

SUBJECT: Increasing limit on general obligation bonds issued for water projects

COMMITTEE: Natural Resources — favorable, without amendment

VOTE: 10 ayes — Ritter, Callegari, Corte, Creighton, Frost, T. King, Lucio, Martinez Fischer, D. Miller, Smithee

0 nays

1 absent — Laubenberg

WITNESSES: For — None

Against — None

On — Ken Kramer, Lone Star Chapter, Sierra Club; (*Registered, but did not testify: J. Kevin Ward, Texas Water Development Board*)

BACKGROUND: Art. 3, sec. 49-d-8 of the Texas Constitution lays out the Texas Water Development Fund II, funded by state general-obligation bonds authorized by a series of constitution amendments. Money in this fund is to be used for the purposes of water supply, water-quality corporations, the state participation program, and the Economically Distressed Areas Program.

DIGEST: HJR 128 would amend the Constitution by adding sec. 49-d-11, authorizing the Texas Water Development Board (TWDB), in addition to other bonds authorized, to issue and incur at its discretion additional general obligation bonds in a principal amount not to exceed \$6 billion at any one time outstanding for one or more accounts of the Texas Water Development Fund II.

The limitation in Art. 3, sec. 49-d-8 that TWDB may not issue bonds in excess of the aggregate principal amount of previously authorized bonds would not apply to bonds authorized by this amendment. Limitations on the percentage of state participation in any single project would not apply to a project funded with the proceeds of bonds issued under this amendment.

The proposal would be presented to voters at election on Tuesday, November 3, 2009. The ballot proposal would read: "The constitutional amendment providing for the issuance of additional general obligation bonds by the Texas Water Development Board in an amount not to exceed \$6 billion at any time outstanding."

SUPPORTERS SAY:

HJR 128 would propose amending the Constitution to authorize TWDB to issue additional general obligation bonds so long as there was no more than \$6 billion in aggregate debt issued at any one time. If approved by voters, these low-interest bonds would be used to back more loans to communities to finance projects for water supply, water infrastructure, water quality, and flood control. The bonds also would be used for the state participation program and to match federal dollars through two revolving loan funds — the clean water state revolving fund and the drinking water revolving fund. HJR 128 would ensure that TWDB could administer its various assistance programs, fund the state's water plan, and continue to assist local and regional efforts to implement projects to address the state's water and wastewater needs.

Although TWDB has roughly \$1.9 billion of remaining bond authority for the fund, it is projected fully to be utilized by 2011 based on the projected debt issuance for the state water plan and ongoing fund program debt. HJR 128 would establish a \$6 billion limit for total outstanding debt that would provide a perpetual source for water funding and prevent TWDB from having to seek incremental bond authority every few years, potentially delaying water projects and limiting TWDB's ability to respond to drought situations. In order to meet the demands of the water plan in addition to supporting the various water projects across the state by local governments, a dedicated source of funding would be a wise and prudent step.

There is no shortage of need for water projects in Texas. The 2007 Water Plan identified roughly 4,500 water management strategies and projects needed to bring an additional 9 million acre-feet per year of water supply to the state. Regional planning groups created by SB 1 by Brown, enacted in 1997, have estimated that the total capital costs to design, construct, or implement the plans would be about \$30.7 billion. Some studies have projected that Texas will need \$180 billion for water and sewer projects over the next 50 years. If increased demands for water supply are not met, it could cost the state approximately \$9.1 billion per year by 2010 and \$98.4 billion by 2060.

Selling general-obligation bonds is the most cost-effective way to raise the large sums needed to pay for expensive water projects. These projects promote economic development and better living conditions throughout the state. The state uses its superior credit rating to borrow money, which, in turn, is lent to local governments to finance water projects at a lower interest rate than they would have to pay on their own bonds. The local governments then pay back the loans, which cover the cost of debt service on the state bonds. The bonds are self-supporting, since the money the state lends is returned with interest. This program is enormously helpful to local communities and costs the state nothing in general revenue.

This authority would not impact the state's constitutional debt limit since Fund II programs are considered self-supporting. Only bonds authorized and appropriated by the Legislature as non-self supporting would affect the debt limit. Additionally, the Bond Review Board would retain its authority to review any unissued bond authority of TWDB.

**OPPONENTS
SAY:**

Although there are safeguards for the issuance of bonds associated with HJR 128, the Legislature and the voters should retain their oversight authority to approve the issuance of state bonds periodically to determine the need for this level of state borrowing.

While water conservation projects currently are given priority funding by the TWDB, there should be dedicated funding for water conservation as part of the state's water plan. As roughly a quarter of the state's water needs are projected to be addressed through conservation, the state should ensure that these projects receive adequate and dedicated funding.

NOTES:

The companion joint resolution, SJR 50 by Averitt, was adopted by 30-1 (Ogden) by the Senate on April 30 and has been referred to the House Natural Resources Committee.

The fiscal note estimates no fiscal impact to the state other than approximately \$91,000 to publish the resolution.