

U.S. Municipal Bond Market

## The Texas Permanent School Fund’s Bond Guarantee Program Slows to a Roll

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### The PSF Guarantee Program is Full and Operating on Limited Capacity

We believe the Texas Permanent School Fund (PSF) Bond Guarantee Program, which is currently capped under federal law (Internal Revenue Service) at \$117 billion, has reached capacity. As of Nov. 30, 2022, the program was down to \$410 million in available capacity. Last week, several Texas school districts issued bonds with a prominent disclaimer that “The Bonds will not be guaranteed under the State of Texas’ Permanent School Fund Guarantee Program.” The school bonds that were issued without the AAA-rated PSF enhancement either relied solely upon their underlying ratings or were sold with bond insurance.

While we do not foresee a complete shutdown of the Bond Guarantee Program (BGP), for the time being, we do anticipate that BGP availability will primarily be limited to recycled capacity from maturing bonds that are scheduled to roll off each month. Consequently, there is likely to be a significant mismatch between the level of demand from Texas school bond issuers and available BGP capacity, until a federal resolution is reached. The BGP’s portfolio currently consists of 867 school districts and 31 charter schools. A majority of school bonds are considered by Texas voters during elections in May and November. According to the Texas Bond Review Board, about \$12.4 billion of bonds on Nov. 8 ballots received voter approval. Issuers representing approximately half of that amount have submitted applications to the Texas Education Authority (TEA) but have not yet been approved. The TEA has indicated that priority will be given to applications from less wealthy districts. Based upon our calculations, the following table shows the monthly totals of outstanding PSF-enhanced school district bonds that are scheduled to mature this year.

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### Scheduled PSF-enhanced School Bond Maturities by Month in 2023

Maturity Month	School District Bond Scheduled Maturities (\$)
January	410,000.00
February	2,877,785,907.00
March	0.00
April	1,120,000.00
May	640,000.00
June	26,980,000.00
July	630,000.00
August	1,533,420,000.00
September	0.00
October	1,030,000.00
November	0.00
December	0.00
<b>Grand Total</b>	<b>4,442,015,907.00</b>

Source: ICE Data as of 1/12/2023, HilltopSecurities.

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## Do Not Expect Credit Deterioration

As we have recently commented, we are not expecting any credit deterioration or negative ratings pressure to the Texas Permanent School Fund (Aaa/AAA/AAA). We continue to monitor developments regarding BGP capacity and Texas school district credit conditions and will provide updates accordingly.

## Recent HilltopSecurities Municipal Commentary

- [The Municipal Market in 2023, Hilltop's Municipal Sector Credit Outlooks](#), Jan. 17, 2023
- [A Public Finance and Infrastructure Fiscal Policy Checklist and a Warning](#), Jan. 9, 2023
- [Web3, Blockchain and U.S. Public Finance](#), Dec. 15, 2022
- [The Texas PSF is Up Against a Federally Allocated Cap](#), Dec. 8, 2022
- [State Credit Mainly Improved & Most Positioned to Withstand a Recession](#), Dec. 6, 2022

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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