schools were built prior to 1960, 25% were built before 1950, and up to 20% were constructed prior to 1940. Approximately one quarter of America's school districts had at least one onsite school building that was in less than adequate condition for teaching students. These schools enrolled approximately 11 million students, and 3.5 million of these students attended a school needing to be totally replaced (NCES, 2000). Many such buildings were constructed during the years of the Works Projects Administration, with extensive financing being made available through the federal government. Thus, the need for attention to America's school facilities was a real need. The United States Governmental Accounting Office described this need as "deplorable" in 1995 (Sielke, 2001). In addition to existing structures, one fifth of the nation's schools indicated that they would need to build some type of new facility in the

next two years. The cost to correct these problems would be expensive as indicated by past experiences (NCES, 2000).

Historical Perspective of Texas School Construction Financing

Education on Texas soil began as early as 1503 when the Spanish sovereign ordered that schoolhouses be provided for the instruction of reading, writing, and Christian doctrine as Native Americans in the area were gathered into villages for that purpose (Haas & Sparkman, 1988). The first nonmission or nonparish school was established in Laredo in 1783, again for the purpose of educating and Christianizing Native Americans. As Mexico controlled Texas from 1821-1836, a municipal system of schools was authorized by the Mexican government. This system was inspired by a distant European movement in education (Eby, 2004). In 1830, the citizens of Nacogdoches joined together to erect one of the earliest educational structures in Texas. The structure was built with the cooperation of the local citizenry, who contributed the needed lumber, hardware, and labor to complete the project (Haas & Sparkman).

While school construction has evolved since the construction of the first schoolhouses in the state of Texas, the concept of paying for school facilities has "perplexed many generations of leaders" (Haas & Sparkman, 1988, p.412). A constant conflict has existed between the local school district, which was authorized and created by the Texas Legislature, and the state, which provided the funding for the operation of the district. Embedded in this conflict was the issue of funding for the construction of the school facilities (Eby, 2004).

The early source of revenue for all educational institutions in the state was the endowment of great sections of land (Eby, 2004). If the grants contained some type of mineral wealth on the land, then the land actually had some value. But for most, the land had relatively little value. Land was abundant and cheap; there was relatively little value in raw land. Each county in Texas was appropriated 3 square leagues (13,284 acres) of land to help establish either a primary school or a secondary school, known as an academy. Passed in 1839 on the insistence and leadership of then President Mirabeau B. Lamar, the second president of the Republic of Texas, the legislation was followed with the passage of legislation that added another league to each county in 1840 (Thomas & Walker, 1982).

As a result of the Compromise of 1850, the state of Texas received $10 million dollars from the United States federal government. Of the $2 million that remained after all of the Republic's debts were paid, a new political issue developed focusing on how those funds should be used. Taking center stage for the first time, financial assistance for education became a plank in the platform that helped to elect Elisha Pease as governor in 1853 (Thomas & Walker, 1982).

The political platform became reality in 1854 with the establishment of a special fund for schools, known as the Texas Permanent School Fund, a part of the Common School Law of 1854 (Texas Education Agency [TEA], 2004). Also included in the legislation was the provision that each county was to be divided into the required number of school districts. Each district would provide a building; however, no provision was made for the financing of the required facilities, and no state monies were provided for that purpose. Communities utilized churches, lodges, and other public buildings to

meet the mandated responsibility (Eby, 2004). A problem existed with the Common School Law of 1854 in that before a district could receive any funding on a per capita basis from the state, the local district was required to construct a local school building at the expense of the district and the local community (Thomas & Walker, 1982).

The Civil War brought the processes of funding education in Texas to a stop. The Permanent School Fund was raided to help pay for the cost of the war. The Constitution of 1869 was the first effort to restart the funding of education following the war. One provision related to education contained in the constitution was allowing the local school district to assess a property tax of up to $1 per $100 of value as was required for the construction and operation of a district's schools (TEA, 2004). Acceptance of these new laws regarding education was difficult because of former promises made to the citizens of the state that they would never be required to pay taxes for the purposes of public education. Added to this new tax was the burden placed on each newly created district to build a schoolhouse with no money provided by the state for the endeavor (Eby, 2004). The source of funding for these newly mandated facilities was to come from the local district and its taxation at the local level. This tax was to be not only for facilities, but also for the operation of school for 10 months a year to educate both White and Black students in the state (Thomas & Walker, 1982).

As control of the state was regained from the Radical Republics following Reconstruction, the Constitution of 1869 was replaced by the moderate Texas State Constitution of 1876. One provision of the Texas Constitution of 1876 authorized the levy of an additional ad valorem tax for the construction and equipping of school facilities (Haas & Sparkman, 1988).

From 1875 to 1881 legislation was passed by the legislature that allowed incorporated cites to control the schools within their boundaries. Cities were authorized to assess taxes to benefit the school and construct facilities with a two thirds voter approval (Thomas & Walker, 1982). Those schools that were operated in a district pattern, governed by a community-based board, versus a common school pattern, administered by the county, received authority in 1900 to issue bonded indebtedness upon approval of the local community. Both facilities and taxes increased as a result of the legislatures actions (Thomas & Walker).

In 1904, a bulletin entitled “Some Wholesome Educational Statistics” was released. It reported that the state of Texas was at the bottom of all of the states in the country with regard to its school facilities. The bulletin also showed that Texas was at the bottom of capital expenditures per population for its schools (Eby, 2004). In 1908, several significant changes occurred relating to school facilities in the state, all concerning education in the rural areas of the state. One of these changes allowed the use of local tax dollars for equipping of the local school, while another raised the tax limit for common schools from $0.20 to $0.50 per $100 of value (Eby). An amendment to the state constitution was also passed to allow common schools to vote bonded indebtedness. In 1909, the legislature permitted funds of the permanent school fund to be invested into the newly authorized building bonds of common schools (Thomas & Walker, 1982). While such action did help spur construction for rural schools, it was noted in the 1910 Biennial Report of the State Department of Education that for the 598,618 students that should be attending a rural school, common schools had a seating capacity of only 373,027 (TEA, 2004). During this time period, more than 75% of

the schools in the state were one-teacher schools operating fewer than 3 months during the year (Eby).

Local school districts were dependent on their local taxpayers for school facilities as new communities were built across the state. In the late 1930s and early 1940s, the New Deal era of Franklin Roosevelt provided assistance to school districts through the construction of buildings through the Workers Progress Administration.

The issue of school facilities remained a local issue until 1949, when the Gilmer-Aiken Committee on Public School Finance recommended a system of equalized funding for school facilities. While many of the committee's other recommendations were adopted including the concept of compulsory attendance and student attendance for the purpose of schools earning state monies for operation; providing funds for facilities was not adopted. Districts were forced either to sell bonds or to save funds from their general operating budget to pay for the construction of new facilities (Clark, 2001).

In 1983 the Texas Legislature established a guaranteed bond program which provided a means for local school districts to no longer depend solely on their own bond rating when seeking bonds to fund facility construction. The guarantee bond program allowed districts to gain the best possible bond rating by utilizing the Texas Permanent School Fund as the guarantor for any bonds issued by a Texas public school district (Clark, 2001). Districts that previously had been precluded from selling bonds because of a low bond rating, now had the backing of the state of Texas through the Permanent School Fund. Their ratings were now raised so that the bonds being offered to finance

the construction of school facilities could be done at costs that were much more attractive to local school districts.

As late as 1988, Haas and Sparkman noted that “financing school construction in Texas is presently the sole responsibility of the local school districts. Presently there is no state involvement” (p. 413). The burden of facilities remained solely the responsibility of the local school district and the local taxpayer to provide the resources necessary to meet the needs of their community.

In 1990 under Senate Bill 1, the legislature allowed districts, as a result of the Texas State Supreme Court decision of Edgewood I, to expend funds received from the state through the foundation program for capital needs, so that school districts could acquire needed facilities and equipment. By allowing districts to use foundation funds for capital expenses, the state provided a mechanism for districts to receive state assistance for the purpose of facilities construction or renovation. While the state provided the mechanism for schools to qualify for equalized funds for such purposes, it was unclear as to how school districts were to actually receive these funds. The ability to construct facilities by districts that received state assistance was limited. These state funds were generally used for the maintenance and operation of the district, with little remaining for any debt service (Clark, 2001). It was not until 1993 that the school districts were authorized to enter into lease purchase agreements for the purpose of new school construction (Bunch & Smith, 2002).

There was a significant increase in the total amount of debt incurred by Texas school districts from 1992–1999, with average debt per student increasing by 87%, whereas enrollment increased only 14% (Clark, 2001). Beginning in 1995, there were

increases in the number of school districts that began to issue lease purchase debt and an increase in the amount of debt incurred (Gamkhar & Koerner, 2002). Also in 1995, a one-time grant program was provided by the state legislature to the poorest of the property-poor school districts across the state to help equalize facility funding (TEA, 2004).

The state took additional steps to help school districts through the creation of the Instructional Facilities Allotment (IFA) program. This grant-based program was designed to help property-poor school districts leverage local funds in conjunction with state funds in the form of a state subsidy for facilities. The debt incurred by the local district could be in the form of either voter-approved bonds or a lease purchase. The amount of aid received by the district was based on an inverse relationship to the wealth of the district, with some districts having over 90% of their debt paid by the state (Bunch & Smith, 2002).

In 1999 the final program for facilities assistance was created by the state legislature. The Existing Debt Allotment (EDA) provided equalized state funds to aid school districts in paying off debt that had already been incurred prior to 1999 for the construction of school facilities. The Existing Debt Allotment did not help build any new buildings; it only provided assistance for debt already incurred (TEA, 2004).

The Concept of Lease Purchasing

Lease purchasing of real property has been defined as “the acquisition of a structure or of land over time through periodic payments to the property owner” (Bunch & Smith, 2002, p. 114). Lease purchasing is a mechanism that allowed state and local governments to finance capital needs over a period of time, and, at the end of the

specified lease, to retain ownership of the financed item. According to Bunch and Smith, school districts lease payments were made in a manner similar to a mortgage payment on a specific facility until the facility had been purchased.

The concept of lease purchasing was not a new phenomenon. In a 1971 study conducted by the Urban School Building Research Institute, which looked at financing alternatives for the St. Louis city school system, several new approaches to funding facilities were examined, including “leasing corporations” (Fitzgibbon et al., 1971). The approach created a third party for the purpose of constructing facilities for a school district through the sale of revenue bonds. The school district then made lease payments to the third party to pay the cost of the bonds. In the earlier years of lease purchase, the ability of school districts to enter into such agreements without voter approval already existed. Backed by special legislation, school districts were given authority to raise taxes to pay lease obligations which did not require voter approval (Fitzgibbon et al.).

Honeyman (1999) reported that lease purchase was something that had emerged only in the past few years. Although its utilization may have been limited, lease purchase financing was not a new debt instrument utilized for school construction. Two characteristics were common to the transaction. Generally, the school district must solicit the assistance of a 501(c)(3), tax-exempt organization or public corporation to complete the actual financial transaction. Typically, a corporation was formed by the school district for the sole purpose of acting on its behalf to issue debt. The corporation secured the financing, constructed the facility, and then leased the facility to the school district that created the corporation. The school then made payments out of its regular

budget to the corporation, which then used the funds to pay the debt on the facility (Gamkhar & Koerner, 2002). At the end of the lease, typically the length of the debt instrument of the corporation, the school district purchased the property for a nominal sum, most often $1.00. The entity which created the corporation must have a tax-exempt status to allow the corporation, and thus the school district, to leverage tax-exempt financing (Waring, 1995). The proceeds of all transactions had to be used exclusively for a public purpose and repaid by public funds (Gamkhar & Koerner).

Over one third of the states have some form of a public corporation which either purchases the bonds of local school districts or enters into a lease purchase agreement to help supply needed capital for the construction of school facilities (Camp & Salmon, 1985). It was noted in the literature that such transactions were generally much more complex due to the creation of an entity and the appointment of an independent board of directors. Often the members of the school board were the same members of the created corporation (Gamkhar & Koerner, 2002). A reason for their creation was the restrictive nature of debt limitations imposed by many states and the growing need for educational facilities for public schools. Debt limitations normally placed on school districts were based on the assessed valuation of the district's tax base and its ability to generate needed funds from those tax bases. Those districts with low assessed valuations and generally considered property poor could not generate enough funds under state-mandated limitations to meet their facility needs. Such restrictive limitations would not allow districts to take advantage of other resources to meet their facility needs. These corporations were generally utilized more following periods of economic downturns complicated by a severe need for facilities (Camp & Salmon).

These corporations were unique in several ways. The corporation was an intermediary that represented the school district in the investment market. It did not receive an annual appropriation from the state government, but it used state monies to pay its debts and to secure financing. The debt that it incurred was not the debt of the school district or the state, and in most cases it could not tax. These corporations were extremely flexible in meeting the needs of the school districts they served because they were not required to gain voter approval. These corporations were extremely autonomous in not having to answer to anyone but the board that created it and to those members only. It filled a niche market for smaller debt instruments of school districts (Camp & Salmon, 1985).

> They are owned by the government that so established them, but are hybrid creatures, possessing some of the characteristics of private firms and some of public agencies. They are corporations without stockholders; political jurisdictions without voters or taxpayers. (Camp and Salmon, 1985, p. 497)

The other common characteristic was that the lease purchase was typically not considered to be debt. Lease payments were considered to be rent payments, not debt, and had to be annually appropriated in the district's operating budget (Demers, 1989). The district was thus not subject to debt limits that were commonly associated with bonded indebtedness (Craig & Mieksell, 1994). Schools facing such limitations often preferred lease purchasing over traditional general obligations bonds (Gamkhar & Koerner, 2002).

Many states that permitted lease purchases required a nonappropriation clause to be included in the lease document; such a clause allowed the governmental entity leasing the facility to be committed to the obligation for only one fiscal year. Thus, if sufficient funds were not available in the next fiscal year, the lease could be terminated (Johnson & Mieksell, 1994). A key difference in a lease purchase was that it was not backed by either the taxing entities' ability to tax or the entities' full faith and credit, which made them a weaker debt instrument compared to general obligation bonds (LBJ School of Public Affairs, 1995). Potential lenders looked not at the credit worthiness of the corporation, but at the financial stability of the school district that made the actual payments. (Bloomfield, et al., 1998).

Lease Purchasing Advantages

Lease purchase financing was considered to be a viable alternative for those school districts that did not want to use traditional methods of construction financing, primarily general obligation bonds (Demers, 1989). The advantages of lease purchasing fell into two general categories: political and economic. Of these two, the political advantages tended to be more influential in the selection of the financial instrument.

Because it was not considered to be debt, the major political advantage was that lease purchasing did not require voter approval before the school district could complete the transaction (Waring, 1995). General obligation bonds required voter approval before the debt could be issued by the school district (Gamkhar & Koerner). The trend of voters defeating bond issues and tax levies for facility construction indicated that an alternative method of financing was needed (Tantillo, 1985). Communities that had voted down bond issues in the past were more likely to see lease purchasing utilized as that

alternative (Demers, 1989). A lease purchase agreement, which was also a debt instrument, did not require an election seeking voter approval of the transaction. This advantage was often a key factor in the decision of some districts to select this financing instrument. Districts also realized a nominal savings in not having to conduct a special election (Tantillo).

Linked to the advantage of no voter referendum was the advantage of expediency (LBJ School of Public Affairs, 1995). Bond referendums often required several months of lead time prior to an election to provide the electorate with information on why the issue should be approved. Because no election was required for lease purchasing, the transaction was completed in a timelier manner (Demers, 1989). While the amount of documentation required for lease purchasing was quite staggering given its complexities, the transaction could often be completed within 60 to 90 days allowing the school district to begin construction relatively quickly. Bond issues often took over 12 months before the school district could begin construction (Pierce, 1995).

The lack of required voter representation was seen as an advantage for lease purchasing. The standard of “One-man-One-vote” established in Baker vs. Carr does not apply to lease purchase transactions (Camp & Salmon, 1985). Lease purchase transactions also circumvented the cry of “taxation without representation” even though no voter authorization had been given for the debt and its subsequent payment (Demers, 1989). While the actual board of the created entity constructed the facility, that board was created by the school district’s board that had been elected by the district’s voters.

Economic advantages also existed for lease purchasing. Districts were able to acquire an asset in today's actual dollars, but were able to pay for the asset over time with tomorrow's inflated dollars. Districts were not required to allow their excess funds to build over time. Nor did they have to deal with the issue of inflation and the diminishing return of their investment over time when compared to the increase of expenses due to inflation (Demers, 1989).

Lease purchasing allowed districts to complete smaller projects and voter-sensitive items, such as sports facilities, without voter approval. This option allowed the district to reserve its bonded indebtedness for larger projects (Pierce, 1995). Lease purchasing also allowed districts to combine funding from multiple sources including federal, state, and local (as permitted by law) to make the payments on the lease purchase (Tantillo, 1985).

