BILL ANALYSIS

Senate Research Center
84R4805 JTS-D

S.B. 573
By: Campbell
Intergovernmental Relations
2/19/2015
As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Capital appreciation bonds (CABs) are 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.

S.B. 573 limits CABs by stating that the total amount of an entity's CAB's cannot exceed 25 percent of the total outstanding debt of the entity, unless it is for the financing of transportation projects.

As proposed, S.B. 573 amends current law relating to the issuance of certain capital appreciation bonds by political subdivisions.

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. ISSUANCE OF CAPITAL APPRECIATION BONDS BY LOCAL GOVERNMENTS. (a) Defines "capital appreciation bond."
>
> > (b) Prohibits the total amount of capital appreciation bonds issued by a county, municipality, special district, school district, junior college district, or other political subdivision that are secured by ad valorem taxes from exceeding 25 percent of the political subdivision's total outstanding bonded indebtedness at the time of the issuance, including the amount of principal and interest to be paid on the outstanding bonds until maturity.
> >
> > (c) Provides that Subsection (b) does not apply to the issuance of refunding bonds under Chapter 1207 (Refunding Bonds) or to capital appreciation bonds for 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, 2015.