

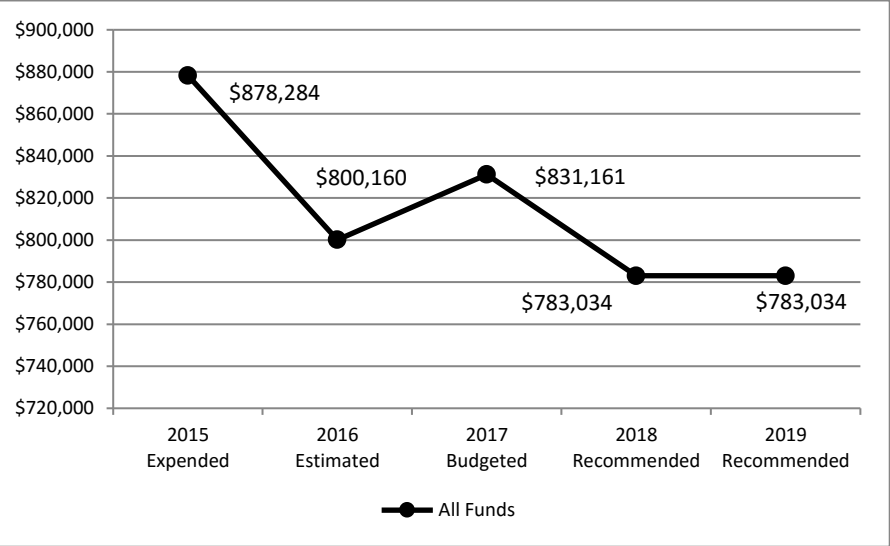
Bond Review Board **Summary of Recommendations - House**

Page I-12
Robert Latsha, Interim Executive Director
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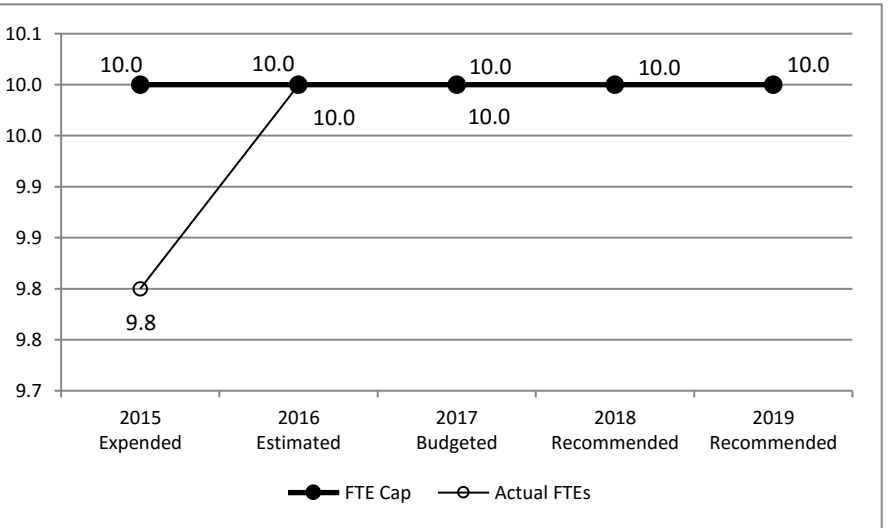
Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$1,631,321	\$1,566,068	(\$65,253)	(4.0%)
GR Dedicated Funds	\$0	\$0	\$0	0.0%
<i>Total GR-Related Funds</i>	<i>\$1,631,321</i>	<i>\$1,566,068</i>	<i>(\$65,253)</i>	<i>(4.0%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$1,631,321	\$1,566,068	(\$65,253)	(4.0%)

	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	10.0	10.0	0.0	0.0%

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



The bill pattern for this agency (2018-19 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2018-19 biennium.