Disadvantage of Lease Purchasing

The disadvantages of lease purchasing focused on the issues of cost and risk. The risk factor came as a consideration of the lender. Due to the nonappropriation clause found in most lease purchases, lenders had a higher degree of risk than in conventional general obligation bonds. The school district could legally walk away from a lease purchase at the end of any fiscal year. The thought of being left holding a school building made the lender push the interest cost up on the transaction to make the risk more appealing (Gamkhar & Koerner, 2002). Also compounding this risk was the lack of backing for the transaction compared to the safety found in general obligation bonds. General obligation bonds had the security of the entities' taxing ability to generate funds for the repayment of the debt. Given that the holder of the debt, the public facility

corporation, had no taxing ability; these two factors generally forced interest rates on lease purchase up 25 to 100 basis points higher than comparable general obligation bonds (Demers, 1989).

The risk of nonappropriation was a real concern for lenders as documented by the Brevard County Florida case (Johnson & Mieksell, 1994). In that case, the county had utilized a lease purchase for the acquisition of a county facility. Due to financial constraints, the county exercised its rights under the contract to end the lease, utilizing the nonappropriation clause. The county was sued by the lender for default, but the court ruled for the county, in that it was simply exercising its rights under the contract. The Brevard County case showed that the rights in the nonappropriation clause were exercisable and likely enforceable in court (Johnson & Mieksell).

To minimize this risk, essentiality of the project was taken into consideration. If the facility being financed was something that was needed for the essential operation of the district, the risk to the lender was considered to be less. Noncompeting clauses were required by some lenders that precluded a district from walking away from a lease and then constructing another facility for the same purpose (Gamkhar & Koerner, 2002).

Lease purchase transactions were also considered to be much higher in cost and expense than traditional general obligation bonds. The complexity of the transaction requiring extensive work by bond counsel and financial advisors drove the cost of the transaction up when compared to bonds. While bond issues were considered to be somewhat standardized, each lease purchase was unique, which required more extensive and complex work for their issuance (Gamkhar & Koerner, 2002).

A long-term disadvantage for school districts utilizing such a transaction was the effect of the lease on the instructional budget. Districts utilizing lease purchasing must make payments out of their general operations budget since the lease was not considered a debt and not supported by any type of special taxation. Resources were pulled from current instructional and other student needs to satisfy payments on a capital long term obligation. Compared to school districts that utilize other capital revenue resources, particularly general obligation bonds supported by special taxes; districts utilizing lease purchases could put their regular program in jeopardy (Gamkhar & Koerner, 2002). Given the disadvantages, there was no cost justification for using lease purchasing when other financing sources were available (Bloomfield, et al., 1998).

Application of Lease Purchase Financing in Individual States

A review of various states that utilize lease purchase financing allowed for a better analysis of its operation in Texas school districts. The literature provided some insight into the availability of the instrument across the country and showed some common patterns of use.

California -- Leroy F. Greene State School Building Lease – Purchase Law of 1976

Known as the *Lease-Purchase Program*, the program allowed schools to receive state funds for construction based on policy and statute of the State Allocation Board. However, The *State General Obligation Bond Proposition 1A* passed in November of 1998 ended lease purchasing in the state of California (Office of Public School Construction, 1999).

Lease purchasing in California became attractive due to the severe restraints imposed on governmental entities following the adoption of Proposition 13, along with other voter-initiated and approved constitutional amendments that have limited governmental borrowing (Johnson & Mieksell, 1994). The role of state financing in equalizing K-12 expenditures also led school districts to increase their use of lease purchasing (Gamkhar & Koerner, 2002).

Colorado -- C.R.S. 22-45-103

The state of Colorado allowed school districts to utilize lease purchasing for the acquisition of school facilities. The increased cost due to higher interest rates was considered the cost of not having to secure voter approval of the debt. The cost of the lease was paid for by a tax levy that was not approved by voters (Fitzgibbon et al., 1971). Districts in need of facilities in fast-growth areas utilized lease purchasing to meet immediate capital needs. Districts often shifted away from using lease purchasing once information could be provided to voters, who then began supporting facility construction and the needed bond obligations which provided needed funds at a lower interest rate (Argon, 1996).

Florida -- Florida State Statute 1011.71(2)(e)

The state of Florida had not seen extensive use of lease purchasing until large amounts of state funding for public education were infused into the system. Those funds were then equalized for individual districts, which made lease purchasing more attractive to those districts receiving large amounts of state funds causing an increase in the use of lease purchasing (Gamkhar & Koerner, 2002).

The mechanics included the school district's entering into an agreement with a corporate authority authorized to act as a lessor for the school district. The debt was then sold by an investment bank, with investments being secured by the annual lease payments that were required from the school system. While the legal transactions were sizeable, funds could be obtained for 60 to 90 days following authorization. No bond election was required for financing school facilities (Pierce, 1995).

According to Pierce (1995), terms of leases in Florida could not exceed one year in length. While it was often understood that the lease would be renewed for a period of up to 30 years, the lease stated that it was not an obligation of debt. Thus, no taxes were pledged for the payment of the debt. Debt incurred through a lease purchase did not hamper a district's ability to incur bonded indebtedness, and thus the district had the ability to seek debt through bonds for other projects with no decrease in their bonded debt capacity.

The reason for this additional capacity was due to the lease purchase payments being considered an operational expense which was appropriated for annually (Pierce, 1995). It was possible for a school district to default on such a transaction. In such cases, the school district was faced with the possibility of selling the property or transferring ownership of the property to the lessor. The lessor could also seek remedy through judgment that the debt must be paid by the district through its annual lease-payment appropriations

Illinois -- The Illinois School Building Commission

The commission constructed schools and then leased them to school districts (Fitzgibbon et al., 1971). At the end of the lease, ownership of the property was

transferred to the local school district. The commission was supported through appropriations from the state legislature. Local districts had to gain voter approval for such projects due to the requirement of a special tax imposed to pay for the cost of the lease (Fitzgibbon, 1971).

Indiana -- The Indiana School Building Corporation

Established in 1947, the corporation was created to allow the local community a way to generate funds for the purpose of constructing school facilities. A local Indiana School Building Corporation was formed so that the bonds could be sold to the residents of the community (Fitzgibbon et al., 1971). The corporation is responsible for the construction of the facility and then leases the facility to the school district that eventually becomes the owner of the facility. All bonds sold are not an obligation of the school, but are secured with a mortgage on the building and its site. In 1957 legislation was passed that allowed local school districts to utilize private funding for the same purpose (Fitzgibbon et al.).

Iowa -- Iowa State Education Code Chapter 278

Local districts in Iowa were authorized by the state legislature to enter into lease agreements or other time contracts for the rental of facilities for educational purposes. The local district had to have the approval of 60% of the district's voters to enter into such agreements. Voters also had the authority to vote a tax to pay for the lease that could not exceed "five mills on the dollar" (Fitzgibbon et al., 1971). Iowa's concept of lease purchase still retained voter control in giving the local school board the authority to take on the debt for the district. The use of lease purchase in Iowa was done to

provide boards a greater degree of freedom, yet the local board was still responsible (Fitzgibbon et al.)

Kentucky -- Ky., 443 S.W. 2nd 243

Kentucky's use of lease purchasing included intergovernmental cooperation when school districts transferred ownership of property to its city. The city then sold bonds for the construction of a new facility. The district then leased the facility from the city for the cost of the revenue bonds. The approval for the sale of the bonds came from voters of the city. The authorization for the school to enter into such an agreement was vested into the board of trustees. Local district revenue funded the required lease payments. (Fitzgibbon et al., 1971).

Massachusetts -- Chapter 208 of the Acts of 2004 -- School Building Assistance

Lease purchases in Massachusetts have been used for major capital projects without affecting debt limits or requiring voter approval. The transactions allowed entities without full public disclosure to assume financial obligations which were long term debt. In an analysis of such transactions, the interest rate costs were four to five percent higher than traditional general obligation bonds. The creation of a special purpose corporation was required to complete the transaction on behalf of the district (Bloomfield et al., 1998).

New Jersey -- NJ.S.A. 18A:20-4.2[f]

With increased resistance from taxpayers for traditional bond funding and decreased approval of bond issues by voters, the future of lease purchase financing was positive in New Jersey. A financial entity was selected by the board of education to act as the lessor, be it an investment firm, investment bank, or other entity that

specializes in lease purchase financing. The financial entity sold certificates of participation which were shares of the lease purchase transaction. The certificates of participation had many similarities to traditional bonds, including being issued normally in $5,000 denominations (Scardaville, 1988).

The local school district was obligated to the lease agreement, requiring the payment of interest charges to the certificate of participation investors through either annual or semi-annual lease payments (Scardaville, 1988). Such payments were made through a designated trustee on behalf of the school district. At the conclusion of the lease, ownership of the entire facility passed to the board of education. For the transaction to be considered a tax-exempt transaction on the part of the investors, final ownership of the project had to rest with the board of education, the lessee.

New Jersey districts utilizing lease purchasing were those that had facility needs, but had had bond referendums defeated in the past. While defeated, the needs of the districts continued to exist, forcing districts to seek alternatives. Districts also realized a time savings utilizing lease purchasing over traditional bonds (Demers, 1989).

Pennsylvania -- P.L. 1217, No. 498

Two different mechanisms for utilizing lease purchasing existed in Pennsylvania. The first involved the use of a state level agency, the State Public School Building Authority (SPSBA). This agency was established in 1947 for the purpose of constructing school facilities and making any needed improvements and then leasing the projects back to individual school districts. The agency also empowered school districts to enter into such agreements. The agency had the authority to sell bonds, utilizing the school district as the source of repayment for such debt. Over the years,

the SPSBA was able to gain a solid standing in the financial markets, and it could secure interest rates lower than those a school district could secure (Hartman, 1988). The school district completed the transaction by making annual lease payments, equaling the cost of the principal and interest, with the ownership of the property transferring to the district at the completion of the lease. Since 1975, however, there has been a substantial decrease in the level of activity in the SPSBA including lease purchase agreements (Hartman, 1988). With the decrease, an increase had been seen in the reliance on traditional financing utilizing general obligation bonds approved by the voters

The second approach to lease purchasing in Pennsylvania was that of a municipal authority issuing bonds on behalf of a school district. Lease payments were made by the school district to the individual authority for the purpose of the paying off the debt, with ownership transferring to the district at the conclusion of the lease. While used widely in the past, this method of financing was rarely used since the late 1980s (Hartman, 1988).

Texas -- The Public Property Finance Act

The Public Property Finance Act of the Texas Administrative Code established lease purchase financing under the act as a “feasible means to purchase or otherwise acquire, use and finance public property” (Texas Administrative Code §271.002). Section 271.004 of the code applied specifically to school districts and allowed the board of trustees to enter into contracts and make payments under the act for the purpose of acquiring or improving real property.

School district contracts for such activities were limited to annual appropriations. They were not considered debt and were to be paid from sources other than from ad Valorem taxes (Texas Administrative Code §271.004(e)). The code also required all lease purchase contracts to be submitted to the state attorney general for approval (Texas Administrative Code §271.004(g)).

The ability of the school district to complete the transaction was found in Chapter 303 of the Texas Administrative Code concerning Public Facility Corporations. The Public Facility Corporation was established by public entities for the purpose of helping finance, acquire, and construct facilities for public service at the lowest possible borrowing cost (Texas Administrative Code §303.002). The corporation was a nonmember, nonstock, nonprofit public corporation that could issue bonds on behalf of its sponsoring entity for the purpose of financing public facilities (Texas Administrative Code §303.021).

The corporation was provided with specific powers related to its purpose of providing facilities to its sponsoring entity. The corporation had the power to acquire title to a public facility and then to lease that property to the sponsoring entity. The corporation was then authorized to accept a mortgage on the property acquired (Texas Administrative Code §303.041). The corporation did not have the power to tax (Texas Administrative Code §303.041(a) (8) (c)).

The corporation was authorized to issue bonds for the provision of one or more public facilities (§303.071). Payment of the bonds was derived from the revenue the corporation received from the sponsoring entity in the form of rental payments for the

use of the facility. However, the bonds issued were not secured by the faith and credit of the state of Texas or the sponsoring entity (Texas Administrative Code §303.072).

A key provision of lease purchasing in Texas was the requirement that lease purchases for the acquisition of real property required submission and approval by the state's attorney general. In a letter to financial advisors dated October 2, 2001, the attorney general referenced Texas Administrative Code §271.003 and §271.004 and the requirements stipulated.

In the application of the authorizing legislation, a school district board of trustees created a Public Facility Corporation for the purpose of acquiring or constructing an educational facility for the district. The board of trustees served as the board of directors for the newly created corporation. The corporation then obtained funds through the sale of bonds for the benefit of the district. The bonds could be sold in the open market or as a private placement, similar to a conventional mortgage (Bunch & Smith, 2002). The corporation then constructed the needed facility for the school district. The district then made lease payments to the corporation for the use of the facility. The payments were made from the district's maintenance and operation budget from excess state revenue funds. The lease payments were then used by the corporation to make the necessary payments to its investors. At the end of the lease, the ownership of the facility was conveyed to the district (Bunch & Smith).

Under Texas law, lease purchases were not considered debt, but rather, the payments on the lease were considered operating expenses of the district. Because they were an operating expense, lease purchases and the bonds sold to generate funds did not require voter authorization through a bond election (Gamkhar & Koerner, 2002).

However, a notice was required to be published establishing a 60-day window that notified the public of the intention of the district to enter into such an agreement. If 5% of the registered voters of the district signed a petition, the lease purchase agreement had to be put to a vote of approval before the agreement could be finalized. Typically the scrutiny of the public on lease purchase transactions was much lower than was typical for elections for general obligation bonds (Bunch & Smith, 2002).

The lease purchase debt of Texas school districts increased 294% from 1996, with $99.6 million approved, to $392.4 million being approved in 1999 (Gamkhar & Koerner, 2002). As districts across the state sought new ways to finance facilities, the use of lease purchase for school construction increased. The increase in the amount of debt incurred under this instrument could be attributed to the treatment of debt in relation to state aid. While districts were prohibited from using any general state aid received through the maintenance and operation budget for the payment of general obligation bonds, districts were rewarded for using the funds for the payment of lease purchases. A district that could maximize its local tax effort and receive maximum state aid was able to use those funds for the payment of the lease purchase. Because state aid was based on equalized funding formulas that were available only to property-poor school districts, it was those districts that have used lease purchasing (Gamkhar & Koerner).

One reason given for the possible significant increase in the amount of lease purchase transactions was the introduction of a new state program known as the Instructional Facility Allotment program (Gamkhar & Koerner, 2002). Texas Education Code Chapter 42(A)§46.004(a) allowed districts to receive state assistance in

conjunction with a lease purchase agreement as long as the facility financed was one that was used for instructional purposes. Districts that received funding under this program saw a reduction in the amount of general state aid received. The loss was due to the state no longer recognizing a portion of the local district tax effort used to compute state aid based on that effort. To ensure that district's did not receive extra state funding for the same tax effort, the local district was responsible for that portion of the lease not covered by the IFA program lowering the total tax effort of the district in its maintenance and operations tax rate (Texas Education Code §46.004(a)(1)). This loss of tax effort was the factor reducing general state aid. The debt issued was also required to be a minimum of eight years to qualify for the program.

It was noted that the Instructional Facility Allotment program leveraged school districts ability to engage in lease purchasing. The program also meant that the state had made a commitment to funding such instruments and that they had to be funded in subsequent state budgets (Clark, 2001).

The disadvantages for Texas school districts using lease purchasing were similar to those noted in the general application of the instrument. A nonappropriation clause was included in the lease purchase agreements of Texas school districts. It allowed the districts to terminate the lease if sufficient funds were not available to make lease payments (Bunch & Smith, 2002). While investors understood the risk of nonappropriation from either the state legislature or the local district, investors expected "the governmental entity to remain in the building for duration of the debt" (Bunch, 1996, pg.116).

While the risk of nonappropriation forced districts to pay higher interest rates than those districts using general obligation bonds, another disadvantage existed that was unique to the state of Texas. General obligation bonds issued by Texas school districts were guaranteed by the Texas Permanent School Fund. Such a guarantee allowed school districts that would normally have a low bond rating to have the highest bond rating possible and thus receive the best interest rate possible on their bonds. This guarantee did not apply to lease purchase instruments. School districts were subject to their own creditworthiness when the interest rate was determined on the lease purchase agreement. While the difference can often be a full category below a district's regular bond rating, a district could raise its rating if it showed a positive past history with comparable debt, essentiality of the facility, and underlying revenues of the district (Gamkhar & Koerner, 2002). Research by Bunch and Smith (2002) indicated that interest cost for lease purchases were 41 basis points higher than with a comparable bond issue.

Districts could also expect to pay higher issuance costs for lease purchase agreements. Legal expenses and fees paid to financial advisors tended to push the cost of lease purchase above what was paid for bond issuances (Bunch, 1996). It should be noted that according to Bunch and Smith (2002) in later anaylsis, the literature was not clear on whether or not issuance cost for lease purchases were higher or lower than bond issues. Their research on the issue showed that issuance cost were higher, but that not having a bond election helped to offset some of the cost. They also called for more education on the part of school officials regarding possible cost issues for lease purchases.

Two seminal works with different conclusions described the characteristics of those Texas school district that used lease purchasing for new facility construction. Bunch and Smith's (2002) research indicated that high enrollment growth, lower property wealth, and a perception of the inability to gain support in the passage of a bond issue were the characteristics of lease purchase districts. Their research also indicated that districts with higher enrollments and higher tax rates were other common characteristics of districts that had utilized lease purchase financing. Overall, districts that used lease purchase financing were those that had the greatest need based on enrollment growth and the lowest means for financing due to low property wealth.

