LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 21, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB114** by Flynn (relating to the issuance of certain capital appreciation bonds by political subdivisions.), **Committee Report 2nd House, Substituted**

No significant 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. The bill would require a political subdivision that makes a determination that a personal or financial relationship exists, as prescribed in the provisions of the bill, to submit the determination to the Texas Ethics Commission. The bill would require a political subdivision to update and maintain the debt information posted on the political subdivision's website. The bill would provide parameters for the proceeds of CABs and how the proceeds may be used. The bill would permit the extension of the maturity date of a CAB if certain circumstances exist.

The bill would require the Texas Education Agency to certify the solvency of the Permanent School Fund if a school district extended the maturity of a CAB because the district had reached the maximum legally allowable tax rate. TEA indicates that it could absorb the costs associated with the bill within its current resources.

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.

Maturity dates of CABs would be limited to 20 years and could not be extended with refunding issues unless the maximum legally allowable tax rate for indebtedness had been reached and the TEA certified that the PSF BGP would be in jeopardy without extending the maturity date. CABs would be limited to 25 percent of total indebtedness for the school district at the time of issuance. Excess CAB amounts could not be used for other projects unless the purpose was posted on the district website or another election was held.

School districts would have limits and reporting requirements related to the issuance of CABs. School districts may incur administrative costs related to the notice requirements of the bill. Costs are not expected to be significant.

Source Agencies: 356 Texas Ethics Commission, 701 Central Education Agency, 592 Soil and Water Conservation Board

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