

**SUBJECT:** Exempting certain bonds from capital appreciation bond regulations

**COMMITTEE:** Investments and Financial Services — favorable, without amendment

**VOTE:** 6 ayes — Parker, Stephenson, Burrows, Dean, Holland, Longoria

0 nays

1 absent — E. Johnson

**SENATE VOTE:** On final passage, April 25 — 31-0

**WITNESSES:** No public hearing

**BACKGROUND:** HB 114 by Flynn, enacted by the 84th Legislature in 2015, created Government Code, sec. 1201.0245 to regulate the issuance of capital appreciation bonds.

Sec. 1201.0245(a) defines a "capital appreciation bond" as a bond that accrues and compounds interest from its date of delivery, for which interest is payable only upon maturity or prior redemption. Sec. 1201.0245(b) prohibits a political subdivision from issuing capital appreciation bonds secured by property taxes unless the subdivision meets certain conditions, including placing a 20-year maturity time frame on the bonds, providing cost estimates, making determinations about possible conflicts of interest, and maintaining certain online records pertaining to the bonds. Sec. 1201.0245(j) specifies that the prohibition in subsection (b) does not apply to the issuance of capital appreciation bonds issued to finance transportation projects or refunding bonds.

Sec. 1201.0245(c-i) regulates the issuance of capital appreciation bonds secured by ad valorem taxes, including the responsibilities of the issuing political subdivision's governing body and the authorized uses of bond proceeds. Because this and the rest of sec. 1201.0245, other than subsection (b), apply to capital appreciation bonds issued to finance transportation projects or refunding bonds, some observers contend that

the exception provided under current law is too narrow to accomplish its intended goals, and that none of sec. 1201.0245 should apply to the issuance of bonds for these purposes.

**DIGEST:** SB 295 would exempt refunding bonds and capital appreciation bonds for financing transportation projects from all requirements of Government Code, sec. 1201.0245.

The bill would take effect September 1, 2017, and would apply only to a bond issued on or after that date.