The other seminal work was done by Gamkhar and Koerner (2002). In that research, the typical lease purchase school was property poor, relatively small, and had low to moderate growth in student enrollment. It was noted in this research that a significant number of declining enrollment school districts utilized lease purchase financing and were considered property poor. Gamkhar and Koerner also found that lease purchase districts tended to have lower debt tax rates, $0.25 and below. They found too, that 57% of lease purchase districts had never issued general obligation bonds.

In follow-up research conducted by Gamkhar and Olson (2003), a greater amount of Tier I (basic state aid) received by a district was another indication of a district selecting lease purchasing. Gamkhar and Olson's research also found that the larger the issue in comparison to the size of the school district, the less likelihood that lease purchasing would be used. Wealthier districts, were less likely to use lease purchasing. The ability to carry a bond election was again a factor, with those districts

that were able to carry an election less likely to use lease purchasing. Finally, the introduction of the Instructional Facility Allotment had an effect on the number of districts that used lease purchasing.

Contradictions existed in these two sets of research. The characteristic traits given by Bunch and Smith (2002) align with Gamkhar and Koerner (2002) only in the area of lease purchase districts being property-poor districts. There was little agreement in regards to size, enrollment growth, or tax effort.

Equity

An issue in the more recent literature was that of equity. The NCES (2000) concluded that the greater the amount of poverty in the school, the greater the likelihood that at least one of the buildings being used was less than adequate. To further exacerbate the problem were the inequities found in the property tax system that made it the single issue in resolving the school finance crisis (Tantillo, 1985). While small steps were being taken to help poor school districts in the area of facilities, state policy focused more on the equalization of maintenance and operation revenue than on capital expenditures (Gamkhar & Olson, 2003).

In relation to lease purchase financing, one argument developed concerning school districts was that they were too poor to pass bonds, and that they could not utilize regular operating funds to fund school construction. Poor districts that attempted to reserve excess funds from district operations to build reserves for possible construction and renovations did so at the expense of the instructional program (Clark, 2001).

Districts utilizing lease purchase financing had experienced the same problem of pulling resources out of the general operations budget that should have been used for the instructional program. Inequity existed between lease purchase districts that had taken such action compared to those districts that had issued bonds and were able to have their entire general operations budget for instruction rather than being siphoned off for capital needs (Gamkhar & Olson, 2003).

The expense of lease purchase transactions was also an issue of equity. Poor districts that spent more money to issue debt through lease purchasing had additional dollars taken away from their instructional program (Gamkhar & Koerner, 2002). The loss of these funds led to questions concerning the adequacy of the education provided to the students of poor districts compared to that of those districts that do not use lease purchasing (Clark, 2001).

Another perspective on equity and why districts often chose lease purchase was the reluctance of taxpayers to pass bond issues to pay for school facilities. Taxpayers who live in areas that have low-property wealth were less likely to approve bonded indebtedness due to the effect it would have on their own property taxes versus a taxpayer in a high-property wealth area whose share of new debt would be much lower. Also, the limitations that were often placed on districts by their state government determined the amount of debt a district could issue based on the district's ability to generate funds to pay the debt (Sielke, 2001).

Summary

The amount of information detailing the use of lease purchase financing in the state of Texas was limited and contradictory in its findings concerning the key

characteristics of districts using lease purchase agreements. While there were references to the instrument, and some detailed explanations of the mechanics, the stories that explained the reasoning of school boards and administrators using such a means of financing versus other available and more traditional financing mechanisms had not been told.

CHAPTER 3

METHODOLOGY

Introduction

In recent years, the need for educational facilities continued to be a pressing issue for many school districts in the state of Texas. The need was intensified due to the age of facilities, an issue that always seemed to impact poor school districts. Given these needs, this study investigated the financial instrument known as lease purchase and its impact on new school construction in the state of Texas. This study sought to answer the following questions:

1. What are the characteristics (specifically, size, wealth, and financial capacity) of districts utilizing lease purchase financing?
2. How has lease purchase financing affected the fund allocation of school districts that have utilized it?
3. How has lease purchase affected the acquisition of facilities for those districts that have utilized it?
4. How has lease purchase financing impacted other construction needed in those districts that have utilized it in the past?

Collection of Data

Descriptive statistics were utilized to determine the characteristics of districts that have utilized lease purchase in the state of Texas. Characteristics examined included the following: (a) total district property tax rate, (b) maintenance and operation tax rate, (c) debt tax rate (interest and sinking), (d) district property wealth per student, (e) total district tax base value, (f) weighted average daily attendance, (g) average daily attendance, (h) education service center region, (i) District Enrichment (DTR) Tax Rate, and (j) District Texas Education Code Chapter 41/Chapter 42 status determining the district's property wealth status. Characteristics were selected based on those found in the literature and on critical attributes common to school districts in Texas.

Data were obtained through the utilization of the Texas Education Agency Public Education Information Management System and The Texas Bond Review Board database. All information was considered to be of public record and accessible via governmental Web sites.

A qualitative research method was also utilized through interviews with superintendents of districts who have utilized lease-purchase financing for the purpose of constructing new school facilities.

Sample

Descriptive Statistics

A total of 96 school districts were identified through records obtained from the Texas Bond Review Board who had been approved for a lease purchase transaction since the inception of the instrument. Of those 96 districts, two were considered special use districts which did not levy or collect ad Valorem taxes. In all matters, except for

those concerning property taxes and tax effort, all 96 districts were included in the sample population. For all property taxing issues, the 94 districts that levy and collect ad Valorem taxes were used as the sample population.

Qualitative Sample

Eight superintendents from the state of Texas were interviewed regarding their experiences with lease purchasing for new school construction. These superintendents were selected based on a listing of approved lease purchase transactions approved by the office of the Texas Attorney General. The district's transaction must also be listed by the Texas Bond Review Board. Superintendents and school districts were recommended by state authorities to establish a sample pool from which to select participants. While only eight superintendents were interviewed, one superintendent served in two different districts that had been approved for a lease purchase. The experiences for each district for that particular superintendent were included separately, for a total of 9 districts.

Transactions were selected to include a cross-section of financial advisors, size of school districts, and geographical locations of the districts. It was the recommendation of the doctoral advisory committee to insure that all areas, size, and student populations were included in the district selection. Only superintendents whose district had completed the full construction process and were either making debt payments or had completed debt payments were selected.

Districts selected for the purpose of this study include the following: (a) Aldine Independent School District, (b) Boles Independent School District, (c) Cisco Independent School District, (d) Fruitvale Independent School District, (e) Kaufman

Independent School District, (f) La Feria Independent School District, (g) San Felipe-Del Rio Consolidated Independent School District, (h) Terrell Independent School District, (i) Ysleta Independent School District.

Interview questions were selected to allow for a structured and formal interview process. Interview questions were designed whereby no preparation on the part of the respondent was required, but to gain an over all impression from the respondent on their experiences with lease purchasing. Questions were selected to allow respondents the opportunity to tell their experiences through open-ended responses. The interview instrument was piloted with a superintendent who had utilized lease purchasing, but was not in the sample pool.

Prior to conducting all interviews the researcher received approval from the University of North Texas Institutional Review Board regarding the use of human subjects in this study.

Analysis of Data

Descriptive statistics were utilized to determine common characteristics of all districts that are listed by the Texas Bond Review Board as having approved lease purchase transactions. Common traits focusing on the mean, median, and mode of each the identified characteristics were the focus. Through an examination of the central tendency for each of the characteristics, trend lines indicated patterns of tendency of those districts that use lease purchase financing.

Data from the interviews were examined to determine patterns and similarities from the actual districts that had completed the transaction. Anecdotal information was recorded to determine possible trends as identified by those superintendents

interviewed. Questions focused on general information regarding the district and its experiences and then became more focused to determine why lease purchasing was selected over general obligation bonds and the decision process used. An examination was also made of how funds diverted from the general operation fund of the district to capital projects affected the instructional program of that particular district. Finally, information was sought regarding construction in the district following the initiation and completion of the lease purchase transaction.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

Introduction

The purpose of this study was to review and explore the concept of lease purchase financing for the construction of new school facilities in Texas. It was to examine the benefits and disadvantages of this form of facility financing. Its purpose was to determine what impact lease purchasing had on the facilities in those Texas school districts that have utilized this method of financing.

A two-pronged approach was taken in relation to the study. First, a quantitative view was taken of all districts that had utilized lease purchase financing through the 2004 fiscal year. All data cited on districts were collected from the 2004 fiscal year. Utilizing data obtained through the Texas Bond Review Board and the Texas Education Agency, each district was examined for similarities and tendencies between districts utilizing lease purchasing.

Second, a qualitative view was taken of nine different school districts that had experienced lease purchase financing. Interviews were conducted with the superintendents or the chief financial officer of each of the districts. These interviews allowed the story of lease purchasing to be told for each of the districts. Emphasis was placed on determining why lease purchasing was selected and what the impact of the decision had been since the completion of the project.

Quantitative Results

The state of Texas had 1,037 school districts in 2004. Of those school districts, 96 had been given approval for a lease purchase debt instrument between 1995 and 2004. These 96 districts served a total of 689,622 students, and $633,840,853 of lease purchase financing had been executed by these districts. The range of debt for these districts was from $375,000 by Mount Enterprise ISD, a district of 389 students, to $95,999,970 by the Houston ISD, serving 191,701 students.

Characteristics of all of the districts utilizing lease purchase were broken down into the following areas:

- Regional Education Service Center Area
- Property Tax Rates
  - Maintenance and Operation Tax Rate (M & O)
  - Interest and Sinking Tax Rate(I & S)
  - Total Tax Rate
  - District enrichment tax rate (DTR)
- Total District Tax Base
- Property Wealth
  - Per Student
  - Status
- Student Attendance
  - Refined Average Daily Attendance
  - District Size
- Weighted Average Daily Attendance (WADA)

Year of Approval

Amount of Issuance

Conversion of Lease Purchase to traditional Tax Revenue Bonds.

(see Appendix B for complete reporting of data for all lease purchase districts).

Regional Education Service Center Area

Regional Education Service Center Area was examined to show geographic patterns of use. The state of Texas was divided into 20 geographic areas or regions served, with each area being served by a regional office that provided various services as mandated by the state. These regions were a common reference point in grouping districts across the state.

All lease purchase districts were categorized according to their Regional Education Service Center Area based on the total number of districts issuing lease purchases and on the total amount of issuances within the region (see Table 1).
Of the 96 school districts involved in lease purchasing, the greatest concentration of use for lease purchasing was found in Region 12, with a total of 15 school districts, 15.63% of the total population, utilizing it. While Region 12 had the highest number of districts utilizing lease purchase, the total issuances were only $26,895,336, which accounted for only 4.49% of the total issuances for the entire state.

The region with the greatest total issuance of lease purchase debt was found in Region 4, with $132,279,970 by a total of five different districts. However of that total, Houston ISD was responsible for 75% of it with $99,999,970, which was the largest issuance of lease purchase debt of any school district in the state. Region 1 with 19.57% and 19 with 16.95% also had significant percentages of the total lease

purchases issued. Combined with Region 4, these three regions constituted 57.39% of all the issuances in the state.

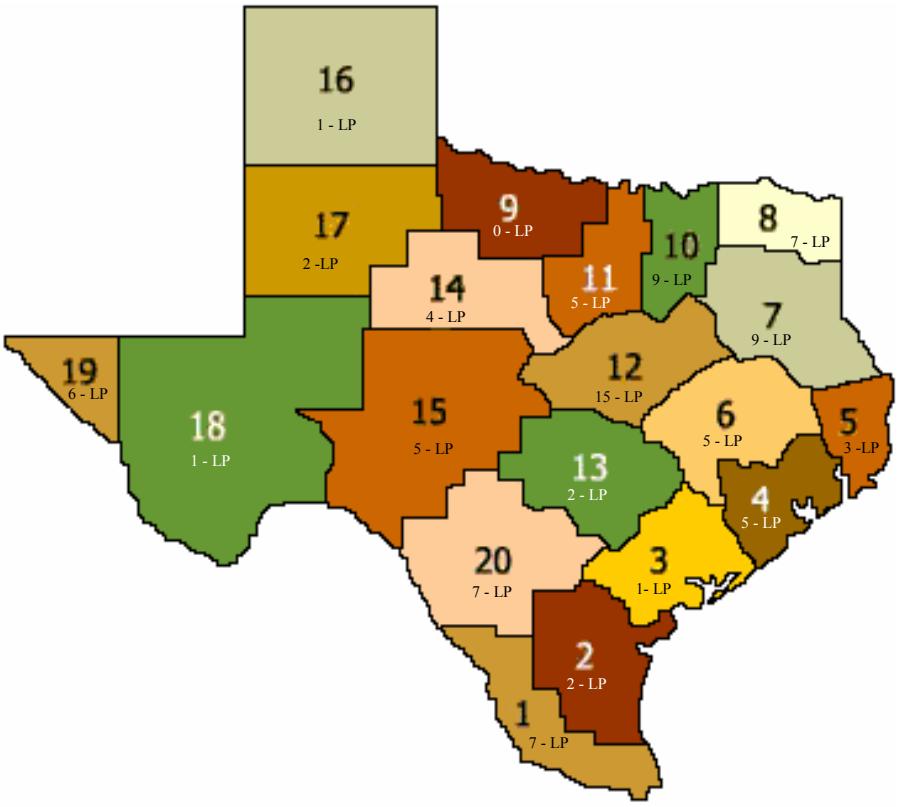
Table 1
Lease Purchase Districts By Regional Education Service Center Area

Region	*No. of Districts with L - P*	*% of Total L - P*	*Total of Issuances*	*% of Total Issuances*
1	7	7.29%	$124,080,000	19.57%
2	2	2.08%	$12,620,000	1.99%
3	1	1.04%	$2,340,000	0.37%
4	5	5.20%	$132,279,970	20.87%
5	3	3.12%	$15,825,000	2.50%
6	5	5.20%	$30,093,900	4.75%
7	9	9.37%	$12,625,000	1.99%
8	7	7.29%	$24,760,000	3.91%
9	0	0.00%	$0.00	0.00%
10	9	9.37%	$28,464,000	4.49%
11	5	5.20%	$18,831,983	2.97%
12	15	15.63%	$26,895,336	4.24%
13	2	2.08%	$2,700,000	0.42%
14	4	4.16%	$4,431,000	0.70%
15	5	5.20%	$20,280,000	3.20%
16	1	1.04%	$14,325,000	2.26%
17	2	2.08%	$2,000,000	0.32%
18	1	1.04%	$1,100,000	0.17%
19	6	6.25%	$107,455,000	16.95%
20	7	7.29%	$51,902,500	8.19%
	96	100.00%	$633,840,853	100.00%

Geographically, the heaviest concentration of lease purchases was found in the North Central and Northeastern Texas. Regions 7, 8, 10, and 12, which all border each other, accounted for a total of 40 lease purchases, or 41.6% of the total for the entire state.

The other geographic point of significance was seen in the limited use of lease purchasing in the western areas of the state, with the exception of Region 19 which encompasses El Paso. Regions 9, 14, 15, 16, 17, and 18 had a total of 13 lease purchase districts. Region 9 had no districts utilizing lease purchasing (see figure 1)

Figure 1. Lease purchase districts geographically.



Property tax rates

Public schools in the state of Texas received a significant amount of their financial support from the taxes collected by each individual school district for use within that school district. The total tax rate was comprised of a combination of two different rates. The tax rate known as maintenance and operation, M & O, was the general school tax, whose proceeds are used for the general operation of the school district. This tax rate by state statute could not exceed $1.50 per $100 of property valuation. The other tax rate was the Interest and Sinking, I & S, rate. This tax was used by school districts that have been authorized by the local voters of the district to issue debt and then collect a property tax for the specific purpose of paying off that debt. The total tax rate was the combination of both tax rates. The current limit for both tax rates is $2.00 per $100 of property valuation by state statute with an M & O rate limited to $1.50 per $100 and I & S limited to $0.50 per $100. An exception to this limit was seen in Harris County whose schools may have a combined rate that could exceed $2.00 per $100, but there was no M & O limit of $1.50 per $100, the district may exceed the M & O cap, but not the maximum.

The total number of districts that collected a property tax for the purpose of supporting their district was 94 of the 96 districts. Randolph Field ISD and South Texas ISD do not collect a property tax to support their school district. Randolph Field ISD was located on a military base and has no property to tax for support. South Texas Independent School District was a district serving three different counties in South Texas. The district served 23 other districts with magnet and vocational schools.

Because these districts did not collect a school property tax, or have a tax base, they were not included in the population data.

Maintenance and Operation (M & O) Tax Rate

The mean M & O rate for all districts in the state of Texas was $1.447. The mean M & O tax rate for lease purchase districts was $1.463, with an SD of 0.065. The mode was reported at $1.50, with a frequency of 49 school districts, or 51.04% of the population. The minimum tax rate was $1.150 collected by Walnut Springs I.S.D., a district with a total student population of 229. The maximum was $1.570 collected by Aldine I.S.D., located in Harris County. All districts located in Harris County were allowed to exceed the state maximum of $1.50 by special allowance of state statute. With the inclusion of Aldine I.S.D., the total number of districts with a tax rate at the maximum or above was 52.12%. Districts with a tax rate of $1.40 or higher totaled 87.23% of the population.

