

- SUBJECT:** Requiring approval to spend certain bond proceeds
- COMMITTEE:** Pensions, Investments and Financial Services — committee substitute recommended
- VOTE:** 8 ayes — Murphy, Capriglione, Flynn, Gervin-Hawkins, Gutierrez, Lambert, Stephenson, Wu
- 0 nays
- 3 absent — Vo, Leach, Longoria
- WITNESSES:** For — Trey Lary, Allen Boone Humphries Robinson LLP; James Quintero, Texas Public Policy Foundation; (*Registered, but did not testify*: Annie Spilman, National Federation of Independent Business; Howard Cohen, Schwartz, Page & Harding LLP; Daniel Gonzalez and Julia Parenteau, Texas Realtors; Joe Palmer)
- Against — (*Registered, but did not testify*: David Anderson, Arlington ISD Board of Trustees; Alexis Tatum, Travis County Commissioners Court)
- On — Brian Woods, Texas Association of School Administrators, Texas Association of School Boards, Texas School Alliance, Fast Growth Coalition; (*Registered, but did not testify*: Adam Haynes, Conference of Urban Counties; Aimee Bertrand, Harris County Commissioners Court; James Hernandez)
- BACKGROUND:** Election Code sec. 4.003(f) lists the required time and manner in which a political subdivision's order for an election to authorize the issuing of debt must be posted.
- DIGEST:** CSHB 440 would require political subdivisions to obtain certain kinds of approval before spending bond proceeds on purposes that were not specified in the original bond authorization.

Allowable spending of bond proceeds. CSHB 440 would require political subdivisions to use the unspent proceeds of general obligation bonds only for the specific purposes for which the bonds were authorized or for retiring the bonds. It would create separate exceptions to this requirement for school districts and political subdivisions other than school districts.

A political subdivision that is not a school district could use these unspent proceeds for a new purpose only if the authorized purposes were accomplished or abandoned and a majority of the votes cast in an election in the political subdivision were in favor of using the proceeds for the new purpose. The political subdivision would have to hold an election approving the new purpose in the same manner as an election to issue bonds in the subdivision. The bill would require a sample ballot to be posted on the political subdivision's website during the 21 days before the election.

A school district could use these unspent proceeds for a new purpose only if the authorized purposes were accomplished or abandoned and the school district's board of trustees approved in separate votes at a public meeting the use of the proceeds for a purpose other than retiring the bonds and the specified new use of the funds. Notice of the meeting would have to include a statement that the board of trustees would be considering the use of unspent bond money for a purpose other than the specific purpose for which the bonds were authorized. Any such public meeting would have to allow the public to address the board on this specific issue.

Bond maturity versus useful life of asset. The bill would prohibit political subdivisions from issuing general obligation bonds to finance an improvement to real property or to purchase personal property if the weighted average maturity of the issue of bonds used to finance these expenditures exceeded 120 percent of the reasonably expected weighted average economic life of the improvement or personal property.

The bill would take effect on September 1, 2019, and would apply only to general obligation bonds authorized to be issued at an election held on or

after that date.

**SUPPORTERS
SAY:**

CSHB 440 would ensure that cities, counties, and special districts were responsible in borrowing money and that they were accountable to taxpayers in spending borrowed funds.

In authorizing a bond, voters are granting the authority to borrow money to fund a specific set of projects or purchases. Should any of the borrowed funds remain after paying for these items, the governmental entity has a responsibility to obtain a public endorsement before spending them on new initiatives. This bill would provide a mechanism to ensure this approval.

Borrowing to pay for personal property the useful life of which will end years or decades before that money is paid off is a poor investment of taxpayer dollars. The bill's prohibition on bonds that exceed 120 percent of the expected economic life of the property will prevent such poor investments from taking place.

**OPPONENTS
SAY:**

CSHB 440 could tie the hands of cities, counties, and special districts, prohibiting their leaders from pursuing the most efficient and timely use of available funds.

Voters who approve bonds are authorizing a governmental entity to execute a set of projects or purchases. Should funds remain after those goals have been achieved, taking on extra projects or purchases provides voters with added benefits without any additional borrowing. Delays resulting from holding another election combined with the unpredictability of financial markets could lead to extra costs due to interest rates and construction expenses. CSHB 440 could impose more costs on political subdivisions and, ultimately, taxpayers themselves.