Bond Review Board
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
Funding Changes and Recommendations:							
A)	Decrease in funding for the elimination of an Accountant position, pursuant to the four percent reduction.	(\$65,253)	\$0.0	\$0.0	\$0.0	(\$65,253)	All Strategies
TOTAL Funding Changes and Recommendations		(\$65,253)	\$0	\$0	\$0	(\$65,253)	As Listed
Funding Increases		\$0	\$0	\$0	\$0	\$0	
Funding Decreases		(\$65,253)	\$0	\$0	\$0	(\$65,253)	As Listed

**Bond Review Board
Selected Fiscal and Policy Issues - House**

1. **State Debt and the Constitutional Debt Limit.** Senate Bill 1 anticipates approximately \$49.8 billion in state issued debt in the 2018-19 biennium and appropriates a total of \$4.3 billion in debt service (All Funds). This is a decrease of \$280 million from the 2016-17 biennium.

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 2016, the Bond Review Board reported that the **issued debt was 1.36 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 2016, the **issued, and authorized but unissued debt was reported at 2.37 percent**. This reflects an 11.8 percent decrease from 2.65 percent for fiscal year 2015.

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.

According to information provided by the Bond Review Board, there is currently \$14.9 billion in additional debt capacity for non self-supporting debt authorization that would be subject to the constitutional debt limit.

2. **State Debt Versus Local Debt.** According to the Bond Review Board, as of August 31, 2016, Texas had a total of \$268.3 billion in state and local outstanding debt. Approximately \$218.5 billion, or 81.5 percent, is considered local debt, with the remaining \$49.8 billion is state debt outstanding. Of the outstanding local debt, approximately \$135.2 billion, or 61.9 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. The bill as introduced includes an increase of \$48,942 in General Revenue each fiscal year reallocated from other strategies to Strategy B.1.1 Analyze Local Bond Debt, related to the expansion of duties for monitoring and reporting local debt.
3. **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 Investors Service (Moody's), Standard and Poor's (S&P), and Fitch Ratings (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. As of August 2016, Texas' general obligation debt was rated as Aaa/AAA/AAA by Moody's, S&P, and Fitch, respectively.

4. **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 fiscal year 2016, Bond Review Board staff administered up to \$6.6 billion in PAB Authority, including \$3.8 billion in carry-forward from the prior three years and up to the fiscal year 2016 volume cap of \$2.7 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 amount below shows the amount collected for Private Activity Bond Allocation Program related fees from fiscal year 2008 to fiscal year 2016.

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 Actual	FY 2016 Estimated
\$770,885	\$457,408	\$548,986	\$507,076	\$413,753	\$588,738	\$438,485	\$696,699	\$987,156

Source: Bond Review Board & Comptroller of Public Accounts



TEXAS STATE BOND DEBT

Texas uses long-term debt to finance a variety of projects and program areas. State debt is issued by state agencies and universities. It does not include local debt. As of August 31, 2015, Texas had approximately **\$41.0 billion in state bonds outstanding** (excluding \$6.1 billion in revenue conduit issuances not a legal liability of the state). Appropriations include **\$4.0 billion for debt service** requirements in the 2016-17 biennium. As of February 2016 Texas' General Obligation debt was rated at Aaa/AAA/AAA by the three major credit rating agencies.

STATE BONDS OUTSTANDING
\$41.0 BILLION

Types Of Bonds

General Obligation (GO Bonds)
GO bonds are backed by the full faith and credit of the state. GO bond authority must be approved by two-thirds of both chambers to be placed on the ballot, then approved by a majority of voters.

Non-General Obligation Debt (Revenue Bonds)
Revenue bonds are authorized by the Legislature, secured by a specific revenue source, and do not require voter approval.

Some bonds are not subject to authorization limits. Certain self-supported bonds are governed by Comptroller's projections for their funding source. University bonds rated equal to or higher than AA- may be issued without Bond Review Board approval. Other issuers have a variety of legislative limits based on debt service, annual issuance limits, or evergreen authority.