Interest and Sinking (I & S) Tax Rate

The average Interest and Sinking tax rate for the state was $0.105 per $100, including 307 district that assess no I & S tax rate. For those districts that do assess an I & S tax, the state average was $0.150. Of the 94 districts eligible to have an interest and sinking tax rate, only 66 assessed and collected a tax for the specific purpose of long-term debt in the district. Twenty-eight districts assessed no I & S tax rate. Of all lease purchase districts, 56% had an I & S tax rate of $0.10 or less, with 51% of those having no tax for bonded indebtedness.

The mean I & S tax rate was $0.102, with an SD of 0.093. The mode was $0.00 with a frequency of 28. The median was $0.083, with the minimum being $0.00 and the

maximum $0.380. The maximum I & S tax rate of $0.380 was from the Rockwall I.S.D. with a student population of 9,264 and a lease purchase of $600,000.

Total Tax Rate

The statewide average for all school districts was a total tax rate of $1.552. The total tax rate is the sum of the M & O and I & S tax rate of each district. The mean for all lease purchase districts was $1.565, an SD of 0.124. The minimum, collected by Walnut Springs I.S.D., was $1.15 and the maximum $1.880, collected by the Rockwall I.S.D. The median was $1.562, and the mode $1.50, with a frequency of 13.

All lease purchase districts were taxing at a high rate, with 72.3% of all districts at a total tax rate of $1.50 or higher. Of the remaining 27.7%, only two districts were below $1.340.

District Enrichment Tax Rate (DTR)

The fourth tax rate examined in the study relative to lease purchase districts was the district enrichment tax rate. This tax rate was computed as a part of the district's M & O tax effort, based on property tax base and tax rate. This degree of effort, reported as a tax rate, was used to determine the level of additional state funding received by a school district through state funding equalization. A local district which taxes its local base to its full potential was rewarded by the state with additional equalized state revenue.

The maximum tax effort recognized by the state was $0.64, computed only on the M & O tax rate. While a district's tax effort may exceed the $0.64 per $100, only $0.64 was recognized by the state for funding. The significance of this tax rate was the ability of those districts that reached the $0.64 per $100 level to leverage all possible

state funding for their districts in the area of maintenance and operations. Districts may exceed the $0.64 per $100 if they were in Harris County or if their local assessed values increase faster than the state values used to compute the rate.

The mean District Enrichment Tax Rate for all lease purchase districts assessing an ad Valorem tax was $0.6141 per $100, an SD of 0.125. The mean is indicative of the tendency of lease purchase districts to fully maximize the state aid that could be earned. The range for DTR is from $0.2480 to $0.9201, with a median rate $0.6268. While 45.7% of districts were able to fully maximize their DTR tax rate to receive all available state equalized funding, 54.2% of districts did not receive their maximum allocation of state aid based on their tax effort.

Total District Tax Base

The state of Texas total tax base for FY 2004 was $1,057,861,028,930. The mean total tax base for the 94 school districts involved with lease purchasing was $1,607,971,875, with an SD of 7,506,861,006.310. The extreme value of the mean was derived from a range of a minimum of $9,925,267 for Westphalia I.S.D. to a maximum of $71,498,948,629 for the Houston I.S.D. There was a significant drop between the maximum and the next district, with $9,124,853,921 the property value for El Paso I.S.D. If Houston was eliminated as an outlier due to its extreme value in relation to the rest of the population, there was a significant change in the numbers. The mean drops by almost half, to $856,455,995, an SD of 1,967,219,623.

Due to the spread of range, a more descriptive number examined was the median. The median for the total district tax base was $117,578,432. With 50% of the

total number of districts using lease purchase having a tax base lower than this, there was a heavy reliance on lease purchasing by those districts with a low tax base.

Property Wealth per Student

A clearer indication of the dependency of less wealthy districts on lease purchasing was seen in an examination of the actual property wealth per student. The property wealth per student was derived by dividing the total wealth of the district by the total student population. It was indicative of the ability of the school district to generate funds for the operation of the district. It was also a tool to measure the district's ability to raise funds comparable to other school districts. Currently the state viewed any district with a property value of more than $305,000 per student to be property wealthy. The relative distance for a district from that number was an indication of the wealth status of the district.

For the entire state of Texas the property value per student was $249,207. The mean of districts utilizing lease purchase was $141,251, with a SD of 82,040.447. The median property wealth per student was $117,166, with a range of $19,879 for the minimum for Boles I.S.D. to a maximum of $389,422 for Cayuga I.S.D. The wealth per student for 50% of the districts utilizing lease purchase was less than the median of $117,166. In a further breakdown of wealth per student for lease purchase districts, *Table 2* shows that 32.9% of districts utilizing lease purchase were at the bottom of the scale with less than $100,000 per student, compared to 6.38% of districts that fall in the category of wealthy school districts as defined by the state, $305,000 per student. Considering all lease purchase districts, 70.2% had a property wealth of $150,000 or less, slightly less than one-half of what the state considered to be property wealthy.

While six districts fall into the category of property wealthy, in 2004 only one school district was reported by the Texas Agency as being classified as property wealthy, known as a Chapter 41 district.

Table 2
Lease Purchase Districts by Property Wealth per Student

Property Value		*n*	*% of N*
$305,000	–	6	6.38%
$304,999	– $200,000	12	12.7%
$199,999	– $100,000	45	47.8%
$99,999	– $0.00	31	32.9%
	N =	94	100.00

Student Attendance

A total of 689,622 of students in average daily attendance were in districts that participated in lease purchase or 15.99% of the state's total student population in 2004. The mean student attendance was 7,184, an SD of 21975.454. A skewness of 6.636 was reported due to the outlier found in Houston I.S.D., which reported an ADA of 191,701. The mean dropped to 5,241 when Houston was eliminated, and the skewness was reduced to 3.357. While Houston was at the extreme of the range for large districts, Malone I.S.D. was at the minimum of the range with an ADA of 61 students. The median for all districts was 954, indicating that half of the school districts served a student population of less than 1,000 students. The total student population for the entire state was 4,311,502 with 92.67% of all districts in the state serving no more than 1,000 students.

District Size

The size of the school district was a significant factor in looking at the characteristics of lease purchase districts. District size in the state of Texas was broken into three distinct groups. The group distinction was made on the level of funding received by each of the groups. Any school district that has an average daily attendance of less than 1,600 students receives a special dispensation in state funding known as the *Small Schools Formula*. School districts with size ranging from 1,601 to 5,000 in average daily attendance receive additional funding from the state in the form of the *Mid-Size Schools Formula*. All districts above 5,000 average daily attendance received no allowances for size and received only the basic allocation for student funding.

Approximately 861 school districts fell into the category of a small school, or 70.17%, of all school districts in the state of Texas for 2004. These school districts accounted for only 10.5% of the student population in the state. Mid-size school districts numbered 209 for the entire state, or 17.03%, with 13.9% of all of the state's students in attendance. Considering all districts, 157 were in the large category, with over 5,000 students in attendance. These 157 school districts accounted for only 12.79% of all of the state's school districts, but were responsible for educating 75.70% of the state's student population.

This same trend was seen in the number of districts and students utilizing lease purchase financing. Out of the total population of 96 school districts that had utilized lease purchase financing, 62, or 64.5%, fell into the category of a small school. These 62 school districts accounted for 40,270 of the states 4,311,502 total student population, approximately 0.93%. In this subpopulation, the mean was 650, an SD of 406.366, with

the skewness reported at 0.657. The median fell at 539, indicating 31 schools with a relatively small student population.

Mid-size schools accounted for 15 out of the total 96 lease purchase districts, with 51,293, or 1.18%, of the state's total student population. The mean of these districts fell at the upper end of the scale, with 3,420, an SD of 1279.743, skewness of 0.233. The median for mid-sized districts was 3,142.

Large districts accounted for 19 out of the total 96 lease purchase districts, 19.79%, serving 598,059 students, 13.87% of the state's total student population. The mean was reported at 43,197, an SD of 57147.550, skewness of 3.338. The median for large districts was 19,706.

Weighted Average Daily Attendance

The weighted average daily attendance (WADA) indicated the number of the total student population receiving additional funding from the state. This additional funding was due to weights added to the enrollment of students in various special population programs. These programs could include special education, vocational, bilingual/English as a second language, and gifted and talented.

The significance of the WADA was the relationship it demonstrated between the total number of students and the number of students who became weighted in various special programs. The greater the difference between a district's ADA and WADA indicated that a district contained a larger population of students served by some type of various weighted program. This relationship was also seen in the relationship of ADA as a percentage of WADA. A greater percentage of ADA to WADA indicated that the number of weighted students was less compared to the entire student population. A

smaller percentage indicated that a larger number of students were being weighted; thus, a district would have an increased cost to meet the needs of those students in relationship to the cost of educating a student who received no services from any special program.

For all school districts, the difference between ADA and WADA was reported as being 71.94%. Where the number became particularly significant was in the breakdown of school districts by size category. For small school districts the difference dropped to 62.4%, which indicated that these school districts had a much larger student population that was being served by some type of special population program and thus would have a higher cost of education per student. The percentage increased to 69.96% for mid-sized districts, much closer to the overall cost of the entire population. Larger districts increased their percentage over the total population, with a difference of 72.8%, indicating that the overall number of students being served in special programs was decreasing in relationship to the entire student population.

The mean WADA for the entire population was 9,985, an SD of 30,346.108, skewness of 6.707. The difference was 71.94%, the same reported when calculated utilizing the sum. The median WADA was 1,478, with a difference of 64.54%. The difference indicated a larger number of weighted students compared to the total student population. The range for WADA was 140 for the minimum and 265,944 for the maximum. The difference for these two districts was 43.57% and 72.88%, respectively.

Issuance Date

The year in which the lease purchase was issued saw a clustering around 1998, with 34.3% of all lease purchases occurring in that year. Prior to 1998, in the first three years of existence, only 24 lease purchases were approved, which accounted for 25% of all of the leases purchases in the first 10 years of the program's existence. Following 1998 there was a significant decrease in the use of lease purchasing, with only 10 approved in 1999, falling to a low of 1 approved in 2004 (see Table 3).

Table 3
Distribution of Lease Purchases By Year of Approval

Year	*n*	*% of N*
1995	6	6.2%
1996	13	13.5%
1997	5	5.2%
1998	33	34.3%
1999	10	10.4%
2000	8	8.3%
2001	8	8.3%
2002	10	10.4%
2003	2	2.08%
2004	1	1.04%
	N = 96	100%

Amount of Debt Issued

The total amount of debt issued by districts under lease purchasing was $633,840,853. The mean of the total debt was $6,602,509, an SD of 13,293,947 and a

skewness of 4.891. The median amount of debt for a lease purchase district was $2,526,492. The smallest lease purchase was for the Mount Enterprise I.S.D. at $375,000, and the largest was the Houston I.S.D. with $95,999,970.

The significance of the amount of debt incurred under lease purchase is seen in the breakdown of the aggregate debt (Table 4).

Table 4

Aggregate Lease Purchase Debt

*Total amount of debt**			*n*	*% of N*	*Total*	*% of LP total*
$100,000,000	–	$50,000,000	3	3.12%	$226,644,970	35.13%
$ 50,000,000	–	$25,000,000	0	0.00%	$0	0.00%
$ 25,000,000	–	$10,000,000	10	10.41%	$151,176,500	23.85%
$ 10,000,000	–	$ 5,000,000	15	15.6%	$197,683,900	31.19%
$ 5,000,000	–	$ 4,000,000	8	8.3%	$35,245,000	5.56%
$ 4,000,000	–	$ 3,000,000	10	10.4%	$34,503,000	5.44%
$ 3,000,000	–	$ 2,000,000	7	7.2%	$14,684,983	2.32%
$ 2,000,000	–	$ 1,000,000	29	30.2%	$36,838,500	5.81%
$ 999,999	–	$ 0	14	14.5%	$10,219,000	1.61%
		N =	96	100.00%	$633,840,853	100.00%

*Total of debt incurred by district under this instrument even if multiple leases were used.

Considering all lease purchase debt, 86.5% was $10,000,000 or less. The use of the instrument was greatest in the smaller amounts, with over half of the leases being less than $3,000,000. Even larger districts, such as Rockwall, with an ADA of 9,264, had a lease purchase that was $600,000. Several large districts, including Waco and El

Paso, had lease purchase transactions in the smaller range, considering the size of their district. The data indicated that preference for using lease purchase is for smaller amounts of debt. The use of lease purchasing for large amounts of debt, $50 million and up, was limited to three districts; Edinburg, Ysleta, and Houston (Texas Bond Review Board, 2004)

Conversion of Lease Purchase

A new trend in lease purchasing began in 2000. In that year the first lease purchase was converted and refinanced as a traditional voter-approved bond. Grape Creek, started with a lease purchase in 1996 and had approved leases for $8,500,000. The district then converted its debt to bonds. Six other school districts have also converted their lease purchases to bonds: 2001—Boles, Castleberry, Cleveland, Harlandale; 2002—Clint; 2003—Kaufman. The reason for the conversion was not specified by the Texas Bond Review Board.

Qualitative Results

Eight different superintendents were interviewed regarding their experiences with lease purchases. One of these superintendents had handled lease purchasing for new school construction in two different school districts, yielding a total of nine different school districts that were analyzed to discover the impact of lease purchasing for new school construction.

The selected districts represented a geographic cross-section of Texas school districts and also included a stratification of the size of districts that have utilized lease purchasing. The largest district interviewed had an average daily attendance of approximately 52,000 students, and the smallest district had an average daily

attendance of 410. Grouping was based on funding formulas of the Texas Education Agency for small schools, mid-size schools, and large schools an equal number interviewed from each group. Superintendents interviewed were identified only by letter, district size, and district geographic region; no specific names for any person were used. While districts were identified in Chapter 3, anonymity was provided to participating superintendents to allow them freedom in their responses.

District “A”

District “A” was located near a major metropolitan area in Texas with a student population of over 50,000 and was the largest district in the qualitative portion of the study. “A” utilized lease purchasing on two separate occasions for new school construction. In both situations, “A” constructed a new elementary school to meet the demands of a growing student enrollment and to access state facility money available through the state Instructional Facility Allotment. “A” explained it in this manner, “We used it (lease purchasing) to get facilities money; basically, the instructional facilities allotment.”

Another major reason for the use of lease purchasing by “A” was the factor of not having to seek voter approval for projects that were considered relatively small for a district of this size. The district’s desire was not to “wear the voters out” for such small issues. The use of lease purchasing by this district was a stop-gap measure in between larger bond issues. The last bond issue for this district was for multiple campuses totaling $115 million. The lease purchases for the district were $8 million and $10 million.

The district's decision to utilize lease purchasing insured that it would receive Instructional Facility Allotment funds for which it qualified, and to meet intermediate needs between major bond issues. "A" commented that, "When we tell people that the state is paying 59% of it, they are happy, you know, that's a good deal."

The mechanics for "A"'s lease purchases included a term of 20 years for each transaction, with all issuance cost being rolled into the total transaction. No fund balance was utilized for any construction expenses; however, local funds were used for the equipping and furnishing of each structure. Due to the size of the district, "A" used their in-house architect and construction management as the construction method on each of the projects, with the district serving as the general contractor.

Financially, the driving force for "A" to utilize lease purchase was the Instructional Facility Allotment. "We wouldn't have done it if it hadn't have been for that," was the comment made in respect to receiving state assistance for the projects. One of the elementary schools built utilizing lease purchasing was originally a part of an approved bond issue for the district. However, when the district saw a possibility of receiving Instructional Facility Allotment funds, the project was converted to a lease purchase. The funds designated under the bond issue were utilized for the construction of another facility of a similar nature that was needed by the district.

Instructional facility allotment funds paid for approximately 59% of the projects based on the district's eligibility for the program. The district was responsible for $700,000 annually for lease payments on both elementary schools. The impact on the maintenance and operation portion of the budget was not significant, when considered in relation to a total budget of over $370 million. However, it was noted by "A" that "it's

just that much less money we have to spend on kids." The tax rate of the district saw a direct impact from the utilization of the lease purchase, with the district being required to raise their maintenance and operation tax rate to support the overall budget. "A" indicated that the district could have completed one of the campuses out of the fund balance without a lease purchase; however, an adequate fund balance was needed to ensure that the district could operate efficiently.

The impact of the lease purchase projects on "A" was almost a paradox. One of the elementary schools built utilizing lease purchasing was done to help alleviate overcrowding in other schools in the district. However, as soon as the school was built and opened, new housing, including a new multi-family housing complex was built around the new school and filled it. While it was designed to meet a need, the growth of the area continued to generate more needs for the district. To meet those additional needs, "A" had passed bond issues and was currently in construction with those funds.

