

SUBJECT: Municipal use of public securities instead of certificates of obligation

COMMITTEE: Urban Affairs — committee substitute recommended

VOTE: 5 ayes — Talton, Menendez, Edwards, Hunter, Wong
0 nays
2 absent — Van Arsdale, Bailey

WITNESSES: For — William Chapman, City of El Paso
Against — None

BACKGROUND: Under Government Code, sec. 1371.051, an authorized governing body can issue a public security to refund an obligation issued in connection with an eligible project, including public works, highways, bridges, tourism-related public improvements, venue projects, and other approved projects. Under Local Government Code, sec. 271.045, a city or county may issue certificates of obligation to pay for the construction of a public work, purchase of materials, or payment of contractual obligations.

DIGEST: CSHB 3551 would include projects for which certificates of obligation may be issued among projects for which a governing body could issue a public security. The bill would take effect September 1, 2003.

SUPPORTERS SAY: CSHB 3551 would enable a city or county to issue short-term debt instruments that offer more flexibility to pay for administrative and other obligations. Because these short-term public securities must be paid back within a few months and would be issued only to an entity with a strong credit rating, the interest rate on the debt would be much lower than on certificates of obligation. Allowing a city or county to pay for small, near-term obligations with low-interest securities would improve financial management in local government and would save Texas taxpayers money.

Public securities already are authorized for general obligation bonds. CSHB 3551 simply would allow their issuance for certificates of obligation. By

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allowing cities and counties to borrow smaller amounts for shorter periods of time, CSHB 3551 would help cities avoid paying interest on large sums of borrowed funds that were waiting to be used.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

As filed, HB 3551 would have allowed a municipality to use “commercial paper” in lieu of certificates of obligation when use of commercial paper would yield an economic benefit for the municipality.