HCS HB 1726 -- BONDS

SPONSOR: O'Donnell

COMMITTEE ACTION: Voted "Do Pass with HCS by Consent" by the Standing Committee on Financial Institutions by a vote of 13 to 0. Voted "Do Pass- Consent" by the Standing Committee on Consent and House Procedure by a vote of 8 to 0.

The following is a summary of the House Committee Substitute for HB 1726.

This bill provides that bonds, notes, or other forms of indebtedness may be issued in book-entry rather than bearer form and bear interest at the current rate of 10% or at a rate up to 250 basis points above the longest maturity United States Treasury bond, whichever is greater. Such bonds may be sold at a competitive market yield not less than 50% rather than the current 95% of the par value. Such bonds may bear interest at 14% or at a rate up to 250 basis points above the longest maturity United States Treasury bond, whichever is greater, if sold at the lowest true interest cost bid received.

The bill prescribes similar requirements for industrial development revenue bonds, bonds issued by any housing authority, and revenue bonds issued for airport purposes. The bill repeals the current language which provides for a political subdivision to have an unenhanced bond rating of AA+ or higher or comparable rating, and replaces it with a bond rating that is one of the two highest long-term ratings or the highest short-term rating issued by a nationally recognized rating agency on its outstanding general obligation. The principal amount of general obligation bonds, currently $12.5 million, is increased to $20 million.

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced version of the bill.

PROPONENTS: Supporters say that this bill is essentially a clean-up of bond requirements that have changed over the years; it harmonizes provisions that have drifted apart. Some of the changes provide more flexibility in market conditions that aren’t easily predictable.

Testifying in person for the bill was Representative O'Donnell.

OPPONENTS: There was no opposition voiced to the committee.

OTHERS: Others testifying on the bill say the cost of a bond at issuance is not the long-range cost. If an issuer lowers coupon cost, future value is lost. Most municipal bonds are at 5% or higher. Lowering the interest cost can move an issuer away from its buyers

Testifying in person on the bill was Tim Snoke, Metropolitan St. Louis Sewer District.

Written testimony has been submitted for this bill. The full written testimony and witnesses testifying online can be found under Testimony on the bill page on the House website.