

SUBJECT: Combining hospital property tax and other revenues to repay bonds

COMMITTEE: Local Government Ways and Means — favorable, without amendment

VOTE: 6 ayes — Hill, Hegar, Laubenberg, McReynolds, Mowery, Quintanilla
0 nays
1 absent — Puente

SENATE VOTE: On final passage, March 4 — 29-0-1 (West present, not voting)

WITNESSES: For — Donald Lee, Texas Conference of Urban Counties
Against — None

BACKGROUND: In November 1954, Texas voters approved Constitution, Art. 9, sec. 4 that authorized the creation of county-wide hospital districts to furnish medical and hospital services for the indigent in counties with populations greater than 190,000 and Galveston County. Hospital districts, which assumed the authority over hospitals once held by cities and counties, were authorized to levy a property tax of 75 cents per \$100 valuation subject to the approval of county voters.

Health and Safety Code, sec. 281.101 permits the county commissioners court in the name of the hospital district to issue and sell bonds to acquire, construct, equip, or enlarge the hospital or hospital system if those general obligation bonds are approved by county voters. The hospital district pledges its full faith and credit, backed by the property tax, to repay the bonds.

Health and Safety code, Chapter 223 permits the issue of revenue bonds, backed by the pledge of hospital revenues or the revenue provided by a nonprofit organization, if those bonds are approved by the voters. Sec. 223.025 specifically states that the hospital district or county cannot pledge any source, other than hospital revenues, to the repayment of these bonds, and cannot pledge the faith, credit, or taxing power of the state or any other political subdivision for the repayment of revenue bonds.

Chapter 284 governs the procedure for calling an election and issuing revenue bonds for hospital districts in counties with population of more than 200,000.

Tax Code, chapter 26 provides that the amount of debt service required to repay the principal and interest on bonds, warrants, certificates of obligation or other evidence of indebtedness would be subtracted from the amount of the total tax levy to determine the effective maintenance and operations rate subject to possible rollback by voters.

DIGEST:

SB 200 would amend Health and Safety Code, Chapter 281, and would permit the pledging of both hospital property tax and other revenues to repay bonds and other short-term and long-term obligations, if permitted by county voters. The alternative method of financing would be permitted only to hospital districts created under Art. 9, sec. 4 of the Constitution and that already have held an election to levy and assess a property tax not to exceed 75 cents per \$100 of assessed valuation.

Other provisions would allow the portion of property tax pledged to the retirement of these bonds to be included in the debt service portion of the property tax rate not included in the rollback provision of Tax Code, Chapter 26. SB 200 would be an alternative to the existing provisions of Health and Safety Code, Chapter 284 and would be cumulative of and in addition to any powers granted to hospital districts under this chapter or any other law.

The county commissioners would be authorized to order an election on the alternative financing procedure if the hospital district's managers found that capital funds were needed to acquire, construct, equip and improve the hospital system and that the alternative method of financing would be the best available financing method.

Any election order would have to include a statement of the maximum amount of the proposed bond issue and a general description of the proposed financing and improvement plans, including the expected use of the improvements, estimated costs of these projects, and any other information the hospital district managers believed would be appropriate for voters to know.

The ballot would allow for voters to vote for or against the proposition that “Authorizing the (insert name of district) to pledge the tax revenues from its hospital system and from the ad valorem tax that was previously approved by the voters to the payment of combination tax and revenue bonds and other obligations that have been and will be issued and executed for the capital purposes of the hospital system.”

The alternative financing method would be permitted if approved by a majority of the county voters.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

**SUPPORTERS
SAY:**

SB 200 would permit hospital districts to take advantage of modern financing techniques and ultimately save county taxpayers money in expanding and upgrading hospital facilities. If hospital districts could pledge property tax collections, they also could qualify for improved ratings by bond rating companies and pay lower interest rates on these bonds. For example, the Dallas County Hospital District could improve its bond rating from BBB+ to AAA, and realize savings of \$15 million on a \$300 million bond issue and up to \$50 million on a \$1 billion issue.

Parkland Hospital in Dallas needs the flexibility to improve and modernize its aging physical plant, which could cost up to \$1 billion. The delivery room is designed to handle only 6,000 births per year, but more than 16,000 babies are delivered there annually. Cutbacks in state appropriations for Medicaid and other health programs only will increase the demands for medical services at county hospital districts. This permissive bill would allow the use of this alternative financing method for other large hospital districts in Harris, Tarrant, Bexar, Lubbock, El Paso, and Nueces counties.

SB 200 effectively would provide for local control by requiring a countywide election before using this method of alternative method of financing. Specific provisions in calling the election would allow no gimmicks and would ensure that all decisions were made in the light of day.

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**OPPONENTS
SAY:**

Current law allows for the pledging of property tax revenues to finance capital improvement projects. Mixing hospital revenues and property taxes to fund bonds could pose potential risks to the hospital districts and county taxpayers. Property taxes are already too high in urban counties. Bills such as SB 200 would shift the responsibility for higher taxes from the Legislature to local entities such as hospital districts and counties even as the same Texans taxpayers are forced to pay the higher costs for government services.

NOTES:

On March 20, the Local Government Ways and Means Committee also held a public hearing on HB 417 by Hodge, the identical companion bill. HB 417 was left pending in committee in lieu of SB 200.