FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 3, 2015

TO: Honorable Eddie Lucio Jr., Chair, Senate Committee on Intergovernmental Relations

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB573** by Campbell (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 the Government Code to limit the amount of capital appreciation bonds issued by political subdivisions that are secured by ad valorem taxes to not exceed 25% of the political subdivision's total outstanding bonded indebtedness at the time of issuance. The bill would not apply to refunding bonds under Chapter 1207 or capital appreciation bonds for financing transportation projects.

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.

School districts would not be able to issue CABs secured by ad valorem taxes that exceeded 25 percent of their bonded indebtedness at the time of issue; however, they would be able to issue refunding bonds for cost savings or transportation projects. 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 limited from issuing CABs, with the exceptions of refunding bonds for cost savings or transportation projects. School districts that have interest and sinking (I&S) rates at or near $0.50 may experience challenges issuing debt.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

LBB Staff: UP, KVe, SD, EK, JBi, ED