BILL ANALYSIS

Senate Research Center

C.S.S.B. 449
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Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

A capital appreciation bond (CAB) is a type of municipal bond that defers the payment of principal and interest until the bond matures, typically many years (as many as 40) after the issuance of the bond.

CABs are typically used by school districts where immediate development is needed due to a rapidly expanding population, but where there are limited financing options. The assumption is that the number of taxpayers will increase and the anticipated tax base growth will enable repayment of the obligation. These bonds are increasingly used in districts in California, Florida, and Texas, where the school-aged population is expanding faster than the current tax base can support.

CABs provide a financing option for municipalities that would otherwise have to forgo critical development due to lack of funds, impose unreasonable or impermissible tax levies on a current population in order to support a larger future population, or default on existing obligations that the municipality is unable to repay without the CAB funds.

The buy-now, pay-later approach often results in crippling repayment obligations, with the repayment costs being greater than the benefits derived from the bond. For example, Leander taxpayers will have to repay around nine times the amount the school district originally borrowed. The *Austin American-Statesman* estimates that statewide, between 2007 and 2011, Texas municipalities issued over 700 CABs, receiving $2.3 billion in immediate funding, but committing future repayment obligation of over $20 billion.

In spite of the cost to taxpayers, municipalities use long-term projections to conclude that the CAB will work out in the long run. However, often the tax base does not expand as was originally anticipated, so there are insufficient additional taxpayers to reasonably bear the burden; other times the property values do not increase as expected, so the tax levy is not sufficient to produce the funds necessary to repay the obligation.

C.S.S.B. 449 defines "capital appreciation bond;" states that a local government may not issue capital appreciation bonds that are secured by ad valorem taxes; and provides exceptions for refunding bonds with or without savings and tolling and transportation projects (self-supporting project bonds).

C.S.S.B. 449 amends current law relating to a prohibition on the issuance of capital appreciation bonds by local governemnts.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter B, Chapter 1201, Government Code, by adding Section 1201.0245, as follows:

Sec. 1201.0245. CAPITAL APPRECIATION BONDS BY LOCAL GOVERNMENTS PROHIBITED. (a) Defines, in this section, "capital appreciation bond."

(b) Prohibits a county, municipality, special district, school district, junior college district, or other political subdivision of the state from issuing capital appreciation bonds that are secured by ad valorem taxes.

(c) Provides that Subsection (b) does not apply to the issuance of refunding bonds under Chapter 1207 (Refunding Bonds), Government Code.

(d) Provides that Subsection (b) does not apply to the issuance of capital appreciation bonds for the purpose of financing transportation projects.

SECTION 2. Provides that the change in law made by this Act does not affect the validity of capital appreciation bonds issued before the effective date of this Act.

SECTION 3. Effective date: September 1, 2013.