Overall "A" characterized the lease purchase experiences of the district as being positive "as long as it's being paid from the Instructional Facility Allotment, very positive." In looking at the advantages and disadvantages of the program, the ability to build one school and save a bond election for large multi-million dollar issues was a major advantage for "A". The disadvantage was having a payment coming out of the maintenance and operation side of the budget. Whether "A" would recommend lease purchase to another school district would depend on each school's particular situation. It was noted that for a small school district, it would be a large burden on a maintenance and operation budget to make such a payment, but for a large district such as "A" it was

not that much of a burden. For certain districts, it could be recommended but not for everyone.

District “B”

A small, property poor district characterizes district “B”. District “B” had a student population of less than 500 and a total tax base of less than $4 million for the entire district. “B” completed two lease purchase transactions of $3 million and $2 million, respectively, for a total of $5 million in 1995, the first year of lease purchasing in Texas.

The drive for using lease purchasing was due to the low property wealth of the district and the lack of support from the district’s taxpayers for a bond issue. The low wealth of the district made a bond issue impossible. “I needed to build some buildings, but it was virtually impossible when your whole tax base assessed value at the time was like . . . I might have $4 million.” These reasons were the basis of the district’s need to find alternative sources for funding its facility needs.

The $5 million secured through lease purchasing allowed the district to acquire needed land and to construct the academic portion of a new high school, gym, and cafeteria to service the entire district. The district contributed between “$600,000 - $800,000” of a total fund balance of $1.4 million toward the total cost of the project. An issue that had to be dealt with by the district was the high issuance cost of the debt. While no specific number was given, it was noted that the district was required to have two different sets of legal counsel, bond and purchase, for the transaction. Another difficulty was that this transaction was one of the first in the state, and there was some confusion on the mechanics of the transaction. There was also difficulty communicating to potential bond purchasers the intricacies of Texas school finance. There was difficulty

with the first lease purchase being completed because of the district's not being authorized by statute to convey the land on which the facilities were to be constructed to the district's public facility corporation, an issue that would later be cleared up by the legislature. All of these costs were rolled into the cost of the lease and their subsequent payments.

These first leases were relatively short compared to traditional school bond terms. The first lease purchase had a term of 12 years, and the second had a term of 15 years. The interest rate on the leases was 6.95%. The cost of annual payments to the maintenance and operation budget for district "B" was approximately $650,000 for both leases. The district was able to receive the first facilities monies from the state in 1995, but those funds were a one-time grant of $500,000. The district received no direct assistance from the state in the way of Instructional Facility Allotment funds since at the time these funds did not exist, and after their inception the district was not eligible. The district was dependent on the use of excess Tier II funds and later Tier I funds for state assistance to make lease payments.

The inability of the district to generate enough local tax funds from its tax base was the main reason the district utilized lease purchasing to meet its facility needs. The burden of the lease payments did require the district to increase its maintenance and operation tax from the high $1.30's to $1.50, the maximum allowed by law. The district lowered the maintenance and operation tax in the past few years due to an increase in the local property values of the district.

"B" was clear that without lease purchasing the district would not have been able to do "anything." The impact of the lease purchase was sizeable for the district. The

construction of new facilities allowed the district to grow in its student population. A possibility existed that the district would not have survived if new facilities had not been built due to the uniqueness of this particular school district. Its prior arrangements for facilities necessitated the district to do something for its district facilities, and lease purchasing allowed that to be accomplished.

District “B” was one of two lease purchase districts interviewed that had converted their lease purchase agreements to traditional bonds. The reason given by “B” for the conversion was to lower the interest rate being paid by the district on the existing debt. The district was able to lower the interest rate on its debt from 6.95% to 4.25%. The district was also able to secure Instructional Facility Allotment funds for the converted bonds. Although it would be assumed that “B” would then have additional funds available due to traditional bonds being paid through interest and sinking funds rather than maintenance operation funds, that was not the case.

Due to its low property wealth and low tax base, “B” subsidized its interest and sinking tax rate with excess Tier II and Tier I monies to make its necessary bond payments. These funds came from the district’s maintaining a high maintenance and operation tax rate that allowed it to maximize its Tier II funding from the state. Approximately $0.10 of its $1.47 maintenance and operation tax rate was used to support the district’s debt payments. “B” noted that the district had only been able to do this while its actual operational costs for the district remained below the statutory limitation of $1.50. When the district hit that limit, then the interest and sinking tax rate would go up.

Two different areas had been impacted due to the dependency on the maintenance and operation budget for debt payments. The district had difficulty maintaining a fund balance for its operations. An adequate fund balance was needed for the district to operate during periods when state funds were not sent to the district and during gaps in the receipt of local revenue generated through the assessment of the local school property tax. The dependency on the maintenance and operation for debt repayment limited the ability of the district to build any additional fund balance. The other area of impact dealing with student instruction was in the area of teacher salaries. "B" commented that the leases, and now the bond subsidies from the maintenance and operation side of the budget, limited the district's ability to provide "a better pay scale for the teachers that are there."

When the district gained voter approval to convert its district leases to traditional bonds, the district also gained authorization for additional debt, for a total of $9 million. The additional funds have been issued for the construction of a new middle school. Authorization for bonds to be issued for a new gymnasium was also available, dependent on additional state monies becoming available.

In characterizing its experience concerning lease purchasing, "B" made this comment:

> I say it was one of the most excruciating experiences of my professional career. . . . Now, I'm glad I was younger and had energy, and I'm glad I had a faith and trust in (my district financial advisor), but I wouldn't want to go through all of it that I went through.

“B” went on to also say that lease purchase “was critical for the survival and growth” of the district.

District “C”

Located in a rural and relatively isolated portion of the state, “C” is a district of just under 800 students. Before lease purchasing, new building projects in “C” had occurred only when the district was able to complete such projects with the fund balance. The district had no interest and sinking tax rate due to having no bonded indebtedness. The district could be described as a conservative district with a tax rate that was still significantly below the state maximum for maintenance and operation.

“C” utilized lease purchasing for the purpose of adding needed components to existing facilities with new construction. An addition was made to the district’s only high school; a free-standing building that included a distance learning lab and an art classroom. An addition was also made to the existing elementary school for the construction of a new library and learning resource center.

The cost for these projects was $1.2 million. While “C” reported that the district had a healthy fund balance of approximately $2.5 million, the district did not use any fund balance for the project. It was using the fund balance as a revenue generator, using the interest earned off of the fund balance as the funding source for the lease purchase payments. The district receives Instructional Facility Allotment monies for the lease purchase. All costs associated with the lease purchase were included in the transaction, with the district not using any local monies up front for the project.

The decision to move toward the lease was based partly on the ability of the district to obtain the IFA funding. The board of “C” had no desire to go through a bond

election for these projects, preferring the lease purchase method to secure the additional state monies available through the IFA. Through the IFA, the district received approximately $2 from the state for every $1 that it was spending on the lease purchase.

"C" is a unique district in that it was felt that there was no impact on the overall budget from the lease purchase, due to the dedication of revenue from the investment of the fund balance of the district. The revenue stream from the district fund balance was a significant component of the lease purchase for the district. When asked about converting the lease purchase to a traditional bond, "C" noted that it would not even be considered as long at the revenue stream existed and was sufficient.

The district had seen no change in its maintenance and operation tax rate due to the lease purchase. The district was committed to the projects that it was able to complete. "C" noted, "I think the board was committed to these two projects, that we were going to find a way to make it work." The district had been looking at these projects for a long period of time, and there was a strong desire by the board to see them become a reality.

The district has experienced a significant impact from the completion of these projects. Prior to their completion, the library that serviced the elementary school consisted of two classrooms that had been converted to a small library and was very "inadequate." In describing the new facility "C" stated that "the new library is really a show place for us." The new library was also used by the community for various community-wide functions. Through the distance learning lab that was constructed, students in the high school were now able to have access to college-level classes,

teacher-to-teacher sharing between districts, and virtual field trips. The facility had been used by the community for various training events for specific community groups.

Overall, the experience with lease purchasing was very positive for “C”. The district was able to meet some specific needs with the transaction. A major advantage to the district was one of a political nature. The district did not feel that the local community was knowledgeable as to the needs of the district to support a traditional bond issue for these projects. The district did strive to educate the community concerning the district’s needs, but ultimately left the decision to the board of trustees to finance with lease purchasing. Lease purchasing was recommended for other districts given a similar situation. “C” noted that, “honestly, I don’t see any disadvantages.”

District “D”

A period of 34 years would pass between successful bond elections in “D”. A district of almost 10,000 students located in the western area of the state, “D” was a property-poor district with a total tax base of over $900 million dollars, but only $89,000 per student. The community was described as being conservative, with a maintenance and operation tax under $1.40.

“D” turned to lease purchase following a previous attempt to pass a bond issue for needed facilities. That bond issue was defeated two to one. Lease purchase became the vehicle for the district to obtain needed facilities without having to go to the voters for approval. Additionally, the district qualified for the Instructional Facility Allotment, which would provide state assistance for approximately 77% of the annual lease payments.

The district chose the lease purchase over the bond because it could be done quicker considering the level of community support for the projects to be covered under the lease purchase. With the lease purchase the district was able to construct an elementary school for 700 students and to add classroom units of 8 to 10 classrooms at three other elementary schools in the district.

The district was very successful during the construction process in that it was able to complete the projects $1 million under budget. The district returned the remaining funds to the lender after the completion of the project so that the balance on the principal would be reduced, thus also reducing the amount of payments required of the district. A problem encountered by the district was that while the amount of principal had been reduced by the lender, the state education agency was not notified and continued sending state facility money based on the previous debt schedule, which had been based on the original amount of funds borrowed by the district through the lease purchase. Thus, the district was overpaid, and was then required to repay the state education agency.

The district also ran into a financial issue when it was discovered that there would be a loss of state funds due to its receiving of Instructional Facility Allotment funds. “D” explained that the district did not realize the payment for the lease purchase would be coming out of the maintenance and operation side of the budget and did not budget for the payment properly.

The district suffered an additional financial setback when it actually lowered the maintenance and operation tax rate. This step meant a lower tax effort by the district and thus a reduction in state funds tied to the tax effort of the district. This occurred

simultaneously to the time when the district began to lose funds due to receiving the state Instructional Facility Allotment.

District “D” was thus hit twice by a loss of state monies and faced a shortage of funds in the maintenance and operation portion of the district budget. The loss by the district was equal to $0.06 of tax rate to the district. The district, being a poor district, was resistant to any increase in property taxes. However, “D” was able to increase the rate by $0.04 to deal with losses that had occurred under the circumstances.

Given these experiences, when “D” was asked if the projects could have been completed without the lease purchase, he noted that the district could not have done the projects without the lease. The district’s fund balance was not sufficient to allow it to use a “pay as you go” model for the needed facilities. However, he noted that the district would have been better off if it had gone with a traditional general obligation bond rather than the lease purchase. The district was forced to cut back on various portions of the maintenance and operations budget. “D” noted, “That’s why if we had to do it all over again, I would strongly recommend we go through a bond issue so that it doesn’t affect your daily operation of having to take some of your maintenance and operation money out to pay for a bonding.”

The impact of the lease was “tremendous” for the district, particularly in its ability to upgrade its elementary campuses. The addition of a new campus allowed the district to realign attendance zones across the district, and the addition of classrooms at the other elementary campuses provided needed flexibility. The district got the extra space that was “desperately needed at that time.”

The negatives of lease purchasing focused on the mechanics of the instrument and its implementation by the district. “Administratively, we did a very poor job of understanding and implementing the project as far as payments and withholdings.” The reduction in the district’s tax rate, the reductions in general state funding due to receiving the Instructional Facility Allotment, and the repayment of principal and the subsequent overpayments by the state were issues faced by the district.

The advantages of lease purchasing were summarized as being quick and not tying the district down to the input and decision of the community. This advantage did become a disadvantage in that the community often did not understand the process and intricacies, thus hurting the relationship between the district and the community. “D” noted, “You’re trying to explain to citizens why you need more money on the M&O [maintenance and operation] since a bulk of it, or some of it, goes over to pay your debt and interest.” The issue of payments coming out of the maintenance and operation portion of the budget was of major concern for “D”.

In recommending a lease purchase, “D” commented that it would only be recommended if there was a corresponding increase in the maintenance and operation rate for it to be paid. Otherwise, a traditional general obligation bond would be utilized rather than a lease purchase.

This has since been the case for the district; a bond issue was successfully passed in May 2000 and May 2004. Each bond issue has been tied to the Instructional Facility Allotment, with the state being responsible for over 81% of the district’s debt obligation incurred through the bond elections. The bond elections have allowed the

district to do district renovations, add libraries, a classroom addition to an elementary school, and add a 1,500-student middle school to the district.

In summarizing the district's experience, "D" stated:

> So for us, it was – maybe it was new, maybe it was too rushed, but it was just a lack of understanding of exactly how it works. But we got a campus up in no time, and we added facilities that were desperately needed a lot quicker than a bond issue.

District "E"

District "E" was a pioneering district in the use of lease purchasing having its transaction approved in the early years of the process. The district was located in a metropolitan area of the state on the edge of fast growth in student numbers. It was considered to be a mid-sized district, with an average daily attendance of approximately 4,000 students. The district had reached the maximum of $1.50 for its maintenance and operation tax rate as allowed by statute. The district had a debt rate of almost $0.20.

The use of lease purchase by "E" was a deliberate choice by the board. The reasoning for the selection of this debt instrument was determined by the type of facility that was constructed with the proceeds. The district completed a $4.2 million athletic facility, which was composed of an 1,800-seat competition gymnasium, dressing facilities, and two practice gymnasiums. Because the construction was an athletic facility, the district decided to forgo a traditional bond issue and utilize lease purchasing.

Just prior to moving forward with this project the district had completed a bond election and construction of a new intermediate school and band hall. As was noted by

“E”, “Athletic facilities are tougher to pass, and we were in desperate need for district facilities, and we just decided that the lease purchase would probably be the best way for us to go.” The possible defeat of a bond issue for athletic facilities was the driving factor behind the selection of the lease purchase over traditional general obligation bonds.

The term for the lease purchase for the district was relatively short, 10 years. The district also contributed approximately $700,000 toward the project out of the fund balance, borrowing $3.5 million for the balance of the $4.2 million. The district also took a different approach toward the selling of the bonds. That is, it solicited proposals from different lenders before making a decision on which lender to use for the project. The district finally sought financing through a traditional bank and had a private placement of the lease revenue bonds for the project. The use of a private placement allowed the district to have the advantage of lower issuance cost and a competitive interest rate on the debt. The lender used by the district was one of the few traditional banks that was actively seeking this type of public debt in the early days of lease purchasing.

Another unique attribute of the transaction was the construction method utilized by the district. Because of the strict limitations imposed by statute on the transaction and having a ceiling on the total cost of the project, the commonly used construction method for lease purchases would be that of a general contractor. “E” took a less common approach and utilized the construction method of Construction-Manager-at-Risk. This method calls for the owner, in this case the Public Facility Corporation acting on behalf of the school district, to act as general contractor, with a third party, the construction manager, to oversee the project on a day-to-day basis. The owner’s

advantage in using this approach was the cost savings of a general contractor's overhead and profit margin. These costs were realized by the district as a savings after paying any expense for a construction manager. Typical savings for a district could be anywhere from 4% to 10% of the total project cost. There was a degree of risk with this project and an increased workload for the owner who uses this construction method. In a lease purchase transaction, the lender was also exposed to a degree of risk because of the ability of the owner to complete a project under the limit for the project.

The district completed this project with no direct assistance from the state of Texas through contributions of the Instructional Facility Allotment. "E" executed the lease purchase agreement and completed the construction of the project prior to the inception of the Instructional Facility Allotment program. The district would not have qualified for IFA funds even if they had been available due to building a non-academic facility. At this time the district was also not maximizing its general state funding by taxing property at the rate that would generate the greatest amount of state funds. The obligation of the district was solely borne by the district.

The annual cost to the budget began at $700,000 for both principal and interest and dropped over the life of the lease, with the final years being in the range of $350,000 per year. Prior to the execution of the lease purchase, the district had completed a project through the maintenance and operation side of the budget that required approximately $0.10 on the local tax rate. The district saw a need for additional facilities and knew that these local funds were available. Thus, the district was able to commit these resources to the payment of the lease purchase for the new facilities. The impact of the lease purchase to the maintenance and operation budget of the district

was minimal because a revenue stream through local property taxes had already been established. The district was also experiencing student enrollment growth, which generated more state revenue.

While the district did make a contribution out of the fund balance for the project, it would have taken between 7 and 8 years for the district to build up enough funds in the fund balance to pay for construction of the facility. The district also felt that a traditional general obligation bond issue would not have been approved by the voters of the district. According to “E”, “For what we needed to do at the time, it was probably the best instrument in place there to do, other than calling a bond election, which we just didn’t know for sure whether we could pass a bond election to build a new stadium.”

The district has completed other construction following the lease purchase project. It has completed a new elementary school, middle school, additions to all campuses, and a new fine arts complex. All of these projects were completed through voter-approved bonds.

District “F”

The story of lease purchasing at district “F” was one showing a district that had had a variety of experiences. The current superintendent, who had previously served the district as the high school principal during all the events related by “F”, reported these experiences. The current superintendent was appointed at the end of the construction of the facilities secured through the lease purchase. He inherited a situation plagued with various problems that he was required to solve. “F” was a district that can be categorized as extremely property-poor, with a wealth per student of only

$85,243 and a total tax base under $40,000,000. The district's student population was approximately 400.

