

BILL ANALYSIS

Senate Research Center
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S.B. 103
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

A capital appreciation bond (CAB) is a type of municipal bond that delays principal and interest payments for 25 to 40 years. There are no installment payments to bring down the debt, so the interest compounds and causes the balance to balloon. This "buy now, pay later" approach can result in paying up to \$10 for every \$1 borrowed. The entities that issue these bonds falsely assume that, since the number of taxpayers is increasing, the anticipated larger tax base in the future will be able to repay the loan. However, often the tax base does not expand as was originally anticipated, and at other times the property values do not increase as expected, so the tax levy is not sufficient to produce the funds necessary to repay the obligation.

In recent years, Texas school districts and local government entities have increasingly turned to CABs because of growing populations, which demand new facilities and capital development that far outpace local wealth and resources. Immediate development is needed, but there are limited financing options.

CABS are especially used by school districts to enable them to remain under the 50-cent debt ceiling that limits the property taxes assessed for debt service cost to 50 cents per \$100 of assessed value. CAB issuances by school districts are general obligation (tax) debt repaid with ad valorem taxes.

From 2007 to 2011, Texas local government entities issued over 700 CABs, receiving \$2.3 billion in immediate funding, but committing future repayments of over \$20 billion. Local governments in Texas have more than doubled their debt load in the past decade.

S.B. 103 would prohibit school districts and all local government entities from issuing CABs, with two exceptions: (1) the issuance of refunding bonds; and (2) the issuance of CABs for the purpose of financing transportation projects.

As proposed, S.B. 103 amends current law relating to a prohibition on the issuance of certain capital appreciation bonds by local governments.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter B, Chapter 1201, Government Code, by adding Section 1201.0245, as follows:

Sec. 1201.0245. CAPITAL APPRECIATION BONDS BY LOCAL GOVERNMENTS PROHIBITED. (a) Defines "capital appreciation bond."

(b) Prohibits a county, municipality, special district, school district, junior college district, or other political subdivision from issuing capital appreciation bonds that are secured by ad valorem taxes.

(c) Provides that Subsection (b) does not apply to the issuance of refunding bonds under Chapter 1207 (Refunding Bonds).

(d) Provides that Subsection (b) does not apply to the issuance of capital appreciation bonds for the purpose of financing transportation projects.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: September 1, 2015.