

## **DEBT RESTRICTION BILL – H.B. 1869 by Representative Dustin Burrows**

On Monday, March 22, the House Ways and Means Committee met to hear House Bill 1869 by Representative Dustin Burrows. H.B. 1869 would modify the definition of “debt” for purposes of the debt service property tax rate calculation to only include debt approved at an election. This means that tax-supported debt obligations that are not approved at an election, like certificates of obligation, time warrants, anticipation notes, and certain financing agreements must be paid through the maintenance and operations portion of a city’s tax rate.

The GFOAT Governmental Affairs Committee comprised of Blu Kostelich, Steven Glickman, and John Zagurski are meeting with Bill Longley and Monty Wynn with TML bi-weekly to monitor this bill as well as others that would greatly impact governmental finance. They will be presenting at the GFOAT Spring Conference and have created the following bullet points to help you understand this bill along with some recommendations:

1. The bill as filed is an amendment to the definition of “Debt” in Section 26.012(7) of the Tax Code to restrict the debt used to calculate the I&S portion of the tax rate to only debt that “has been approved at an election...”
2. Author’s Intent
  - a. Provide overall tax relief by not allowing Cities to issue debt without voter approval (i.e. not allow Cities to “circumvent” the 3.5 percent cap by shifting costs to the I&S rate)
  - b. Give people a say in what projects are necessary and what debt is issued by the City (taxation without representation argument)
  - c. Effective only for debt issued after September 1, 2021
  - d. Does not take away any currently authorized debt issuance instruments; simply provides an extra layer of protection for taxpayers
3. The bill was filed on February 11, read for the first time and referred to the Ways and Means Committee on March 11, scheduled, heard, and considered in Committee on March 22, and left pending in Committee. Ways and Means has met again but did not take action on this bill.
4. The bill as filed has some obvious and significant unintentional consequences that cities and several Ways and Means Committee members brought up. These are likely to be carved out of the final draft of the bill.
  - a. Refunding bonds
  - b. Self-supporting debt (double barrel pledges)
  - c. State program issuances (SIB, TWDB, etc.)
  - d. Disaster-related issuances
5. Other amendments being discussed to include in a committee substitute to authorize debt issued without voter approval for infrastructure, facilities, and equipment for:
  - a. Transportation (streets, roads, highways, bridges and sidewalks)
  - b. Flood control and drainage
  - c. Public safety
  - d. Parks and recreation
  - e. Libraries
  - f. Broadband utilities

- g. Utility systems as defined by Chapter 1502, Government Code
6. Recommendation for finance teams:
- a. Analyze debt financing in your current CIP for the items listed in (5) above, and calculate an annual debt payment
  - b. Be prepared to defend why the projects are necessary
  - c. Analyze what impact the debt payment would have if your city was forced to carry that payment in the M&O (subject to the 3.5 percent rate cap)
  - d. Discuss with your City Manager and City Council the impacts to future funding for the city's M&O if this change were to go into effect.