HOUSE RESEARCH ORGANIZATION bill analysis | 5/2/95 | HB 2839 Stiles (CSHB 2839 by Yost)

SUBJECT: Short-term borrowing by drainage districts

COMMITTEE: Natural Resources — committee substitute recommended

VOTE: 8 ayes — Combs, Corte, King, R. Lewis, Puente, Stiles, Walker, Yost

0 nays

1 absent — Counts

WITNESSES: None

BACKGROUND: Drainage districts, governed by Water Code Chapter 56, are one of the state's 13 types of water districts. Located primarily along the Gulf Coast, drainage districts are created for flood control, drainage of low-lying areas and reclamation of land.

DIGEST: CSHB 2839 would authorize drainage districts to borrow money by issuing one-year tax anticipation notes and bond anticipation notes. The money could be used to pay back bonds for which tax money had been pledged or to meet any other needs. CSHB 2839 would allow a drainage district to issue the notes without giving notice or advertising the issuance of the notes.

A drainage district could issue a tax anticipation note (TAN) for any need that the district had been authorized to levy taxes for and secured with tax revenue expected the following year. The district could negotiate with the lender and pledge anticipated incoming tax revenue.

A drainage district could also issue a bond anticipation note (BAN) to pay off an outstanding bond or to refund another BAN. The district could negotiate with the lender or third party the terms of repayment but would have to use the proceeds to pay off the outstanding note.

Any district that intended to issue TANs or BANs would first have to have an application for approval of bonds on file with the Texas Natural Resource Conservation Commission (TNRCC).

The bill would take effect immediately if approved by two-thirds of the membership of each house.

SUPPORTERS SAY:

Most other water districts, such as municipal utility districts (MUDs), can borrow money through notes for legitimate purposes such as construction, maintenance or repairs. Yet drainage districts lack specific statutory authorization to borrow through tax anticipation notes and bond anticipation notes, a method of finance that allows taxing authorities to issue notes to be repaid with anticipated bond revenue or tax revenue.

The process of issuing bonds can be expensive and lengthy. CSHB 2839 would allow districts to borrow money for a short-term need if they have cash flow problems and would give districts more flexibility to manage their money. The provisions allowing districts to choose their own lenders, without notice and advertising requirements, would offer needed flexibility. The notes would be short-term only and would have to mature no later than one year after they were issued.

OPPONENTS SAY:

No apparent opposition

NOTES:

The original version of the bill would have authorized districts borrow up to $250,000 by issuing notes and allowed 10 years to pay off the notes.