

SUBJECT: Additional \$2 billion in general-obligation bonds for water projects

COMMITTEE: Financial Institutions — committee substitute recommended

VOTE: 8 ayes — Averitt, Solomons, Denny, Grusendorf, Hopson, Menendez, Pitts, Wise
0 nays
1 absent — Marchant

WITNESSES: For — None
Against — None
On — Suzanne Schwartz, J. Kevin Ward, Texas Water Development Board

BACKGROUND: Art. 3, sec. 49-d-8 of the Texas Constitution authorizes the Texas Water Development Fund II, funded by state general-obligation bonds authorized by a series of constitutional amendments. Money in this fund is to be used for the purposes of water supply, water-quality enhancement, flood control, nonprofit water-supply corporations, the state participation program, and the Economically Distressed Areas Program.

DIGEST: CSHJR 81 would amend the Constitution by adding sec. 49-d-9, authorizing the Texas Water Development Board (TWDB) to issue up to \$2 billion in additional general-obligation bonds for one or more accounts of the Texas Water Development Fund II.

The limitation in Art. 3, sec. 49-d-8 that TWDB may not issue bonds in excess of the aggregate principal amount of previously authorized bonds would not apply to bonds authorized by this amendment. Limitations on the percentage of state participation in any single project would not apply to a project funded with the proceeds of bonds issued under this amendment.

The proposal would be presented to Texas voters at an election on November 6, 2001. The ballot proposal would read: “The constitutional

amendment providing for the issuance of additional general obligation bonds by the Texas Water Development Board in an amount not to exceed \$2 billion.”

**SUPPORTERS
SAY:**

CSHJR 81 would propose amending the Constitution to authorize TWDB to issue up to \$2 billion in additional general-obligation bonds. If approved by voters, these low-interest bonds would be used to back more loans to communities to finance projects for water supply, water quality, and flood control, as well as for the state participation program.

Although the board has not yet issued all of the water bonds now authorized, it soon will need additional bond authority. The board has about \$490 million remaining in its bond authorization. It has issued almost \$1 billion in bonds since 1992, and nearly two-thirds of that amount has been in the past five years, largely in response to Texas’ rapid population growth. The remaining authorization is projected to be depleted during fiscal 2004-05. Waiting until the next Legislature to seek voter approval for additional authorization would put the board in a precarious situation. If Texas voters, in response to an economic downturn or other factors, did not approve the authorization, the board could not issue any additional bonds to finance projects to help meet Texas’ future water needs.

An additional authorization of \$2 billion would be relatively small in comparison to the state’s total water needs. The regional planning groups created by SB 1, enacted in 1997, have identified a need for \$17 billion for water-supply projects alone, not counting funds needed for treatment and storage. Some studies have projected that Texas will need \$180 billion worth of water and sewer projects over the next 50 years.

Selling general-obligation bonds is the most cost-effective way to raise the large sums needed to pay for expensive water projects that promote economic development and better living conditions throughout the state. The state uses its superior credit rating to borrow money, which, in turn, is lent to local governments to finance water projects at a lower interest rate than they would have to pay on their own bonds. The local governments then pay back the loans, which cover the cost of debt service on the state bonds. The bonds are self-supporting, since the money the state lends is returned with interest.

This program is enormously helpful to local communities and costs the state nothing in general revenue.

OPPONENTS
SAY:

Authorizing TWDB to issue additional bonds would be premature. The board still has \$490 million remaining in its bond authorization, an amount that should be sufficient through the next biennium. Without an urgent need for additional authorization, the board should wait until the 78th Legislature to ask the voters for the authority to issue more bonds.

CSHJR 81 is predicated on the assumption that all projects proposed by local communities and the SB 1 regional planning groups are needed. Many of these projects have not been through a rigorous analysis of their costs and benefits. Many projects also may present potential environmental problems that should be studied further before authorizing additional bonds.

NOTES:

The committee substitute differs from the filed version by exempting projects funded by bond proceeds issued under the proposed amendment from a limitation on the percentage of state participation in any single project.

The fiscal note estimates no fiscal impact to the state other than the \$80,000 cost of publishing the resolution.