The district is composed of two campuses: the elementary school which was built in the late 1970s and was described by "F" as being "in decent shape," and the high school, which was built in 1924 and included the original building containing six classrooms and a myriad of portable buildings, with "no walkways or canopies between the portable buildings." The original building was pier and beam construction with termite damage and a roof that leaked during rain, requiring 20 trash cans to catch the water coming into the building. Because of the desperate need for facilities, the board began to push for something to be done.

The district had previously attempted a bond election for a new facility, but the issue failed "miserably" under the leadership of the previous superintendent. When the district found that it would be eligible for the Instructional Facility Allotment from the state, it sought other alternatives to allow the district to leverage those funds for the desperately needed facilities. The option of lease purchasing surfaced through contact with a particular financial advisor.

The lease purchase structured for "F" was unique and later would be considered illegal by the Texas Attorney General's office. The financial advisor for the district structured the lease in two different transactions; both transactions were lease purchases, but for the same facility. The first lease purchase was the familiar lease purchase for new construction that involved the creation of a public facility corporation and all related procedures. The second lease purchase was done through the school district and had no relationship to the public facility corporation. The second lease made

use of the district's ability to borrow funds for capital expenditures that were designed to assist the district in acquiring personal property items such as buses and other equipment to be used over a long period of time. The second lease was used to purchase any item for the facility except the concrete used for the foundation. Doors, windows, heating/air conditioning, and various other items were purchased under what was traditionally considered a capital lease, not a facility lease.

The complexity of the construction process utilizing the two leases caused the district's bank to overpay the district's funding proceeds by over $100,000. In addition, the total project then exceeded the funds allowed and reported under the district's printed facility notice. The bank requested that overpayment to be repaid by the district. However, due to utilizing the fund balance for a portion of the project and an additional financial calamity occurred, causing a negative fund balance; it was unable to cover the $100,000.

The next issue to confront "F" was focused on the district's receiving the Instructional Facility Allotment from the state of Texas. When the district's financial advisor worked with the former superintendent and the board regarding the mechanics of the Instructional Facility Allotment, it was not fully understood that there would be a reduction in the district's state education aid in relationship to the additional money that would be provided through the facility allotment. The state did not permit districts to use the tax effort that generates a portion of their state aid also to be counted for the tax effort required to receive the facility allotment. "F" could not generate any additional local tax money. So for "F" this meant a loss of state money for operation of the district,

which was greater than what was received for facility payments. Rather than helping "F," the Instructional Facility Allotment actually cost the district.

The district's problem was that contracts with the state had been signed for the transaction and an agreement had to be reached with the state education agency to allow the district to withdraw from the facility allotment program to allow it to generate additional state dollars previously lost when the district began to receive state facility dollars. The district also needed the state's agreement that all of the property taxes collected by the district, for both operations and for their lease payments, would be counted by the state for state funding purposes. The state did agree to cancel the agreement for the Instructional Facility Allotment and to count all taxes collected for the district's tax effort. The district was then able to realize an increase in its state funding back to the level it was receiving prior to its receiving the Instructional Facility Allotment.

Payment requirements and cash flow were also struggles for "F". The district's total budget was approximately $2 million for all district operations. With the lease purchases the budget was then required to absorb payments that exceeded $350,000 annually. The district was at a maintenance and operation tax rate of $1.49, and a $0.01 increase to the statutory maximum of $1.50 would generate less than $5,000. The district was then forced to implement cost- saving strategies to overcome the deficits. The district implemented a reduction in force, cutting support staff, maintenance/custodial, cafeteria, and the teaching staff to generate funds for the necessary payments. The district was able to refinance both lease purchases and lengthen their terms: one to 10 years and the other to 15 years. By doing so, the district was able to decrease the payment requirements and to improve the cash flow situation.

The refinancing was done with two new financial institutions, not by a renegotiation with the existing lender. It was also completed with a new financial advisor and new legal counsel who were experienced in the process. Payments dropped from $350,000 annually to $260,000 annually. The refinancing helped with the district's cash flow. The lease purchases were now having a minimal effect on the district, and it was able to recover from the reduction in force implemented as a cost-saving measure.

"F" had some strong feelings toward the financial advisor used for the project. The attitude was that the advisor had taken advantage of the district and had simply collected his fees and then left town. Fees charged by the financial advisor on this transaction exceeded $150,000. "F" was insistent that everyone needed to be careful with working with this particular financial advisor.

Even with all of these negative experiences with construction and lease purchasing, the district was able to move forward. It has passed a bond issue for the construction of a new gymnasium and additional classrooms to accommodate growth. The district received instructional allotment funds for the project, and the state paid for approximately 75% of the annual debt payment for the project.

District "G"

Fear of not being able to pass a bond issue and availability of the Instructional Facility Allotment led "G" to a lease purchase agreement for approximately $9.5 million for the construction of a new elementary school. The district had a student population of approximately 3,000 students. This mid-sized district had a tax rate composed of maintenance and operation tax rate that was at the state allowed maximum and a debt

tax rate of just over $0.22. The district was property poor, with a per student property wealth of $135,000.

The use of lease purchase by “G” was relatively short. The district obtained approval for the transaction in 2000 and by 2003 had converted the lease purchase to traditional general obligation bonds. The district’s conversion of a $9 million lease purchase was done in conjunction with a $23 million bond issue going before the voters for other school facilities. Prior to the approval of the $32 million bond issue the district’s debt tax rate was less than $0.03. The district had done little new construction in several years prior to the completion of the new elementary school completed with the lease purchase.

The advantage of converting the lease purchase to general obligation bonds was financially significant. It saw an increase in general state funding of $500,000 annually when the lease purchase converted. Funds had been lost because the district received the Instructional Facility Allotment. The funds gained by the district from the Instructional Facility Allotment were retained when the lease purchase converted, the district received these funds for the I & S budget. The increase of the district’s debt tax rate covered its portion of the debt under the Instructional Facility Allotment and allowed the district to satisfy all requirements of the Instructional Facility Allotment and have all of its M & O tax effort recognized by the state.

The district also realized a savings of $1 million over the life of the lease purchase because of interest savings from the lower rate obtained on the general obligation bonds. The district succeeded in passing the issue by explaining to the voters

that it was refinancing the debt to save money, similar to refinancing a home, and the issue passed by 80% of those voting.

The story of “G” was told by the superintendent, who inherited the lease purchase and arrived just as construction on the project was beginning. This superintendent had previously completed another project in another district utilizing lease purchase and thus was familiar with the instrument. The attitude of “G” toward lease purchasing was positive overall; however, he felt that a project as large as $10 million should not be completed through lease purchasing. Certain smaller projects, depending on the size of the district and the size of the project, would be more suitable for a lease purchase. “G” noted that the district was seeing growth in its band program and that a new band hall for the district might be constructed utilizing a lease purchase.

District “H”

Located in South Texas, district “H” was comprised of over 2,700 students, with a property wealth of only $64,000 per student for a total tax base of approximately $185,000,000. The tax rate for the district is $1.45 for maintenance and operations, $0.09 for debt, for a total rate of $1.54. The district has a total lease purchase debt of $10.8 million.

The uniqueness of district “H” was that it held the distinction of having four separate lease purchase agreements for the purpose of building new facilities. It was also unique in that all four lease purchase agreements received Instructional Facility Allotment funds. The district constructed classrooms, a central kitchen, cafeteria, and a complete elementary campus utilizing lease purchase. The district did not have any fund balance to use toward these projects, with lease purchases being required to pay

for entire cost of each project. The contribution from the state ranges from 87% on the first lease purchase to 80% on the fourth lease purchase.

"H" had a wide variety of facility needs, with portables being used throughout the district and the conversion of an old bus barn to student classrooms. "H" explained that the reason the district did not go with a bond issue, using lease purchase instead, involved the issues of time and political atmosphere. There was a prevailing attitude of mistrust in the community toward the school's administration. Many in the community did not want to go in the direction taken by the administration at the time. The administration felt that too much time would be needed to overcome such barriers, and time was of the essence to apply for the state facilities monies. Due to these factors, the district utilized lease purchase to meet its overwhelming facility needs.

The district, with four leases, expended approximately $970,000 annually for all lease payments. The state's contribution was approximately $732,000, and the district was responsible for $238,000. Initially the district promised the community that property taxes would not increase because of the lease purchases; however, that has changed over time, with the district raising taxes by $0.08 due to changes in the state formulas. The leases had affected the instructional program offered by the district. One example given by "H" was in the area of technology. The district suffered from a lack of adequate technology, and office staffs were often forced to share computers. Some classrooms had no computers at all for either teacher or student use. Most computers for the district were located in lab settings for the purpose of remedial instruction, and many of the district's computers were so old that many programs would not work.

The district had completed some minor projects utilizing the fund balance since the completion of the last lease purchase. An office complex for an elementary campus was completed. The cost of the project was approximately $800,000 from the fund balance.

The district was considering a possible $22 million bond issue in the future. The issue possibly to be placed before the voters involved $11 million for new construction. The issue would also be for authority to refinance the district's lease purchases of $10.8 million. The district considered its experiences with lease purchasing to be positive overall. "H" noted that

> It has been a positive move, and the reason why I'm saying it has been a positive move is because the community has seen what can be done with utilizing the IFA when you're a poor district.

While the advantages of lease purchase were seen in the process and the short amount of time involved, the disadvantages for the district involved the loss of revenue from the maintenance and operation side of the budget. "H" noted that if a district has the luxury of time and a positive community atmosphere, then a traditional bond is a better option. However, if districts have their, "backs to the wall," then lease purchase is a viable option. Even if the district has to suffer from losing some of its maintenance and operation, the lease purchase does make a district operational.

District "I"

The district was composed of approximately 40,000 students and had a total tax base of over $4 billion and a wealth per student of over $93,000 per student, making the district property poor. The district has reached the cap for maintenance and operation

taxes of $1.50 and was also levying a debt tax of $0.07, for a total tax rate of $1.57. This district had the largest amount of funds borrowed through lease purchase financing of any of the 9 districts interviewed. The Texas Bond Review Board reported that the district had borrowed over $50 million dollars through lease purchasing, but in actuality the district had over stated its needs and over-requested the funds for the projects. These projects were completed with approximately $36 million. While not the largest amount borrowed under the program, the number was significant given the breakdown of lease purchases across the state.

In completing the interview with “I”, the superintendent for the district was not the superintendent who completed these transactions. Also included in the interviews with “I” was the assistant superintendent for finance. Their thoughts and comments had been compiled together and were referred to singularly as “I”. The perspective given was one of an individual who was left to deal with the fallout of lease purchasing.

A relatively large district, “I” did not use a bond issue because of local political issues. The district was qualifying for the state Instructional Facility Allotment funds, with the state providing approximately 70% funding for the debt to be incurred by the school district, but the district had to find a way to acquire the debt to secure the state funding. The district and the board at the time suffered from a credibility issue. There was a high degree of turnover and turmoil in the superintendent’s position with a succession of new superintendents and interim superintendents being used by the district. There had also been a great span of time since the last successful passage of a bond issue which occurred in 1982. These issues which existed between the board and the local community made the possibility of successfully passing a bond issue remote. The board

did not want to go through the process of attempting to present a bond issue to the community and then see the issue defeated due to a lack of confidence in the district. The board then sought out an alternative to the issue and found it in lease purchasing. “I” noted,

> So, you had a large period of time, that they didn’t go for a bond, but since these funds were in a sense more available because of the property poor district, then I think they just went for the easy dollar, and were quite successful in doing that.

The lease purchases allowed the district to complete two new elementary schools and new additions to all other schools.

The district was unique in that of all the districts interviewed it was the only one that utilized a design-build construction method. Under design-build, an architect contracted with a district to complete a project for a total dollar amount including all cost. The use of design-build could be a possible explanation in the overstating of costs by the district in their final lease purchase approval as reported by the Texas Bond Review Board.

Financially, lease purchasing was costing the district, which reported that it received approximately $2.7 million annually from the state through the Instructional Facility Allotment grant. The district was responsible for $700,000 annually for a total annual lease payment of approximately $3.4 million. However, “I” reported that the district was losing $2.7 million in its general state appropriations because of receiving the IFA funding and the loss of tax funds that were now unequalized due to being utilized for the lease payment. The district was seeing an impact on its local budget due

to the lease, the IFA, and the effects on its general state appropriation funding. Because the district had reached the cap on its maintenance and operation tax rate, it was now limited from generating any additional funds locally to make up the difference. It moved to the maximum allowed tax rate for maintenance and operations as quickly as possible in an attempt to cover the cost of its operation. It should be noted that the district would have been required under the IFA program to levy a debt tax rate sufficient enough to cover its portion of the obligation under the IFA program. If the program operated under the debt portion of its budget, the district would have suffered no loss of general state funding.

The district's ability to address the needs for facilities without utilizing lease purchasing was unclear. The district understood that there were needs and was attempting to meet those needs, but there was no central plan and no comprehensive study to provide direction concerning the district's facility needs. The completion of the facilities done through lease purchasing did have a positive affect on the district. The ability to have better quality facilities made a difference for the district; however, the distribution of the difference was not equal district-wide. The amount of construction done in areas of the district, the result of political pressure exerted by school board members for the benefit of the particular areas they represented, was not equal. Having no central plan for facilities in the district caused an unequal distribution in the improvement of facilities.

Since the completion of the lease purchase projects, the district has finished a comprehensive facility needs assessment and identified approximately $500 million in facility needs, ranging from drop-off zones to the replacement of entire campuses. The

district was successful in passing a bond issue for $250 million to begin addressing the needs found through the needs assessment. The community has authorized the district to issue a debt tax rate up to the state maximum of $0.50 to cover the cost of the payments. The authorization, added to the current maintenance and operation tax rate, would bring the total tax rate for the district to the statutory maximum of $2.00. The district had currently sold only $72 million of the $250 million authorization and was waiting for action from the state legislature to provide additional state assistance before moving forward with any additional bond sales which would be used for facility construction. The district was also considering a possible conversion of its current leases to general obligation bonds to provide some relief to the maintenance and operation budget.

"I" noted that the intent of the lease purchase was good. The desire was for the district to obtain much needed state funding for new facilities. While some thought the Instructional Facility Allotment being leveraged through a lease purchase would provide "easy money," the district did not fully understand what would be required and the consequences on the overall budget of receiving the state funding. Various problems were addressed through the construction that was afforded by the lease purchase, including district overcrowding, safety, and other issues. A major disadvantage of the transactions kept resurfacing in the loss of state revenue because of having to pay for the lease purchases out of the maintenance and operation side of the district's budget. "We are getting help, but then we are also getting shortchanged because we don't get that state matching (based on the overall tax effort of the local district)," noted "I".

While “I” was not responsible for the inception of the lease purchase in the district, it was something that might be recommended in the future. An important component was the development of a comprehensive facility plan that should also include a financing component to analyze the impact of any transaction on the district as a whole. “If you are in dire straits, you have to go and do something.” The other caveat added by “I” was to keep the lease purchase term short compared to what the district has now with a 25-year obligation. “I” also felt that given the situation of the district and the board at the time, the right choice was made for the betterment of the district. “I think the district overall benefited, but I think from here on in, there is just going to be better planning.”

CHAPTER 5

SUMMARY AND CONCLUSIONS

Summary

It is not until 1990 that a provision is established to allow Texas school districts to use excess state funds for the purpose of making debt payments for new school facilities. The debt instrument known as lease purchasing is established by the state of Texas to allow school districts to borrow funds for the purpose of constructing new school facilities and then using excess state funds in their maintenance and operations budget to repay those funds through debt payments. This study reviews and explores the concept of lease purchase financing for the construction of new school facilities in Texas and examines the benefits and disadvantages. The study also investigates the impact that lease purchasing has on the facilities of those districts which have utilized it. Answers to the following questions are sought:

1. What are the characteristics (specifically size, wealth, and financial capacity) of districts utilizing lease purchase financing?

2. How has lease purchase financing affected the fund allocation of school districts that have utilized it?

3. How has lease purchase affected the acquisition of facilities for those districts that have utilized it?

4. How has lease purchase financing impacted other construction needed in those districts that have utilized it in the past?

Findings

Findings Relative to Quantitative Data

The use of lease purchase is limited to 96 school districts in the state of Texas. These 96 school districts have acquired a total amount of debt of $633,840,853 since the inception of lease purchasing in 1995. Lease purchasing has been utilized by a limited number of school districts in Texas since only 96 of 1,037 district utilizing lease purchasing in the state impacting only 689,622 of the states 4 million students.

What are the characteristics (specifically size, wealth, and financial capacity) of districts utilizing lease purchase financing?

In relation to the usage of lease purchasing a surprising finding is that the largest number of lease purchases based on geographic regions is found in Region 12 or an area that is thought of as Central Texas. Fifteen schools in this region execute a lease purchase for new school facilities, however, they account for only 4.49% of the total amount of lease purchase debts. The school districts in this region typically are small, and borrow smaller amounts of monies for various projects. This trend of smaller, property poor districts, borrowing small amounts of money for construction is also seen in the 40 lease purchases that are completed by school districts in the regions of north central and north eastern Texas.

