Section 1

Bond Review Board
Summary of Recommendations - House

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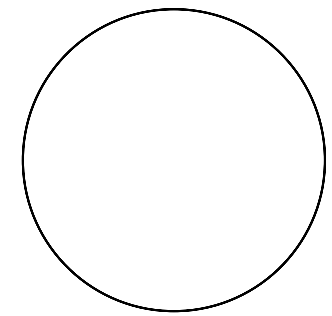
Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	$1,908,672	$1,599,321	($309,351)	(16.2%)
GR Dedicated Funds	$0	$0	$0	0.0%
Total GR-Related Funds	*$1,908,672*	*$1,599,321*	*($309,351)*	*(16.2%)*
Federal Funds	$0	$0	$0	0.0%
Other	$0	$0	$0	0.0%
All Funds	**$1,908,672**	**$1,599,321**	**($309,351)**	**(16.2%)**

RECOMMENDED FUNDING BY METHOD OF FINANCING



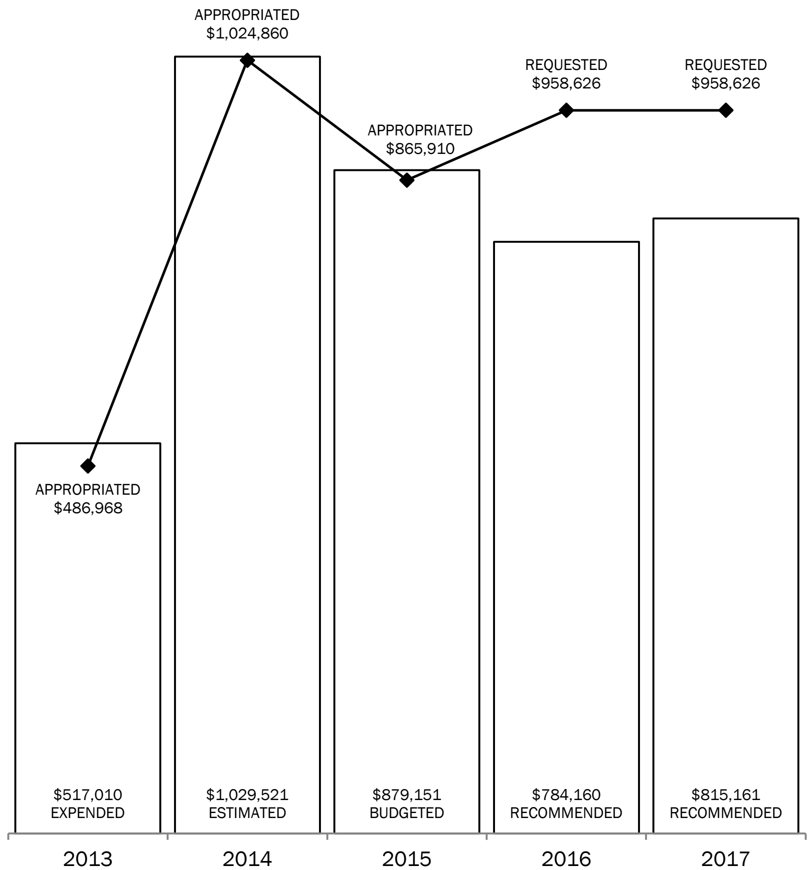
	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs	10.0	10.0	0.0	0.0%

