LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 17, 2015

TO: Honorable Tan Parker, Chair, House Committee on Investments & Financial Services

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB114** by Flynn (Relating to the issuance of certain capital appreciation bonds by political subdivisions.), **As Introduced**

No fiscal implication to the State is anticipated.

The bill would amend Chapter 1201 of the Government Code to prohibit a local governmental entity from issuing capital appreciation bonds (CABs) that are secured by ad valorem taxes, but would establish certain exceptions, including refunding bonds or CABs for transportation projects, as defined by the provisions of the bill.

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 TEA.

Local Government Impact

Based on the Texas Bond Review Board's (BRB) 2014 Local Government Annual Report, capital appreciation bonds (CABs) amounts issued by local governments in fiscal year 2014 totaled $476.7 million. School Districts utilize CABs more frequently than other issuers of local debt, issuing 99% of total CABs issued in 2014.

The Texas Municipal League indicated that based on the BRB's report, cities did not issue CABs very often in fiscal year 2014. Based on the BRB's report, counties did not issue CABs very often in fiscal year 2014.

The TEA indicated that school districts could issue CABs secured by ad valorem taxes under certain conditions, including expanded reporting requirements related to the bonds. School districts could issue refunding bonds for cost savings, if the refunding bonds did not extend the original maturity date of the bonds unless the district had adopted the maximum legal tax rate for indebtedness, and the attorney general certifies that the solvency of the Permanent School Fund Bond Guarantee Program would be threatened without the extension. Presumably, school districts that have debt service rates of $0.50 per $100 of assessed valuation at the time it issues refunding bonds would be eligible to use CABs. School districts may incur administrative costs related to the notice requirements of the bill. Costs are not expected to be significant.

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

LBB Staff: UP, CL, SD, EK, KKR, JBi