

## **BILL ANALYSIS**

H.B. 1234  
By: Menendez  
County Affairs  
Committee Report (Unamended)

### **BACKGROUND AND PURPOSE**

As technological advances continue at an exponential pace and most current hospital capital infrastructure becomes increasingly obsolete, flexibility in funding necessary upgrades becomes crucial for hospital operations. Options for capital funding under current state law are limited to general obligation bonds or hospital revenue bonds and in some cases, revenue anticipation agreements (secured by operations or tax revenue and available only to finance operations and maintenance - not typical capital items such as major equipment). Revenue bonds are a costly source for most capital funding. Issuers of revenue bonds often end up pledging tax revenue to cover debt service first, then raising taxes to cover any shortfall in net revenue - a practice which should be avoided. On the other hand, general obligation (tax supported) bonds produce an estimated cost of capital of 10-15 basis points lower than revenue bonds but are very time-consuming to secure.

A Commissioners Court has the authority to issue certificates of obligation for county projects such as jail and courthouse construction or improvements. However, a Commissioners Court does not currently have the authority to issue certificates of obligation for a hospital district project even though the Court approves the hospital district's budget and sets its *ad valorem* tax rate.

House Bill 1234 proposes to authorize Commissioners Court to approve certificates of obligation for a hospital district established under Chapter 281 of the Health and Safety Code. The extension of the availability of certificates of obligation to hospital districts will allow more rapid response to changing capital acquisition needs. In a hospital setting, rapid response can save lives. Further, the use of certificates of obligation to fund capital upgrades will result in lower overall cost.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

Section 1. Amends the heading of Subchapter F, Chapter 281 of the Health and Safety Code, to add "and certificates of obligation" to the existing text.

Section 2. Amends Subchapter F, Chapter 281 of the Health and Safety Code to add Section 281.106, which allows hospital districts, with the approval of commissioners court, to issue certificates of obligation for district purposes in accordance with the Certificate of Obligation Act of 1971, Subchapter C, Chapter 271, Local Government Code.

Section 3. Amends the heading of Section 281.121 of the Health and Safety Code, to add "and certificates of obligation" to the existing text.

Section 4. Amends Sections 281.121(a) and (c) of the Health and Safety Code, to address rates, interest and sinking funds for certificates of obligation secured by taxes and to authorize the use of tax revenues to pay for certificates of obligation issued pursuant to Section 281.106 of the Health and Safety Code.

Section 5. Amends Section 271.043(7) of the Local Government Code by adding "or hospital district established under Chapter 281, Health and Safety Code" to the definition of "Issuer" to clarify that the provisions of Certificate of Obligation Act also apply to hospital districts.

**EFFECTIVE DATE**

This act takes effect September 1, 2003.