BILL ANALYSIS

H.B. 1934
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Financial Institutions
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Under current law, an issuer of public securities can use bond proceeds to finance interest during construction only if the facility being constructed generates revenue (such as an airport or a water system improvement). This has been interpreted to mean that only public securities that are secured by the revenues of a facility may finance interest during acquisition or construction and up to one year after acquisition or construction.

Current law is silent as to how an issuer may use a premium it receives in connection with the sale of public securities above par, or face, amount. Generally, a premium has been available to fund project costs, an escrow account established to refund public securities, or a debt service fund for the securities. In recent years, those bidding on public securities in a competitive sale have preferred bonds which, with a premium, produce a low yield.

Current law generally permits a combination of taxes and revenues to be pledged to secure public securities. However, Chapter 1431, Government Code (Anticipation Notes) permits only taxes or revenues, but not both, to be pledged to secure the short-term obligations issued under that chapter.

H.B. 1934 permits an issuer to finance interest during construction with the proceeds of public securities issued to finance the acquisition, construction, or improvement of public facilities in all instances. The bill places in statute the permitted uses of a premium, and the bill permits an issuer of obligations under Chapter 1431, Government Code to pledge a combination of taxes and revenues to secure the obligations.

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

H.B. 1934 amends Section 1201.042, Government Code to permit the proceeds of a public security issued to finance the acquisition, construction, or improvement of any project or facility be used for the purposes outlined in that section, including the payment of interest. This applies regardless of whether it is secured by revenue derived from the project.

The bill specifies that a premium received by an issuer may be used to provide for payment of debt service, contribute to an escrow account established for payment of debt service, pay the cost of issuing the securities, or pay other costs related to the purpose for which the securities were issued.
The bill clarifies that an issuer is not authorized to spend funds in an amount that exceeds the limitations provided by law or by the public security authorization.

H.B. 1934 amends Section 1431.007(a), Government Code to provide than an anticipation note issued under that chapter may be secured by a combination of revenue and taxes.

EFFECTIVE DATE

On passage, or if the Act does not receive the required vote, the Act takes effect September 1, 2003.