

Date of Hearing: May 4, 2016

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Susan Talamantes Eggman, Chair

AB 1919 (Quirk) – As Amended April 4, 2016

SUBJECT: Local transportation authorities: bonds.

SUMMARY: Removes, for local transportation authorities, the requirement in existing law to use premiums from the sale of bonds to be used to pay for the principal and interest of the bonds, thereby allowing those bond premiums to be used for other purposes.

EXISTING LAW:

- 1) Establishes the Local Transportation Authority and Improvement Act and provides for the formation, administration, powers, taxing, and bonding authority for a local transportation authority (authority).
- 2) Authorizes an authority to issue limited tax bonds secured by a pledge of revenues from the proceeds of a retail transactions and use tax approved by the voters.
- 3) Requires all accrued interest and premiums received on the sale of bonds to be placed in the fund to be used for the payment of the principal of and interest on the bonds. Requires the remainder of the proceeds to be placed in the authority's treasury to be applied to secure the bonds or for the purposes for which the debt was incurred.
- 4) Requires, when the purposes have been accomplished, any money remaining to be either:
 - a) Transferred to the fund to be used for payments for the principal and interest on the bonds or,
 - b) Placed in a fund for the purchase of the outstanding bonds in the open market at prices in the manner determined by the authority.

FISCAL EFFECT: None

COMMENTS:

- 1) **Background and Bill Summary.** Existing law provides transportation authorities the ability to issue bonds in order to finance capital needs. When an investor purchases a bond they are in turn lending money to the local transportation authority that issued the bond. In return for buying the bond, the local transportation agency must pay the investor debt service, the principal amount of bond and interest, which is the cost of borrowing the money. Bond proceeds are used by local transportation authorities to fund capital projects, the costs of bond issuance and debt service. Local transportation authorities are required to use all interest and premiums (the amount by which the price of a bonds exceeds its principal amount) received from the sale of bonds on the debt service of the bond.

This bill removes, for local transportation authorities, the requirement in existing law to use premiums from the sale of bonds to be used to pay for the principal and interest of the bonds,

thereby allowing those bond premiums to be used for other purposes. This bill is sponsored by the Alameda County Transportation Commission.

- 2) **Author's Statement.** According to the author, "Current language limits an issuer's ability to structure municipal bonds to best meet investor demand and in doing so promotes structures that lead to higher interest costs. Commonly in California and nationally, municipal issuers can issue bonds with either a par structure, discount structure or premium structure. All proceeds from the bond sale, including any premium generated through a premium bond structure, are eligible to be used for project costs.

"Current law, does not allow bond premium to be used to fund capital projects. This reduces the flexibility of issuers and eliminates the incentive or financial benefit to the transportation authority to offer a premium structure to investors. This restriction is inconsistent with current practice in the municipal bond market and promotes bond structures that have higher costs which, in turn, reduce the amount of money available for transportation projects.

"A transportation authority organized under the Local Transportation Authority and Improvement Act should be able to issue bonds consistent with investor demand in order to minimize borrowing costs and use more taxpayer dollars for projects. This should include the ability to issue premium bonds to fund eligible project costs if and when this structure results in the lowest borrowing cost. The goal for the proposed changes is to remove the restrictive language that currently requires bond premium from the sale of bonds to be used only for the payment of principal and interest on the bonds."

- 3) **Arguments in Support.** The Alameda County Transportation Commission argues that removing the current restriction on the use of premiums will lower the cost of the bond transaction, lower the amount of debt the transportation authority must carry, and thus increase the amount of local sales tax dollars available for project delivery.
- 4) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Alameda County Transportation Commission

Opposition

None on file

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