The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

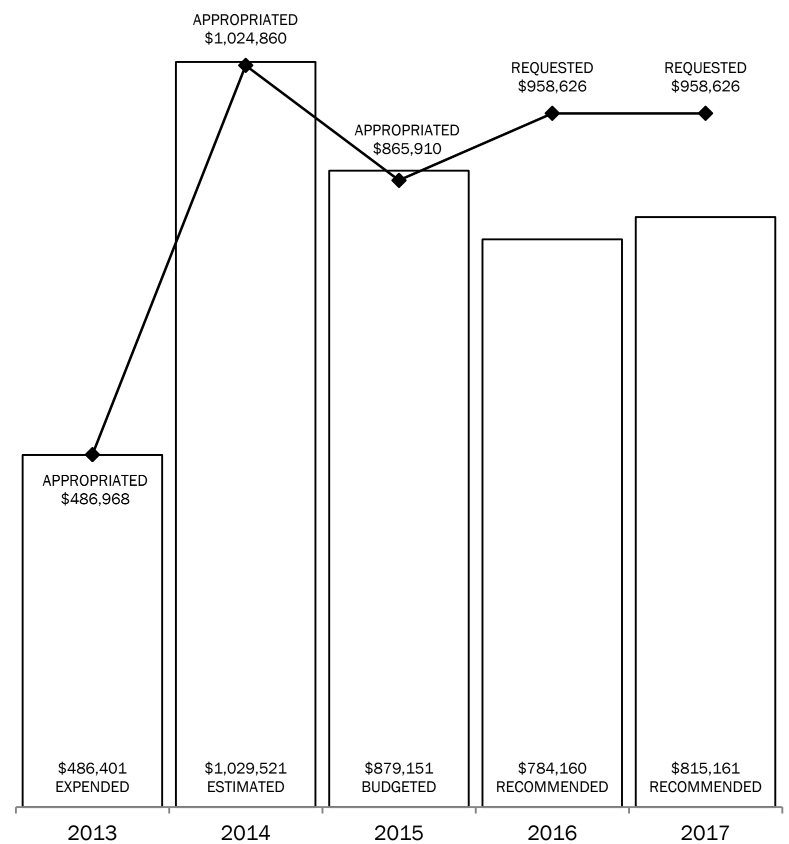
2016-2017 BIENNIUM

TOTAL= $1,599,321

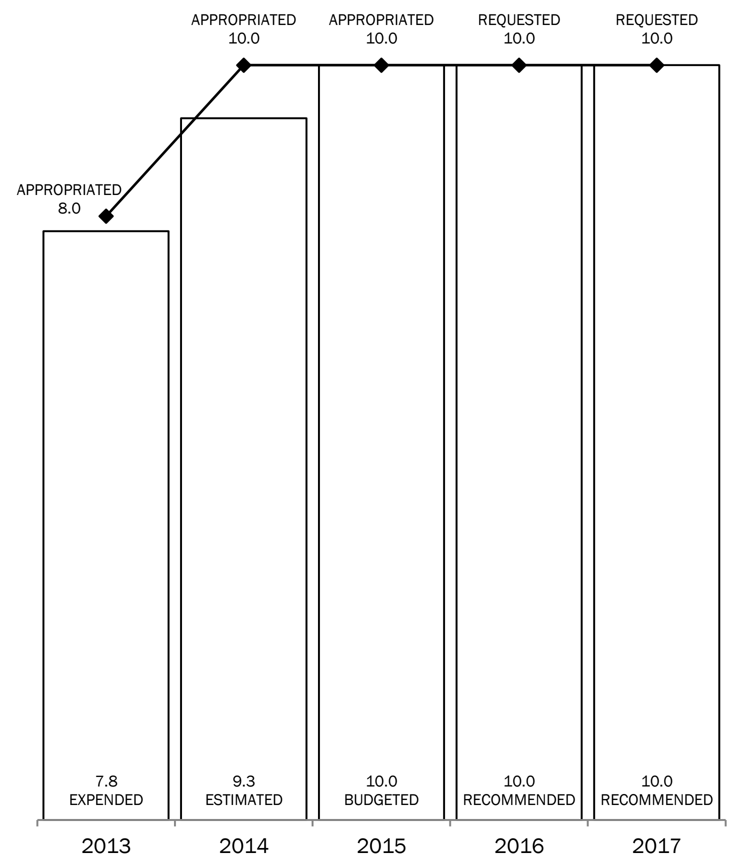
ALL FUNDS



GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS



FULL-TIME-EQUIVALENT POSITIONS



Section 2

Bond Review Board
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
REVIEW BOND ISSUES A.1.1	$381,734	$319,865	($61,869)	(16.2%)	
STATE BOND DEBT A.1.2	$381,734	$319,864	($61,870)	(16.2%)	
Total, Goal A, PROTECT TEXAS BOND RATING	**$763,468**	**$639,729**	**($123,739)**	**(16.2%)**	
ANALYZE LOCAL BOND DEBT B.1.1	$763,468	$639,728	($123,740)	(16.2%)	
Total, Goal B, LOCAL BOND DEBT	**$763,468**	**$639,728**	**($123,740)**	**(16.2%)**	
ADMINISTER PRIVATE ACTIVITY BONDS C.1.1	$381,736	$319,864	($61,872)	(16.2%)	
Total, Goal C, PRIVATE ACTIVITY BONDS	**$381,736**	**$319,864**	**($61,872)**	**(16.2%)**	
Grand Total, All Strategies	**$1,908,672**	**$1,599,321**	**($309,351)**	**(16.2%)**	Recommendations reflect an overall decrease of $0.3 million in General Revenue across all strategies primarily related to the reduction of a portion of one-time funding for a new database system reallocated for other purposes (see Selected Fiscal and Policy Issues #1). Recommendations continue appropriations from the 2014-15 biennium of $387,298 in General Revenue and 2.0 full-time equivalents related to the expansion of duties for monitoring and reporting on local debt. Recommendations include an increase of $8,580 in General Revenue for biennualization of the fiscal year 2015 statewide salary increase across all strategies. Recommendations include the agency's reallocation of General Revenue among all strategies of $0.2 million for on-going maintenance of the new database system, merit salary increases, and increased operating costs.

