HOUSE RESEARCH ORGANIZATION bill analysis | 5/9/97 | HB 2798 Marchant (CSHB 2798 by Marchant)

SUBJECT: Category allocation changes for state private activity bond issues

COMMITTEE: Financial Institutions — committee substitute recommended

VOTE: 7 ayes — Marchant, Gutierrez, Ehrhardt, Elkins, Giddings, Patterson, Solomons

0 nays

2 absent — Grusendorf, Smith

WITNESSES: (*On original version*):
For — Jefferey Ayers, Abilene Higher Education Authority; Katherine Bryan, North Texas Higher Education Authority, Inc.; Jerry Dunn; Ralph Rushing; Guy Yandel, Texas Association of Local Housing Finance Authorities, Robert F. Ziemski, South Texas Higher Education Authority

Against — Seth Kursman, Champion International Corporation

On — Jefferey D. Clark and Lorie Mason, Texas Department of Housing and Community Affairs; John Henneberger, Texas Low Income Housing Formation Service; Jeff Leuschel; Alan H. Raynor, Jeanne Talerico, Texas Bond Review Board

BACKGROUND: Federal law limits the amount of private activity, tax-exempt bond debt that each state can issue. The state ceiling on such bonds is calculated at $50 per capita each year, and the 1997 ceiling in Texas is $956.4 million. Each state determines how to allocate its share of private activity bonds. The Texas private activity bond allocation program is administered by the Texas Bond Review Board.

The Bond Review Board conducts a lottery to see what private activity issues will be made in any given year as there have always been more applications received than allocations available under the state cap.

The types of issues that can be made are dictated by federal law. Currently, the state allocations are: 28 percent for qualified mortgage bonds (i.e., single-family housing for first time moderate income home buyers); 17.5

percent for state-voted issues (i.e., Texas Higher Education Coordinating Board student loan issues and Veterans Land Board loan for veterans); 7.5 percent for qualified small issue bonds and tax-exempt enterprise zone facility bonds (industrial development bonds for manufacturing); 5 percent for multi-family housing; and 42 percent for all other qualified projects (i.e., locally-issued student loans and pollution control and hazardous and solid waste).

DIGEST:

CSHB 2798 would make a number of changes to the Texas Private Activity Bond (PAB) Allocation Program including changes in the allocations and reservations under the the state cap. The bill would make the following allocation changes in the program:

- increasing the reservation for qualified mortgage bonds, from 28 percent to 31.5 percent;
- decreasing the reservation for state-voted issues, from 17.5 percent to 13 percent;
- increasing the cap for multi-family housing issues, from 5 percent to 7.5 percent;
- adding a new issues cap for qualified student loan bonds, at 11 percent, and decreasing the issues cap for all other eligible allocations, from 42 percent to 29.5 percent.

If the applications for state-voted issues received for any given year totaled more than 13 percent of the total for that year, then the ceiling for state-voted issues would be increased up, to a ceiling of 17.5 percent, and the incremental amount of the excess would be taken from other issuer categories.

The bill would change the application period from January 2-10 to October 10-20 of the preceding year. The bill would allow 120 days to complete a bond issue, except single family housing issues would have 180 days. It would extend the time period from 120 to 150 days before an issuer could resubmit an application for the same project.

The bill would also change the priority system for single family housing issues and would require the priority to correspond to the last date that bond proceeds were made available to any part of the population, rather than the last date the issuer closed a bond issue.

The bill would also define "project" as any eligible facility proposed to be financed by a bond issuance. When "projects" were qualified mortgage bonds or student loan bonds, the project or purpose would be to provide financial assistance to qualifying mortgagors or students within all or any portion of the jurisdiction of the issuer, which would be determined on the application for reservation delivered to the board. “Qualified student bond” would have the same meaning as in the Internal Revenue Code.

The bill also would place a $75 million limit on any one project issued by the Texas Higher Education Coordinating Board; $35 million for any one project by the seven local higher education authorities; and a limit of the lesser of $15 million or 15 percent of the amount set aside for multi-family housing issues.

The bill would take effect January 1, 1998.

SUPPORTERS SAY:

CSHB 2798 would change the ceilings on various categories of tax-exempt private activity bonds and create a new category for qualified student loan issues to better reflect the changing demands for private bond issues in Texas. In addition, the bill would make a number of administrative changes, such as moving the application due dates from January to October of the previous year, to make the private activity bond program function more effectively and efficiently.

The 3.5 percent ceiling increase for qualified mortgage bonds reflects the need for more mortgage money for low and middle class homes. The state-voted category would be decreased by 4.5 percent, to 13 percent, to reflect the past needs in that category, but if the needs should increase in the future, then the bill would allow state-voted issues, which include student loan bonds issued by the Texas Higher Education Coordinating Board, to reach their current level of 17.5 percent.

The bill would acknowledge the state priority to provide higher education loans for its citizens by creating a separate category and guaranteeing it an 11 percent share of the private activity bond pie. Currently, local higher education authorities that issue bonds for student loans are lumped in the "all other issues" category. Although local student higher education authorities have done well in the lottery drawing for the "other" category thus far, they may not be so lucky in the future. This change would assure that a certain percentage of state private activity bonds are issued to support student loans.

Although lowering the "other" category from 42 percent to 29.5 percent would reduce the potential issues available for other qualified purposes by 12.5 percent, it would not have an adverse effect on pollution control projects. Large corporations, such as Dow Chemical, Exxon and Champion International, issue state private activity bonds under this category for various pollution control projects and would continue to have an ample piece of the pie.

OPPONENTS SAY: No apparent opposition.

NOTES: The original version of the bill would have set the ceiling for state-voted issues at 15.5 percent, the ceiling for multi-family issues at 7 percent; the ceiling for qualified student loans at 15 percent and the ceiling for all other issues at 27 percent.

The companion bill, SB 1902 by Carona, was referred to the Senate Finance Committee.