

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

March 19, 2013

TO: Honorable Juan Hinojosa, Chair, Senate Committee On Intergovernmental Relations

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB449 by Hinojosa (Relating to a prohibition on the issuance of capital appreciation bonds by local governments.), **As Introduced**

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| No fiscal implication to the State is anticipated. |
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The bill would amend Chapter 1201 of the Government Code to prohibit a local governmental entity from issuing capital appreciation bonds.

According to the Texas State Soil and Water Conservation Board, no fiscal impact to the State is anticipated.

According to the Texas Education Agency (TEA), the bill would have no direct fiscal implications for the Foundation School Program or the operations of the TEA.

Local Government Impact

Based on the Texas Bond Review Board's (BRB) 2011 Local Government Annual Report, capital appreciation bonds (CABs) par amounts issued by local governments in fiscal year 2011 totaled \$466.0 million, of which cities, towns and villages issued \$7.8 million; other special districts and authorities issued \$158.2 million; water districts and authorities issued \$3.8 million; counties, and health and hospital districts issued none.

The Texas Municipal League indicated that based on the BRB's report, cities did not issue CABs very often in fiscal year 2011.

The Texas Association of Counties indicated no significant fiscal impact is anticipated.

According to the TEA, school districts would be hindered in their ability to issue advance refunding bonds for savings without the ability to issue Premium Capital Appreciation Bonds (PCABs) due to the state 'Par-to-Par' requirements. The use of PCABs can also be helpful on new money transactions when a premium needs to be generated to cover costs or capitalized interest. Because total interest costs on CABs can be higher than current interests bonds, school districts may experience savings on the interest paid on bonds if they are prohibited from issuing CABs.

Source Agencies: 592 Soil and Water Conservation Board, 701 Central Education Agency

LBB Staff: UP, KKR, TP, JBi