Bond Review Board
Selected Fiscal and Policy Issues - House

1. **Reallocation of One-time Funding.** Recommendations include $0.2 million in General Revenue reallocated across all strategies out of the $0.5 million in General Revenue from one-time funding appropriated to the agency for the 2014-15 biennium to enhance and improve the state and local debt databases.

   Recommendations include $0.1 million in General Revenue to fund on-going costs related to the debt database and $0.1 in General Revenue for staff salary increases and other operating costs.

   On-Going Support of Debt Database System
   Recommendations include $133,000 for the 2016-17 biennium to support the new database system:
   - $80,000 for maintenance service for the new system;
   - $27,000 for contracted IT professional services to support the new database system and for general IT services;
   - $10,000 for staff training on IT systems related to the new database system;
   - $10,000 for online subscription to operate local government database; and
   - $6,000 for procurement and repair of hardware.

   Reduction of Staff Turnover
   Recommendations include $77,000 for the 2016-17 biennium to address agency concerns of staff turnover:
   - $77,000 for staff salary adjustments and continuing education to retain professional staff. The agency indicated that due to the level of qualifications needed by staff members, retaining personnel is a continual challenge as staff members obtain higher-paying employment once they gain experience at the agency.

   Recommendations do not include the agency's request to reallocate $0.3 million in General Revenue for enhancements to the new database system, website improvements, and IT hardware and software.

2. **State Debt Versus Local Debt.** According to the Bond Review Board, as of August 31, 2014, Texas had a total of $249.7 billion in state and local outstanding debt. Approximately $205.3 billion, or 82 percent, was considered local debt, with the remaining $44.3 billion in state debt outstanding. Of the state debt outstanding, $5.7 billion is conduit debt, which is debt issued on behalf of third parties and not a legal liability of the state. Excluding conduit debt, there is $38.6 billion in state debt outstanding. Compared to other states, Texas ranks ninth out of the ten most populous states in the amount of state debt outstanding.

   Texas ranks second for local debt outstanding out of the ten most populous states. Of the outstanding local debt, approximately $124.7 billion, or 61 percent, is general obligation debt supported by local tax collections. The large reliance on tax-supported local debt has led to increased scrutiny of local debt within Texas. Recommendations continue the 2014-15 appropriation of $387,298 in General Revenue and 2.0 full-time equivalents related to the expansion of duties for monitoring and reporting local debt.

3. **Constitutional Debt Limit.** Article III, Section 49(j) of the Texas Constitution limits the authorization of additional state debt if in any fiscal year the resulting annual debt service payable from the unrestricted General Revenue Fund – excluding revenues constitutionally dedicated for purposes other than state debt payment – exceeds 5 percent of the average annual unrestricted General Revenue Funds for the previous three years.

   To monitor where the state stands in relation to the constitutional debt limit (CDL), the Bond Review Board (BRB) calculates two debt ratios:

   - The first debt ratio is the debt service on outstanding (issued) debt as a percentage of unrestricted General Revenue Funds. At the end of fiscal year 2014, the Bond Review Board reported that the issued debt was 1.20 percent;
   - The second debt ratio is the debt service on outstanding debt, and estimated debt service for authorized but unissued debt as a percentage of unrestricted General Revenue Funds. At the end of fiscal year 2014, the issued, and authorized but unissued debt was reported at 2.71 percent. This reflects a 10.9 percent decrease from 3.04 percent for fiscal year 2013.

   Several factors can impact the state's CDL debt service ratio and any significant changes in the following factors could impact where the state stands in relation to the CDL:

   - The three-year average of unrestricted General Revenue funds;
   - Amount of debt outstanding and associated debt service;
   - A change in unissued debt authorizations and associated estimated debt service; and
   - Interest rates on issued debt and the assumptions used for authorized but unissued debt.

   The CDL is expected to continue to decrease with the issuance of authorized debt and as the state's unrestricted general revenue increases with the continued improvement in the state's economy.