Another characteristic of lease purchase districts is their high level of taxation. Lease purchase districts with a total tax rate of $1.50 or higher was 72.3% of the total population. This tax rate is heavily focused on maintenance and operation taxes, 56% of

the districts have a debt rate between $0.00 and $0.10. One reason for this high level of taxation for maintenance and operation taxes can be seen in the funding structure of the state which rewards districts for taxing at maximum level through the state's provision of additional state monies through equalization formulas. The state established a maximum tax effort for these additional state monies through these formulas at $0.64 per $100, referred to as the DTR Rate. The $0.64 per $100 is in addition to the state's required property tax of $0.86 needed to receive basic state funding, for a total M & O tax rate ceiling of $1.50 per $100 of property valuation. For lease purchase districts, the average DTR rate is $0.6141, indicating a tendency of lease purchase districts to seek all available funds from the state for their maintenance and operation budgets. While some lease purchase districts may see this as a possible source of state monies for repayment of debt, the qualitative research component of the study establishes a trend that would contradict this conclusion with districts seeking other state resources. While a district could generate more general state monies based on their tax effort with a higher DTR rate and use those additional funds to make lease purchase payments, district are choosing to pursue other state funds, particularly the IFA.

The use of lease purchasing is centered on property poor school districts. 70.2% of all lease districts have a property wealth per student of $150,000 or less, one-half of the state's standard to be considered property wealthy. So even as lease purchase districts attempt to raise funds through local tax efforts, the amount of revenue to be generated is significantly limited due to a low tax base. There is also an implication that as a property poor district shifts monies away from its instructional program to make debt payments, the district is limited in its ability to replace these monies with local tax

revenue. Thus, the trend of lease purchase districts having a high tax rate can be attributed to the need of the district to replace state funds used for debt payment with whatever local monies can be raised, regardless of the significance.

Lease purchase districts are usually small school districts, with a student population of 1,600 or less, with 64.5% of all lease purchase districts falling into this category. One-third of all lease purchase districts have student populations of less than 500 students. The trend of smaller school districts to utilize a funding source that pulls monies away from the instructional program is also significant when reviewing the number of students in small districts that are served in a special populations program. Such programs typically have a higher cost per student than the regular education program, and small school districts show a trend of having larger numbers of these students than their larger district counterparts.

The clustering of 34.3% of all lease districts approvals in a single year, 1998, is significant. Fiscal year 1998 is the first year of the Instructional Facility Allotment program for the state of Texas, following its creation by the Texas Legislature in 1997. The number of districts gaining approval for their transaction in that year suggests a trend of lease purchase districts, once the program was established, to utilize lease purchasing so that it could receive additional state monies for facilities. Before the creation of the Instructional Facility Allotment, only 24 lease purchases were secured by school districts, the remaining 72 come after its creation.

Lease purchase is a small debt instrument in most cases. Of all the debt acquired for school districts, even those with multiple lease purchases, 86.5% are less than $10 million. The median amount for all 96 districts is $2,526,492. Even large

districts that have substantial debt tax rates utilize lease purchasing for only small amounts. Rockwall I.S.D., the lease purchase district with the highest I & S tax rate of $0.38 has only used it for the amount of $600,000.

While no conclusions or trends could be suggested, conversion of lease purchases to traditional general obligation bonds should be studied. Only seven of the total population of 96 could not be deemed significant from a quantitative perspective; those districts in the qualitative portion provide insight in a direction that could emerge in the future regarding lease purchase conversion.

In summary, the quantitative data indicates that a lease purchase district is likely to be a small school district, that has low property wealth, both for its total tax base and per pupil, and has a large percentage of its students served by a special populations program and taxes at a high rate, particularly on the maintenance and operation tax.

How has lease purchase financing affected the fund allocation of school districts that have utilized it?

The success of lease purchasing in these districts is viewed through two sets of lenses. All of the districts commented that the lease purchase is successful in providing needed facilities for the district to meet the mission of providing a high-quality educational experience for students. The other set of lenses is that of the financial benefit to the district of the lease purchase. Those districts that are in financial constraints before the inception of a lease purchase often times struggle with the lease purchase burden, even when they received grant monies from the state. Districts “D”, “F”, and “I” in particular suffer financially with the lease purchase. Their difficulties come from a lack of understanding about how the receipt of funds from the state through the

IFA program, in conjunction with a lease purchase, could impact the amount of general state educational funds received by the district, since these funds are reduced. This lack of understanding places a greater financial burden on districts that are already experiencing pressure to meet the needs of the community with limited resources.

All of the districts in the qualitative portion of the study qualify and receive Instructional Facility Allotment funds from the state of Texas, with the exception of “E”. The ability of districts to secure such funding from the state is a driving force for them to secure lease purchasing financing. While “B” does not receive IFA funding at the inception of its lease purchase because the program is not in existence, the district does receive money from the program when it is converted to general obligation bonds. For “E”, IFA monies are not available because the program does not exist when its lease is originated, and further, because “E” completes an athletic facility, IFA guidelines prohibit the use of the funds for such a facility. A comment echoed many times by districts that received IFA funds is the inability of the district to do any meaningful construction without the assistance of the state. “D” comments that “poor school districts cannot construct without IFA money. It is impossible for us.”

How has lease purchase affected the acquisition of facilities for those districts that have utilized it?

An overriding theme discussing why school districts utilize lease purchasing over a traditional general obligation bond issue to secure funds for new schools is the politics of a bond issue in a community. Not one district superintendent interviewed alludes to the possibility of a bond issue being utilized for the projects that are completed by the lease purchase proceeds. Even districts that have a track record of success with bond

issues, such as “A”, due to a desire for not wanting to “wear the voters out” sees the political benefit of using lease purchase for various situations.

Many districts experiencing failure in securing voter approval for the issuance of general obligation bonds seek out alternatives to voter approval. Districts “D” and “F” fall into this category. The remaining districts fearing a possible failure at the polls and feeling that the need for the facility is great, circumvent the process of gaining voter approval by utilizing lease purchasing.

How has lease purchase financing impacted other construction needed in those districts that have utilized it in the past?

An interesting trend that develops with districts that have utilized lease purchasing is the ability of a district to successfully gain voter approval for general obligation bonds following the districts experience with lease purchasing. Seven of the nine districts have successfully passed a bond issue following the use of lease purchasing. Of the two remaining, one of those is now looking at a bond issue for existing facility needs. Even in those districts with the worst experiences with lease purchasing, in particular “F”, the community is receptive to giving approval to the district for the purpose of seeking long term debt for the construction of school facilities. The only district not considering such an option is “C”, which has no other debt other than lease purchase.

Findings Relative to Qualitative Data

While the quantitative data provides some indication of the common characteristics of a lease purchase district, the qualitative data provides more insight as to why districts utilized lease purchasing and how it has directly affected the district. A

factor that is identified in all nine school districts was the desire of the district to seek financing for facilities through an instrument that would not require voter approval. While the reason to not seek voter approval differs among the districts, all districts specifically mention avoiding a bond election as a significant reason in their decision to select lease purchase financing. However, districts have differing reasons for wanting to avoid a bond election.

One district avoids a bond election, not for fear of it not being approved by the local taxpayers, but, to save the district from having an election for what the district considers a small issue. This district utilizes lease purchasing on two separate occasions to avoid voter fatigue. The district's voters have since been approved a bond issue for over $100 million, but utilizes lease purchasing for small $8 and $10 million issues between major bond packages. This district is a large district and no other district provides this reason.

Another district, because of the type of facility to be constructed, desires to avoid a bond election because of fear of it failing. An athletic facility is considered by the district to be an item that could possibly be defeated in an election, so lease purchasing is used to circumvent that possibility. The board feels that enough room exists in the budget to make payments for such a facility. This district took a relatively short payment schedule for this project.

The majority of the districts clearly state that the reason their district chooses lease purchasing is due to the local political climate and the fear that the issue will not be approved by the voters. For these districts, a previous bond issue defeat raises the possibility of another bond issue being defeated. Other districts that have not

experienced a bond issue failing, or may not have attempted to pass a bond issue in many years, also fear a possible defeat. These districts are pushed to select lease purchasing, in spite of the negatives that accompany the use of the instrument. In hindsight, several of these districts now are more inclined to use a general obligation bonds rather than the lease purchasing arrangements to meet their facility needs.

A driving force behind the use of lease purchase for seven of the nine districts is the availability of state monies through the Instructional Facility Allotment. This grant based program that provides state assistance to school districts on a proportional basis based on property wealth of the district seems to be a critical factor for districts selecting lease purchasing. The lure of state money for facilities and the threat of a bond issue being defeated are the two major factors that lead school district officials to choose lease purchase financing.

This lure of state funding proves to be too tempting for several school districts. In a rush to receive these state monies, accessible only through a competitive grant process offered periodically by the state, districts admit that good decisions are often not made. Many school districts do not fully understand the nuances of lease purchasing relative to the IFA program of the state and how the lease purchase funded through the IFA will affect their other state money for the general operation of the school district. The loss of thousands of dollars, and for some districts even millions, in general state funds that are used for regular school operations surprises several school districts. For some districts, the loss of general state monies is actually more than the dollars the district receives for the purpose of the IFA. One district discovers that they could return the state's IFA money and actually receive more general state funds, which still could

be used for the payment of their debt. This scenario indicates a problem with lease purchasing when using IFA funding.

From the research obtained in this study there is an effect on the instructional program of these districts that utilize lease purchasing for new school construction. The first effect comes in the loss of state money when the district receives IFA funding for their project. Given the increase of school districts utilizing lease purchasing following the inception of the IFA program, the high probability of losing general state funds exists. School districts are not fully aware of this possibility, and many saw their instructional programs suffer because of it.

In addition to the instructional program suffering due to the complications of the lease purchase and the IFA, school districts report that their district suffers in other areas because of having to commit a portion of their maintenance and operations budget to debt payments, which under general obligation bonds would be funded with a debt tax rate. Districts cite examples ranging from teacher salaries to technology as areas that suffered because of lease purchasing. These districts, however, did comment that due to the seriousness of the situation regarding facilities in their district that no other options are available to them.

Districts that have additional facility needs after the lease purchase experience do have a surprising result in their ability to gain voter approval for general obligation bonds. The decision of districts to move forward with other construction projects is not hampered because of their experiences with lease purchasing. Rather, for even those districts that experience serious problems, the ability to gain approval for general obligation bonds and the necessary debt tax rate to meet the obligation is not

hampered. Many districts gain large voter approval for their bond issues. One district admits to making a concerted effort to fully educate all members of the community to insure that the bond issue would be successful. These same districts are able to receive IFA funding with the bond issues.

Discussion of Research and Literature

The drive of districts to find a different source of financing is realized with the inception and utilization of lease purchase financing. As Carey and Tantillo both observe, the inception of lease purchase financing and its utilization by school districts comes as a result of the increasing pressure being placed on school districts to find alternatives to the traditional general obligation bond and the tax burden that it imposes. The research in this study collaborates these points, in that all districts confirm that their use of lease purchasing is based significantly on the political pressure and reality of finding alternatives to general obligation bonds. While Gamkhar and Koerner make the point that it is the type of state assistance received by a school districts that push them toward a particular debt instrument, the research does not completely support this position, but rather, it is the availability of state assistance and the political uncertainty faced by many districts that push them toward using lease purchasing, despite the disadvantages that may exist. School districts are still facing the political pressure that was observed by Eby over fifty years ago with the conflict that exists between the needs of the local school district and the state that provides the funding for the school district, compounded by the pressure of the local taxpayer who has grown resistant to larger tax bills. This research agrees with Waring, Demers, and Tantillo in that, the ability of school districts to obtain funding through the use of lease purchasing without voter

approval, continues to stand as a major reason that school districts have utilized this type of financing.

A conclusion that can be made by the available research, also corroborated in the literature, is that lease purchasing is a complex and often expensive transaction. While the literature notes the complexity issue often involves the creation of a new entity and board of directors, the research also notes that the high cost borne by some districts is also due to the fees associated with the creation of these instruments. Gamkhar and Koerner's finding that each lease purchase is unique requiring extensive work for issuance is consistent with the stories told by the district superintendents utilizing lease purchasing. There is no standard approach for lease purchasing, thus districts pay more for the transaction to be completed. This cost, however, is never noted as a deterrent by a school district in selecting lease purchasing as their debt instrument.

While Gamkhar and Koerner also assert that many school districts select lease purchasing due to possible debt limitations that they are facing, the research does not support this finding. Rather, the driving force for school districts to considering lease purchasing is the availability of state facilities money being made available through the IFA program. This point is further made when Clark's observation of districts being unable to utilize excess state funds because of the limited availability of all state funds received by the district. The initiation of the IFA program and the flow of state dollars created by the program is the impetus for an increase in the use of lease purchasing by school districts. Gamkhar and Koerner's research notes that one reason for the increase in lease purchasing by school districts is due to the beginning of the IFA

program. However, the research indicates that the IFA program, following its creation in 1997, is a driving force for many school districts to consider lease purchasing when previously it has not been considered an option. Thus, it is not only equalized funding available to property poor school districts, but the IFA program, which also uses property wealth as a determining factor, that encourages many property poor school districts to pursue lease purchases. Gamkhar and Koerner's assertion that the state's treatment and funding of debt is a reason for an increase in the use of lease purchasing is also collaborated.

The findings of this study characterize a lease purchase district as being a small school district, that has low property wealth, has a larger percentage of its student served by special populations programs, and taxes at a high rate, particularly the maintenance and operation tax. Districts that utilized lease purchasing after 1997 have a greater likelihood of being the recipient of the IFA. The characteristic traits of a lease purchase district identified in the research do not support the previous findings of Bunch and Smith in their 2002 research. In that research it is noted that lease purchase districts tend to be those with higher student enrollments, enrollment growth, higher tax rates, and low property wealth. The research from this study indicates that only the characteristics of low property wealth and high tax rates are a common trait found in the two studies.

The traits of this study are more closely aligned to the traits that are identify in the work of Gamkhar and Koerner who identified a lease purchase school to be property poor, relatively small with little or no growth, and having debt tax rates of less than $0.25. Data from this study show that 56% of the districts that have executed lease

purchases have a debt tax rate ranging from $0.00 to $0.10. Gamkhar and Olson's follow-up research to Gamkhar and Koerner's 2002 study is also confirmed with the findings of this study; the usage of lease purchases decreases when a bond issue might be approved. Also, the introduction of the IFA does impact the decision to use lease purchasing.

Implications and Conclusions for the Study

While lease purchasing is designed to provide school districts with a method in which to utilize excess state funds, it often takes funds from the instructional program for the payment of long-term debt. The situation has become exacerbated since 1997 with the implementation of the IFA program. While the issue of equity continues to surface in the literature, the targeting of funds for the poorest of school districts and the impact of IFA funding raises new issues which may be in need of consideration if the poorest school districts are enticed to spend instructional funds for facilities. These districts often lose additional funds due to the receipt of the IFA and an inequitable system of funding becomes self-perpetuating, with monies that are designed to promote equity creating a different situation.

The ability of administrators and boards of trustees to fully understand the impact of certain financing instruments associated with state funding programs is another issue. As the system becomes increasingly complicated the impact of the decisions made by boards, often based on recommendations of the school's administrators are not fully understood. Many districts are committed to a construction program and for many the program is completed before the impact is fully understood and all the details

known. It is with this realization, that the districts then begin to question the decisions that have been made and how those decisions will affect the future of the school district.

Areas for Future Study

This study raises issues concerning the implementation of state facility programs and their impact on school districts. Future study is warranted in determining the actual effect of these programs on schools in comparison to the legislative and programmatic intent. The issue of equity also surfaces when the intent of programs to aid poor school districts turn out to actually harm the instructional program by diverting funds from that program. The success of districts that have utilized lease purchase to pass bond issues after the execution of a lease purchase is also an area that should be studied. Finally, additional study and observation is also warranted concerning the trend of school districts to convert their existing lease purchase agreements to general obligation bonds.

Summary

Lease purchase financing is an attempt by school leaders to solve a problem that has existed since the creation of public education. Facility needs in an environment of scarce resources which force school leaders to make decisions and prioritize dollars in a manner that may not be in the best interest of the students. The use of lease purchase agreements is often pursued to avoid political uncertainty in communities that may not be inclined to support an increase in the tax rate. It is also being used to leverage lucrative state funds by districts that are in the greatest need of resources.

Tragically, it is these same districts that are jeopardizing their own instructional program in their attempt to improve the facilities in which those programs exist.

APPENDIX A

INTERVIEW QUESTIONS

Interview Questions

1. Tell me briefly about your experiences with lease purchase financing for new school construction.
2. Were you the superintendent of the district when the lease purchase originated? If not, who was superintendent at the time?
3. What type of facility was constructed utilizing lease purchase?
4. What was the cost of the project?
5. Did the district use the fund balance to pay for any part of the construction project?
6. What was the issuance cost for the project?
7. Were the issuance costs a part of the total cost of the lease purchase?
8. What was the length of the lease purchase?
9. Why was a bond issuance not utilized?
10. Why was a lease purchase utilized over a bond?
11. Was an election required to finalize the lease purchase financing?
12. What construction method was utilized to complete the project?
13. Was the project completed under the published project limit?
14. Did the district receive any formal state assistance such as Instructional Facility Allotment (IFA) funds from the state of Texas?
15. How much Tier I state monies are used to make lease payments?
16. What is the annual cost to the maintenance and operation budget?

