HOUSE RESEARCH ORGANIZATION bill analysis | 5/21/97 | SB 472
Cain, Carona, Shapiro, West
(Marchant)

SUBJECT: Allowing certain investments for the Dallas Area Rapid Transit Authority

COMMITTEE: Pensions and Investments— favorable, without amendment

VOTE: 7 ayes — Telford, Woolley, Berlanga, Goolsby, Serna, Tillery, Williams

0 nays

2 absent — Rangel, Sadler

SENATE VOTE: On final passage, Local and Uncontested Calendar, March 13 — 31-0

WITNESSES: For — Ray Hutchison, Chris Poinsette, Kathy Ingle, Dallas Area Rapid Transit Authority (DART)

Against — None

BACKGROUND: The Public Funds Investment Act to allows governmental entities to invest in obligations of or guaranteed by governmental entities, including the federal government, certificates of deposit and share certificates, repurchase agreements, bankers acceptances, commercial paper, mutual funds, guaranteed investment contracts, and investment pools. It prohibits funds from being invested in four types of "derivative" securities.

DIGEST: SB 472 would allow DART to make investments authorized under the Public Funds Investment Act and allow DART to enter into a particular type of financial arrangement know as a Defeased Tax Lease (DTL), described in the bill as contracts, agreements, notes, security agreements, conveyances, bills of sale, deeds, leases as lessee or lessor, and currency hedges, swap transactions, or agreements relating to foreign and domestic currency to provide tax benefits to another party that are available with respect to property laws of a foreign country or to encourage private investment with a transportation authority in the United States.

The bill would take immediate effect if finally approved by a two thirds vote of the membership of each house.

SUPPORTERS SAY:

The bill would allow DART to use a financing tool, known as Defeased Tax Leases (DTL), to exchange tax benefits to private entities in exchange for a lower price on buses and rail cars. DTLs are used by many transit authorities in the United States and allow a transit authority to transfer federal or foreign tax credits, such as depreciation of an asset owned by the transit authority, that the transit authority cannot use because of its public-entity status, to a private equity investor. DART financial agreements are limited to five-year periods, and this bill would allow DART to take advantage of DTLs, which generally range from 12 to 30 years.

These transactions take the form of long-term lease/leaseback or sale/leaseback, and obligations under such transactions would be prepaid or "defeased" before the transaction occurred. The tax benefit from a DTL would be a cash payment that the authority would receive upon closing the transactions. The estimated savings to DART for using DTLs would be between $30 and $50 million over five years.

OPPONENTS SAY:

No apparent opposition.