   In 2007, the 80th Legislature authorized $1.0 billion dollars in General Obligation Bonds that voters approved in Proposition 4 in November 2014. The Prop 4 bond authority has been exhausted with the final authorizations of $146.2 million appropriated in the 2014-15 biennium. The Bond Review Board estimates there is currently $11.8 billion in additional debt capacity for non self-supporting debt authorization that would be subject to the constitutional debt limit.

4. **Texas' General Obligation Bond Rating.** The state's general obligation (GO) bond rating is the assessment of the state's creditworthiness by the three major bond-rating agencies, Moody's, Standard and Poor's (S&P), and Fitch. Bond ratings determine the rate of interest the state will have to pay when it issues debt. The last action on Texas' bond rating occurred in September 2013, when S&P upgraded its rating for Texas' general obligation debt to AAA from AA+, indicating that the state's GO bonds were the best quality. Both Moody's and Fitch rate Texas' general obligation bond debt as AAA.

   Changes made by the Governmental Accounting Standards Board (GASB) to Standards 67 & 68, will affect the calculation and reporting of pension liabilities and increase the reported unfunded pension liability for the Employees Retirement System and the Teacher Retirement System. The changes become effective for fiscal year 2014 Annual Financial Reports for pension plans, and will be required for the Comptroller's Comprehensive Annual Financial Report (CAFR) in 2015. The rating agencies have indicated the GASB changes will not automatically affect state credit ratings but the on-going efforts made by states to address the sustainability of their pension funds will be taken into consideration.

5. **Private Activity Bond Allocation Program Revenue.** The Bond Review Board administers the private activity bond (PAB) allocation program as required by Government Code, Chapter 1372. Statute authorizes the Bond Review Board to collect various fees related to the allocation of state ceiling or maximum amount of tax-exempt private activity bonds that may be issued by all issuers in the state during a calendar year. In 2014, Bond Review Board staff administered up to $5.28 billion in PAB Authority, including $2.64 billion in carry-forward from the prior three years and up to the 2014 volume cap of $2.64 billion.

   The Bond Review Board collects a $500 non-refundable application fee for a reservation or carry-forward of state ceiling. Certain issuers are required to remit to the agency related closing costs of at least $1,000. Statute also authorizes the Bond Review Board to collect a $5,000 application fee for qualified residential rental projects such as multi-family housing. Of this amount, statute allocates $1,000 of the application fee to offset the costs of the Private Activity Bond Allocation program. The statute allows for the transfer of $4,000 of the application fee to the Texas Department of Housing and Community Affairs for the Affordable Housing Research and Information program. However, all fees collected by the agency are currently deposited to unobligated General Revenue.

   The attractiveness of PABs has decreased with overall lower interest rates because issuers can access bonds with similarly low interest rates without completing a complex application process. The amount below shows the amount collected for Private Activity Bond Allocation Program related fees from fiscal year 2008 to fiscal year 2015.

Private Activity Bond Allocation Program Revenue							
FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Projected
$770,885	$457,408	$548,986	$507,076	$413,753	$588,738	$438,485	$450,000

Source: Bond Review Board

Bond Review Board
FTE Highlights - House

Full-Time-Equivalent Positions	Expended 2013	Estimated 2014	Budgeted 2015	Recommended 2016	Recommended 2017
Cap	8.0	9.5	9.5	10.0	10.0
Actual/Budgeted	7.8	9.3	10.0	NA	NA
Schedule of Exempt Positions (Cap)					
Executive Director, Group 3	$99,000	$125,000	$125,000	$125,000	$125,000

Pursuant to Article IX, Section 3.04, Subsection (b)(3), the Bond Review Board Exempt Position may receive compensation at a rate set by the Governor not to exceed the "Maximum Salary" of Group 3 ($145,600). In fiscal year 2014, the Governor increased the salary of the Executive Director Exempt Position to $125,000.

The State Auditor's Office Report, *Executive Compensation at State Agencies* (Report No. 14-705, August 2014), indicates a market average salary of $137,180 for the Executive Director position at the Bond Review Board and recommends a change from the current Group 3 classification to Group 4.

Bond Review Board
Performance Measure Highlights - House

		Expended 2013	Estimated 2014	Budgeted 2015	Recommended 2016	Recommended 2017
•	*Number of Bond Issues and Leases Reviewed*	31	35	35	30	30
	Recommendations reflect an increase in 2016-17 targets to align with the agency's estimated number of state bond issuances after the exhaustion of Prop 4 GO Bond authority. If additional bond authorization is approved by the 84th Legislature, recommended targets would increase.					
•	*Number of Local Government Financing Analyzed*	1,616	1,804	1,000	1,600	1,600
	Recommendations reflect an increase in 2016-17 targets to align with the increased number of local government financings analyzed by the agency. Fiscal year 2015 recommended target reflects the agency's estimate.					

