

BILL ANALYSIS

Senate Research Center
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S.B. 295
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Capital appreciation bonds (CABs) are a type of municipal bond that delay principal and interest payments for 25-40 years. There are no installment payments to bring down the debt, so compound interest keeps piling on, causing the balance to balloon. In recent years, Texas school districts and local government entities have increasingly turned to CABs because our growing populations are demanding new facilities and capital development that far outpaces our local wealth and resources.

Last session, H.B. 114 (Flynn/Hinojosa) was passed to restrict the issuance of CABs by political subdivisions. The bill prohibits a political subdivision from issuing CABs that are secured by property taxes unless certain conditions are met, including conditions relating to the length of maturity of the bonds, receipt of a cost estimate, personal or financial relationships, and transparency.

The bill exempted refunding bonds and CABs issued for transportation project financing from such restrictions. However, a drafting error occurred which changed the legislative intent with regard to this exemption. As currently drafted, the exemption applies only to Section 1201.0245(b) of the bill, while it should have applied to the entire Section 1201.0245, Government Code.

S.B. 295 cleans up this language and states that refunding bonds and CABs issued for transportation project financing are exempted from the restrictions in all of Section 1201.0245.

As proposed, S.B. 295 amends current law relating to the issuance of certain capital appreciation bonds by political subdivisions.

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 Section 1201.0245(j), Government Code, to provide that this section, rather than Subsection (b), does not apply to the issuance of refunding bonds or capital appreciation bonds (CABs) for the purpose of financing transportation projects.

SECTION 2. Provides that the change in law made by this Act does not apply to a refunding bond or a CAB issued before the effective date of this Act.

SECTION 3. Effective date: September 1, 2017.