17. What is the impact of the lease on the maintenance and operation budget of the district?
18. Has the maintenance and operation tax rate been changed because of the lease purchase?
19. Could the district have completed the project without lease purchase? If so how and how long would it have taken versus utilizing lease purchase?
20. How did the completed project affect the district? What was its impact?
21. How has the cost of the lease affected money being available for student instruction?
22. Has the district done any other construction project since the lease purchase project was completed?
23. How did the district pay for these project?
24. Has the district considered going to the voters to convert the lease purchase to a traditional bond with an interest and sinking tax levy to make its payments?
25. How would you characterize the total experience of the district utilizing lease purchase as a vehicle for new school construction?
26. How would you characterize the advantages and disadvantages of the district utilizing lease purchase as a vehicle for new school construction?
27. Would you recommend a lease purchase again for new school construction?
28. Did state funding pay for the lease purchase construction? Was the state funding limited to a period of time?
29. What have I not asked you that you think is important?

APPENDIX B

DATA FOR ALL LEASE PURCHASE DISTRICTS

District	Co-Dist.	Reg.	M & O	I & S	Total	Tax Base	Wealth Per Student	Refined ADA	WADA	DTR	41/42	Issuance	Amount	Conversion
Abbott	109901	12	$1.500	$0.000	$1.500	$33,977,350	$120,916	271	459	$0.7124	42	1995	$836,000	
Aldine	101902	4	$1.570	$0.098	$1.668	$8,744,544,855	$155,799	51,903	70,957	$0.7167	42	1998	$17,185,000	
Anson	127901	14	$1.480	$0.000	$1.480	$74,671,506	$95,733	734	1,261	$0.5977	42	1998	$599,000	
Anthony	071906	19	$1.500	$0.201	$1.701	$83,332,236	$108,224	706	1,232	$0.4234	42	2000	$1,235,000	
Avery	194902	8	$1.440	$0.000	$1.440	$35,970,613	$84,930	389	669	$0.4895	42	2001	$1,000,000	
Bangs	025901	15	$1.427	$0.000	$1.427	$136,217,498	$116,825	1,098	1,716	$0.6476	42	1998	$2,920,000	
Beaumont	123910	5	$1.455	$0.085	$1.540	$6,356,787,313	$308,612	19,228	25,454	$0.5815	42	2000	$13,100,000	
Bland	116915	10	$1.371	$0.043	$1.414	$66,675,482	$115,356	542	867	$0.5189	42	1998	$800,000	
Blanket	025904	15	$1.500	$0.120	$1.620	$25,677,308	$117,248	226	492	$0.4179	42	1998	$860,000	
Blooming Grove	175902	12	$1.480	$0.098	$1.578	$79,663,428	$86,969	865	1,351	$0.7440	42	1997	$3,000,000	
Blue Ridge	043917	10	$1.500	$0.279	$1.779	$90,053,602	$133,019	643	1,044	$0.7973	42	1998	$839,000	
Boles	116916	10	$1.460	$0.069	$1.529	$10,297,530	$19,879	488	869	$0.6129	42	1996	$4,725,000	2001
Bosqueville	161923	12	$1.500	$0.090	$1.590	$76,672,804	$153,653	448	763	$0.7734	42	1995	$1,265,000	
Bruceville-Eddy	161919	12	$1.355	$0.055	$1.410	$98,897,702	$108,440	876	1,558	$0.5961	42	2000	$1,600,000	
Bryan	021902	6	$1.500	$0.180	$1.680	$2,756,258,700	$195,424	13,076	17,240	$0.6918	42	1998	$16,965,000	
Canutillo	071907	19	$1.500	$0.200	$1.700	$580,025,572	$120,337	4,473	6,398	$0.6297	42	2000	$3,860,000	
Castleberry	220917	11	$1.500	$0.190	$1.686	$335,004,611	$103,813	2,975	4,160	$0.6987	42	1998	$9,985,000	2001
Cayuga	001902	7	$1.500	$0.000	$1.500	$210,287,639	$389,422	518	834	$0.5446	42	2000	$700,000	
Central	003907	7	$1.480	$0.000	$1.480	$144,635,534	$85,533	1,597	2,281	$0.6673	42	1996	$4,000,000	
Chapel hill	225906	8	$1.427	$0.075	$1.502	$60,883,282	$73,002	795	1,213	$0.5952	42	1996	$4,130,000	
Chireno	174901	7	$1.500	$0.073	$1.573	$30,657,164	$102,191	300	527	$0.7039	42	1996	$655,000	
Cisco	067902	14	$1.440	$0.000	$1.440	$136,189,067	$161,170	790	1,332	$0.5344	42	2002	$1,116,000	
Cleburne	126903	11	$1.480	$0.199	$1.679	$1,414,333,519	$220,542	5,889	7,598	$0.6617	42	1998	$2,682,983	
Cleveland	146901	4	$1.400	$0.300	$1.700	$473,929,893	$142,578	3,026	4,217	$0.4736	42	1996	$4,685,000	2001
Clint	071901	19	$1.500	$0.225	$1.725	$431,480,042	$50,383	8,027	10,993	$0.6170	42	1998	$16,615,000	2002
Collinsville	091902	10	$1.385	$0.090	$1.475	$72,903,199	$129,080	536	840	$0.8311	42	2002	$3,655,000	
Colmesneil	229901	5	$1.499	$0.000	$1.499	$76,801,387	$128,216	564	916	$0.4197	42	1998	$1,200,000	
Corpus Christi	178904	2	$1.474	$0.116	$1.590	$7,140,039,009	$182,214	36,199	48,271	$0.6589	42	2004	$10,250,000	
Covington	109903	12	$1.400	$0.100	$1.500	$30,205,659	$87,300	305	522	$0.8796	42	1999	$1,100,000	
Dawson	175904	12	$1.500	$0.000	$1.500	$50,285,959	$105,643	451	772	$0.6165	42	2001	$1,600,000	
De Leon	047902	14	$1.315	$0.025	$1.340	$112,201,618	$172,618	650	1,013	$0.4284	42	1998	$1,350,000	
DeKalb	019901	8	$1.500	$0.022	$1.522	$96,629,145	$101,929	878	1,398	$0.5438	42	1996	$7,390,000	
Donna	108902	1	$1.500	$0.160	$1.660	$559,786,766	$47,898	10,874	15,544	$0.6982	42	1995	$9,740,000	
Edcouch-Elsa	108903	1	$1.472	$0.128	$1.600	$146,170,861	$27,404	4,970	7,320	$0.6293	42	1997	$3,500,000	
Edgewood	015905	20	$1.500	$0.127	$1.627	$650,731,067	$50,550	11,585	16,812	$0.7696	42	1998	$9,145,000	
Edinburg	108904	1	$1.500	$0.099	$1.599	$2,900,516,838	$114,872	23,549	32,643	$0.6795	42	1998	$59,945,000	

El Paso	071902	19	$1.500	$0.071	$1.571	$9,124,853,921	$144,607	58,400	77,613	$0.6476	42	2003	$8,450,000	
Etoile	174910	7	$1.500	$0.000	$1.500	$32,838,820	$220,395	142	246	$0.4935	42	1998	$700,000	
Falls City	122901	3	$1.500	$0.143	$1.643	$38,522,307	$116,382	327	516	$0.6480	42	1999	$2,340,000	
Flatonia	075901	13	$1.381	$0.129	$1.510	$147,915,449	$262,261	527	837	$0.6833	42	2001	$970,000	
Fruitvale	234909	7	$1.500	$0.071	$1.571	$38,188,915	$85,243	410	738	$0.5515	42	1998	$1,597,000	
Ft. Davis	122901	18	$1.470	$0.000	$1.470	$105,064,373	$296,792	341	975	$0.5088	42	1999	$1,100,000	
Godley	126911	11	$1.428	$0.180	$1.608	$156,891,960	$117,084	1,270	1,984	$0.6042	42	1999	$3,500,000	
Goodrich	187903	6	$1.496	$0.000	$1.496	$66,115,582	$221,864	284	526	$0.5778	42	1997	$665,000	
Goose Creek	101911	4	$1.500	$0.184	$1.684	$6,964,592,718	$364,028	17,729	23,049	$0.6483	41	2001	$4,445,000	
Grandview	126904	11	$1.500	$0.075	$1.575	$131,283,423	$113,373	1,092	1,622	$0.6958	42	1998	$1,595,000	
Grape Creek	226907	15	$1.500	$0.205	$1.705	$97,588,961	$79,860	1,146	1,724	$0.6429	42	1996	$8,500,000	2000
Hardin	146904	4	$1.489	$0.000	$1.489	$159,258,405	$124,033	1,179	1,691	$0.4812	42	1996	$9,965,000	
Harlindale	015904	20	$1.500	$0.256	$1.756	$905,201,124	$64,326	13,004	18,664	$0.7066	42	1998	$3,695,000	2001
Hawley	127904	14	$1.450	$0.000	$1.450	$54,392,760	$72,218	706	1,182	$0.5245	42	1998	$1,366,000	
Hereford	059901	16	$1.500	$0.000	$1.500	$506,990,549	$132,063	3,614	5,097	$0.5172	42	1998	$14,325,000	
High Island	084903	5	$1.500	$0.270	$1.770	$66,682,960	$250,688	247	444	$0.5728	42	1999	$1,525,000	
Houston	101912	4	$1.450	$0.130	$1.580	$71,498,948,629	$338,606	191,701	265,944	$0.6243	42	1998	$95,999,970	
Kaufman	129903	10	$1.500	$0.220	$1.720	$466,658,155	$137,091	3,142	4,313	$0.7225	42	2000	$9,385,000	2003
La Feria	031905	1	$1.452	$0.090	$1.542	$186,287,098	$64,392	2,703	3,896	$0.5903	42	1999	$9,810,000	
Leggett	187906	6	$1.500	$0.000	$1.500	$78,530,327	$302,040	245	464	$0.5433	42	2002	$2,050,000	
Lone Oach	116906	10	$1.350	$0.140	$1.490	$102,134,628	$120,727	799	1,264	$0.5699	42	1995	$3,200,000	
Lorena	161907	12	$1.500	$0.189	$1.689	$210,544,212	$135,747	1,495	2,014	$0.8131	42	1999	$1,086,500	
Lyford	245902	1	$1.500	$0.080	$1.580	$131,015,205	$88,944	1,381	2,263	$0.6909	42	1998	$8,055,000	
Lytle	007904	20	$1.500	$0.200	$1.700	$117,578,432	$76,449	1,439	2,070	$0.5535	42	1997	$4,460,000	
Malone	109908	12	$1.420	$0.000	$1.420	$15,279,906	$242,538	61	140	$0.5007	42	2002	$1,240,000	
Marion	094904	13	$1.483	$0.297	$1.780	$388,350,141	$279,188	1,318	1,799	$0.4484	42	1999	$1,730,000	
Marlin	073903	12	$1.405	$0.062	$1.467	$163,847,314	$115,061	1,365	2,199	$0.4298	42	1998	$4,500,000	
McGregor	161909	12	$1.460	$0.190	$1.650	$181,764,314	$159,024	1,088	1,668	$0.6441	42	2002	$2,029,000	
McLeod	034906	8	$1.395	$0.000	$1.395	$17,514,887	$36,642	457	772	$0.3588	42	1996	$900,000	
Milano	166903	6	$1.500	$0.000	$1.500	$50,180,640	$129,082	374	638	$0.9201	42	1998	$5,192,900	
Mount Calm	109910	12	$1.500	$0.000	$1.500	$16,437,554	$145,465	107	195	$0.7534	42	2002	$1,400,000	
Mount Enterprise	201907	7	$1.300	$0.150	$1.450	$35,756,503	$85,338	389	642	$0.3960	42	2001	$375,000	
Mount Pleasant	225902	8	$1.500	$0.058	$1.558	$1,293,413,322	$256,375	4,637	6,662	$0.6131	42	1996	$9,200,000	
Murchison	107908	7	$1.480	$0.000	$1.480	$26,960,672	$162,414	152	270	$0.7178	42	2002	$1,260,000	
New Summerfield	037908	7	$1.470	$0.000	$1.470	$30,416,235	$71,400	389	682	$0.2480	42	1998	$2,138,000	
Peaster	184908	11	$1.450	$0.300	$1.750	$105,433,643	$111,925	899	1,352	$0.7812	42	1998	$1,069,000	
Penelope	109914	12	$1.500	$0.000	$1.500	$14,690,516	$78,981	173	315	$0.5882	42	2002	$1,200,000	
Pittsburge	032902	8	$1.368	$0.072	$1.440	$429,324,093	$184,497	2,184	3,204	$0.6162	42	2002	$1,420,000	

Randolph Field	015906	20	na	na	na	na	na	1,009	1,379	na	42	1999	$3,000,000	
Rio Grande City	214901	1	$1.500	$0.066	$1.566	$653,100,494	$68,972	8,854	12,965	$0.6843	42	1995	$24,135,000	
Rockwall	199901	10	$1.500	$0.380	$1.880	$3,390,944,530	$339,638	9,264	11,007	$0.8643	42	1999	$600,000	
Roxton	139908	8	$1.500	$0.124	$1.624	$25,689,001	$108,392	230	406	$0.7151	42	1995	$720,000	
San Antonio	015907	20	$1.500	$0.222	$1.722	$8,008,982,222	$140,973	51,537	73,131	$0.6526	42	1996	$12,915,000	
San Diego	066902	2	$1.465	$0.103	$1.568	$94,176,512	$61,074	1,419	2,186	$0.6376	42	2003	$2,370,000	
San Elizario	071904	19	$1.500	$0.077	$1.577	$93,328,922	$25,166	3,489	5,285	$0.4918	42	1998	$10,595,000	
San Felipe-Del Rio	223901	15	$1.380	$0.066	$1.446	$931,323,933	$89,507	9,631	13,176	$0.5240	42	1998	$6,750,000	
Scurry-Rosser	129910	10	$1.500	$0.250	$1.750	$121,823,032	$149,844	753	1,185	$0.6824	42	1998	$1,760,000	
Smyer	110906	17	$1.500	$0.000	$1.500	$45,254,097	$109,309	381	652	$0.4332	42	2001	$1,000,000	
Somerset	015909	20	$1.500	$0.185	$1.685	$201,073,206	$61,566	3,037	4,371	$0.7841	42	1998	$3,593,000	
South Texas	031916	1	na	na	na	na	na	1,986	2,836	na	42	1996	$8,895,000	
Southside	015917	20	$1.500	$0.220	$1.720	$308,618,783	$66,015	4,350	6,257	$0.6610	42	1998	$15,091,500	
Splendora	170907	6	$1.500	$0.230	$1.730	$203,505,645	$64,956	2,861	3,805	$0.7107	42	1998	$5,221,000	
Spur	063903	17	$1.500	$0.000	$1.500	$107,375,410	$365,222	268	529	$0.7690	42	1997	$1,000,000	
Terrell	129906	10	$1.500	$0.210	$1.710	$987,338,728	$237,455	3,846	5,494	$0.6363	42	1996	$3,500,000	
Waco	161914	12	$1.406	$0.119	$1.525	$2,789,093,965	$178,891	14,233	19,706	$0.6890	42	2000	$4,300,000	
Walnut Springs	018905	12	$1.150	$0.000	$1.150	$36,889,194	$144,664	229	422	$0.2743	42	2002	$1,395,000	
West Rusk	201904	7	$1.500	$0.000	$1.500	$195,387,574	$248,585	728	1,171	$0.5104	42	2001	$1,200,000	
Westphalia	073904	12	$1.186	$0.000	$1.186	$9,925,267	$76,348	129	195	$0.6582	42	2001	$1,179,000	
Winters	200904	15	$1.410	$0.070	$1.480	$96,388,912	$142,377	652	1,189	$0.5047	42	1998	$1,250,000	
Ysleta	071905	19	$1.500	$0.070	$1.570	$4,368,292,371	$93,758	43,376	59,979	$0.6124	42	2000	$66,700,000	
Count		96	94	94	94	94	94	96	96	94	96	96	96	
Sum								689,622	958,536				$633,840,853	
Mean			$1.463	$0.102	$1.565	$1,607,971,875	$141,251	7,184	9,985	$0.6141			$6,602,509	
Mode		12	$1.500	$0.000	$1.500					$0.6476	42	1998	$1,000,000	
Frequency		15	49	28	13					2	95	6	1	
Median			$1.500	$0.083	$1.562	$119,700,732	$117,166	954	1,478	$0.6268			$2,526,492	
Minimum			$1.150	$0.000	$1.150	$9,925,267	$19,879	61	140	$0.2480		1995	$375,000	
Maximum			$1.570	$0.380	$1.880	$71,498,948,629	$389,422	191,701	265,944	$0.9201			$95,999,970	
Standard Deviation			0.065	0.093	0.124	7506861006.310	82040.447	21975.454	30346.108	0.125			13293947.844	
Skewness			-2.471	0.655	-0.275	8.758	1.224	6.636	6.707	-0.303			4.891	
Kurtosis			7.877	-0.374	0.954	81.290	1.017	52.300	53.253	0.386			26.854	

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