Bond Review Board (BRB)
Performance Review and Policy Report Highlights - House

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session

NO RELATED RECOMMENDATIONS

Bond Review Board
Rider Highlights - House

2. (old) **Capital Budget.** Delete rider due to completion of Capital Budget project.

4. (old) **Contingency for Legislation Related to Local Annual Debt Report.** Delete rider due to relevant legislation not passing.

5. (old) **Appropriation for Debt Monitoring and Reporting.** Delete rider due to the agency incorporating these functions into its operations.

Section 6

Bond Review Board

Items not Included in Recommendations - House

	2016-17 Biennial Total	
	GR & GR-Dedicated	**All Funds**
Agency Exceptional Items - In Agency Priority Order		
None		
Total, Items Not Included in the Recommendations	**$ -**	**$ -**

Section 7

Bond Review Board
Summary of 10 Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts: GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
1	**SERVICE REDUCTIONS**	**Part One of Agency's Reduction Options:** Item Comment: A 10% reduction in the agency's appropriation for the 2016-2017 biennium would decrease the budget by $189,077. The agency's workload has increased in recent years as a result of legislative mandates. S.B. 1332 (80th Legislature) mandates the agency to assume responsibility for the state's Debt Affordability Study and the ongoing analyses of cost of issuance data as well as state issuers' use of derivatives, particularly swaps. SB 2064 (81st Legislature) mandates the agency to administer miscellaneous federal bonding authority programs such as the Hurricane Ike disaster area bond program and future federal bonding programs that require state administration. The agency's workload has also significantly increased as a result of increases in the number and complexity of local debt transactions processed. Requests for detailed local debt information have increased as a result of stresses in that sector with the economic downturn. Additionally, since FY 2011 the agency has prepared an annual local debt report that was developed in response to increased requests for information from agency customers to provide greater detail and transparency on local debt levels. The local debt report is not required by statute. The agency's current number of approved positions is 10, and the agency is currently staffed with 10 FTEs including the Executive Director, five Financial Analysts, Accountant VII, Accountant I and two Accounting Technicians II. A budget reduction for the biennium of $189,077 would require the agency to reduce the scope of its database upgrade project and force a reduction in staff, either of which would compromise agency efficiency, the quality of its analyses and delay reports as well as the agency's ability to maintain exemplary service to its customers (legislature, state and local leadership and general public).	$86,000	$86,000	1.0	$0	5%	No

Section 7

Bond Review Board
Summary of 10 Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts: GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
2	**DATABASE UPGRADES CONTINUATION**	**Part Two of Agency's Reduction Options:** Item Comment: A 10% reduction in the agency's appropriation for the 2016-2017 biennium would decrease the budget by $189,077. The agency's workload has increased in recent years as a result of legislative mandates. S.B. 1332 (80th Legislature) mandates the agency to assume responsibility for the state's Debt Affordability Study and the ongoing analyses of cost of issuance data as well as state issuers' use of derivatives, particularly swaps. SB 2064 (81st Legislature) mandates the agency to administer miscellaneous federal bonding authority programs such as the Hurricane Ike disaster area bond program and future federal bonding programs that require state administration. The agency's workload has also significantly increased as a result of increases in the number and complexity of local debt transactions processed. Requests for detailed local debt information have increased as a result of stresses in that sector with the economic downturn. Additionally, since FY 2011 the agency has prepared an annual local debt report that was developed in response to increased requests for information from agency customers to provide greater detail and transparency on local debt levels. The local debt report is not required by statute. The agency's current number of approved positions is 10, and the agency is currently staffed with 10 FTEs including the Executive Director, five Financial Analysts, Accountant VII, Accountant I and two Accounting Technicians II. A budget reduction for the biennium of $189,077 would require the agency to reduce the scope of its database upgrade project and force a reduction in staff, either of which would compromise agency efficiency, the quality of its analyses and delay reports as well as the agency's ability to maintain exemplary service to its customers (legislature, state and local leadership and general public).	$103,077	$103,077		$0	5%	Yes

TOTAL, 10% Reduction Options	GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss
	$189,077	**$189,077**	**1.0**	**$0**

Bond Review Board
Summary of 10 Percent Biennial Base Reduction Options - House

Agency 10% Reduction Options by Category of Reduction