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H.B. No. 114

A BILL TO BE ENTITLED

AN ACT

relating to the issuance of certain capital appreciation bonds by
political subdivisions.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter B, Chapter 1201, Government Code, is
amended by adding Section 1201.0245 to read as follows:

Sec. 1201.0245. CAPITAL APPRECIATION BONDS BY POLITICAL
SUBDIVISIONS. (a) In this section, "capital appreciation bond"
means a bond that accrues and compounds interest from its date of
delivery, the interest on which by its terms is payable only upon
maturity or prior redemption.

(b) A county, municipality, special district, school
district, junior college district, or other political subdivision
may not issue capital appreciation bonds that are secured by ad
valorem taxes unless:

(1) the bonds have a scheduled maturity date that is
not later than 25 years after the date of issuance;

(2) the governing body of the political subdivision
has received a written estimate of the cost of the issuance,
including:

(A) the amount of principal and interest to be
paid until maturity;

(B) the amount of fees to be paid to outside
vendors, including vendors who sell products to be financed by the

1 bond issuance;

2 (C) the amount of fees to be paid to each
3 financing team member; and

4 (D) the projected tax impact of the bonds and the
5 assumptions on which the calculation of the projected tax impact is
6 based;

7 (3) the governing body of the political subdivision
8 has determined in writing whether any personal or financial
9 relationship exists between the members of the governing body and
10 any financial advisor, bond counsel, bond underwriter, or other
11 professional associated with the bond issuance; and

12 (4) the governing body of the political subdivision
13 posts prominently on the political subdivision's Internet website
14 and enters in the minutes of the governing body:

15 (A) the total amount of the proposed bonds;

16 (B) the length of maturity of the proposed bonds;

17 (C) the projects to be financed with bond
18 proceeds;

19 (D) the intended use of bond proceeds not spent
20 after completion of the projects identified in Paragraph (C);

21 (E) the total amount of the political
22 subdivision's outstanding bonded indebtedness at the time of the
23 election, including the amount of principal and interest to be paid
24 on existing bond indebtedness until maturity;

25 (F) the total amount of the political
26 subdivision's outstanding bonded indebtedness, including the
27 amount of principal and interest to be paid until maturity; and

1 (G) the information received under Subdivision
2 (2) and determined under Subdivision (3).

3 (c) The governing body of a political subdivision that makes
4 a determination that a personal or financial relationship described
5 by Subsection (b)(3) exists shall submit the determination to the
6 Texas Ethics Commission.

7 (d) The governing body of a political subdivision shall
8 regularly update the debt information posted on the political
9 subdivision's Internet website under Subsection (b)(4)(F) to
10 ensure that the information is current and accurate.

11 (e) Capital appreciation bond proceeds may not be used to
12 purchase the following items, unless an item has an expected useful
13 life, determined based on the depreciable life of the asset under
14 the Internal Revenue Code of 1986, that exceeds the bond's maturity
15 date:

16 (1) items more regularly considered maintenance
17 items, including replacement HVAC units, upgraded plumbing, or
18 similar items; or

19 (2) transportation-related items, including buses.

20 (f) Capital appreciation bond proceeds unspent after
21 completion of the project identified as the proceeds' intended use
22 may be used only for a use identified on the political subdivision's
23 website under Subsection (b)(4)(D), unless another use is approved
24 by the voters of the political subdivision at an election held for
25 that purpose.

26 (g) The total amount of capital appreciation bonds may not
27 exceed 25 percent of the political subdivision's total outstanding

1 bonded indebtedness at the time of the issuance, including the
2 amount of principal and interest to be paid on the outstanding bonds
3 until maturity.

4 (h) Except as provided by Subsection (i), a county,
5 municipality, special district, school district, junior college
6 district, or other political subdivision may not extend the
7 maturity date of an issued capital appreciation bond, including
8 through the issuance of refunding bonds that extend the maturity
9 date.

10 (i) A political subdivision may extend the maturity date of
11 an issued capital appreciation bond only if:

12 (1) the extension of the maturity date will decrease
13 the total amount of projected principal and interest to maturity;
14 or

15 (2) the political subdivision is a school district
16 and:

17 (A) the maximum legally allowable tax rate for
18 indebtedness has been adopted; and

19 (B) the Texas Education Agency certifies in
20 writing that the solvency of the permanent school fund's bond
21 guarantee program would be threatened without the extension.

22 (j) Subsection (b) does not apply to the issuance of:

23 (1) refunding bonds under Chapter 1207; or

24 (2) capital appreciation bonds for the purpose of
25 financing transportation projects.

26 SECTION 2. The change in law made by this Act does not
27 affect the validity of capital appreciation bonds issued before the

1 effective date of this Act.

2 SECTION 3. This Act takes effect September 1, 2015.