HOUSE RESEARCH ORGANIZATION bill analysis — 5/22/2007 — SJR 64 Carona (Krusee)

SUBJECT: Authorizing $5 billion in general obligation bonds for transportation

COMMITTEE: Transportation — favorable, without amendment

VOTE: 7 ayes — Krusee, Phillips, Harper-Brown, Harless, Hill, Macias, Murphy

0 nays

2 absent — Deshotel, Haggerty

SENATE VOTE: On final passage, May 1 — 31-0

WITNESSES: No public hearing.

BACKGROUND: Art. 3, sec. 49 of the Texas Constitution prohibits state debt, but voters have amended the article numerous times to authorize debt in the form of general obligation bonds. Repayment of debt from these bonds is guaranteed by the state, and payments are made from the first money coming into the treasury each year.

DIGEST: SJR 64 would add Texas Constitution, art. 3, sec. 49-p to allow the Legislature to authorize the Texas Transportation Commission (TTC) or its successor to issue state general obligation bonds in a total amount no greater than $5 billion and enter into related credit agreements. TTC would prescribe terms, denominations, and installments of the execution of the bonds. A portion of the proceeds from the sale of the bonds and a portion of interest earned on the bonds could be used to pay:

- the costs of administering projects authorized under this section;
- the cost or expense of the issuance of the bonds; and
- all or part of a payment owed under a credit agreement.

The bonds authorized under this section would constitute a general obligation of the state, which would be required to pay the principal of and interest on the bonds that matured or became due during the fiscal year, including an amount necessary to make payments under a related credit agreement. Bonds would become incontestable and general obligations under the Constitution once approved by the attorney general, registered by the comptroller, and delivered to the purchasers.

The proposal would be presented to the voters at an election on Tuesday, November 6, 2007. The ballot proposal would read: "The constitutional amendment providing for the issuance of general obligation bonds by the Texas Transportation Commission in an amount not to exceed $5 billion to provide funding for highway improvement projects."

SUPPORTERS SAY:

SJR 64 would help the state finance transportation projects over the next biennium. The state has an funding gap between transportation needs and available funding of at least $77 billion. This additional funding tool would be especially necessary in the event a two-year moratorium is placed on certain new toll projects.

The Texas Department of Transportation (TxDOT) has been moving in a new direction since the approval of Proposition 15 in 2001, when the state's longstanding "pay-as-you-go" policy for transportation funding was modified to allow transportation officials to borrow money to construct new roads instead of waiting to build until funding was appropriated. Since 2003, with the approval of Proposition 14, TxDOT has been able to issue up to $1 billion annually in bonds backed by the State Highway Fund (Fund 6).

SJR 64 would provide a new source of revenue on which the state could pledge bonds. The Constitution mandates that state-supported debt cannot exceed 5 percent of uncommitted general revenue, and the state is currently below 2 percent, with roughly $21 billion available for general obligation bonds. These bonds would not have a significant impact on the state's fiscal standing because it has a low state debt burden as compared with other states. Although the state has dedicated transportation funding sources, bonds issued from general revenue would likely have a lower interest rate because the revenue stream is more consistent than the Fund 6 revenue stream. Additionally, transportation projects affect many other sectors and have a statewide benefit to the economy and improving statewide infrastructure. Other states, as well as local governments, use bonding authority backed by general funds for transportation projects under this same rationale.

Rapid population growth has led to more vehicle-miles traveled, greater traffic congestion, clogged border crossings, deficient rural roads, and many unsafe bridges. Demand has outstripped capacity while spending has lagged. Texas never will catch up with demand if it does not increase its ability to fund projects through usage of bonding authority. Borrowing against future revenue would speed up highway projects, thus alleviating traffic congestion, enhancing productivity, improving safety, and reducing opportunity costs, including forgone economic and social gains, due to lack of transportation infrastructure. Improving mobility sooner rather than later would aid economic development and job creation.

The state also has been relying on toll road contracts that would allow either private enterprise or state or local tolling authorities to build roads. The public model allows bonding backed by expected toll revenue. The private model allows businesses to enter into agreement with the state and make up-front payments in exchange for expected toll revenue. If SB 792 were to become law, this latter option would not be available for the next two years. SJR 64 would help fill the void left by a reduction in available options for funding for highway projects.

OPPONENTS SAY:

Short-term borrowing would require appropriations the state cannot afford to spend on interest, however low the rates. Borrowing would increase the state's costs in terms of forgone interest earned on cash balances and interest charges for new borrowing. Texas has had a longstanding policy of funding transportation projects through dedicated funds and minimizing obligations of general revenue for debt service. Trusting an agency such as TxDOT that has not been forthright with the Legislature or the public regarding its expenditures and budgeting with even more money outside of the traditional appropriations process would be irresponsible.

Borrowing money for construction increases costs and passes them along to future taxpayers and legislatures. Texas should continue to pay for the amount of highway construction it can afford, rather than encumber scant resources and drive up the cost of already expensive projects. Adding even more debt would increase the amount of money needed for debt financing, which could limit the state's ability to meet unforeseen needs.

Transportation projects should be funded through Fund 6 and not general revenue. It would not be in the state's best interest to tie up money that could be used to certify the budget or for other urgent state needs on debt service for bonds to build highways.

OTHER OPPONENTS SAY:

Rather than using strained resources to incur more debt, the state should put more money into Fund 6 by raising gas tax rates, vehicle registration fees, or both, or by dedicating other revenue streams to Fund 6, such as motor-vehicle sales taxes or vehicle inspection fees.

NOTES:

SB 1929 by Corona, the enabling legislation for SJR 64, which would make the necessary statutory changes in the Government Code to implement the bill, was reported favorably as substituted by the Senate Transportation and Homeland Security Committee on May 1.