Repayment Category of Bonds

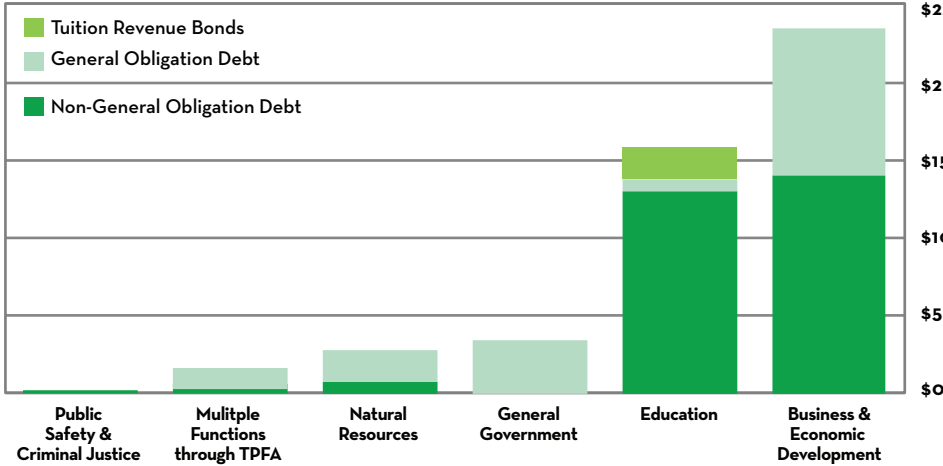
Self-Supporting Debt
Self-supporting debt is expected to be repaid with revenues other than General Revenue (GR) (e.g., loan repayments).

Not Self-Supporting Debt
Not self-supporting debt is expected to be repaid with GR (e.g., repair and construction projects).

Conduit Debt
Conduit debt is issued by state entities on behalf of third parties and is not a legal liability of the state.

Tuition Revenue Bonds
Tuition revenue bonds are legally self-supporting. However, the Legislature typically appropriates GR to reimburse institutions for their debt service on the bonds.

Outstanding Debt by Government Function FY 2015 (billions of dollars, includes conduits)



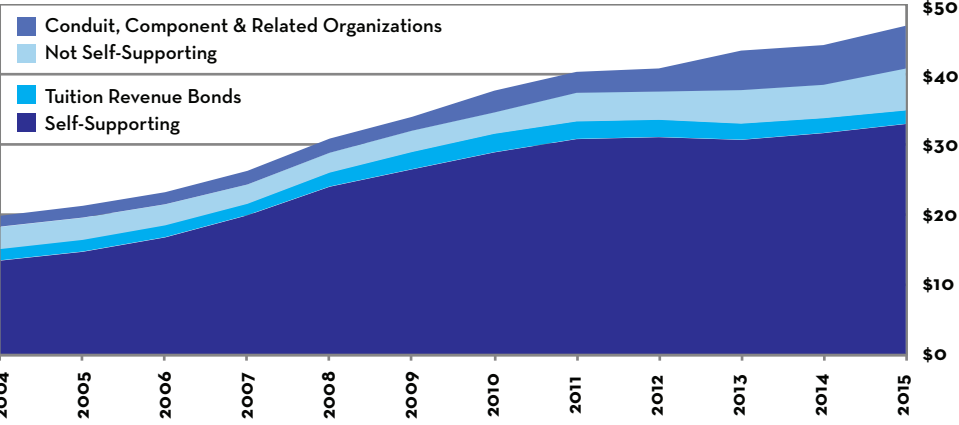
The Texas Public Finance Authority (TPFA) issues debt on behalf of multiple state agencies and certain universities. Other state issuers include the Water Development Board, the Texas Veterans Land Board, all state university debt not issued by TPFA, and the Texas Department of Transportation (TxDOT). Note that TxDOT is included in the Business and Economic Development government function.

Authorized Bond Debt
Authorized Bond Debt is all debt that has been authorized by the Legislature.

Issued Bond Debt
Issued Bond Debt, or outstanding debt, is debt that has been sold and for which payments of principal and interest must be made over its established repayment schedule. It includes all debt. Only debt that is not self-supporting is included in the Constitutional Debt Limit.

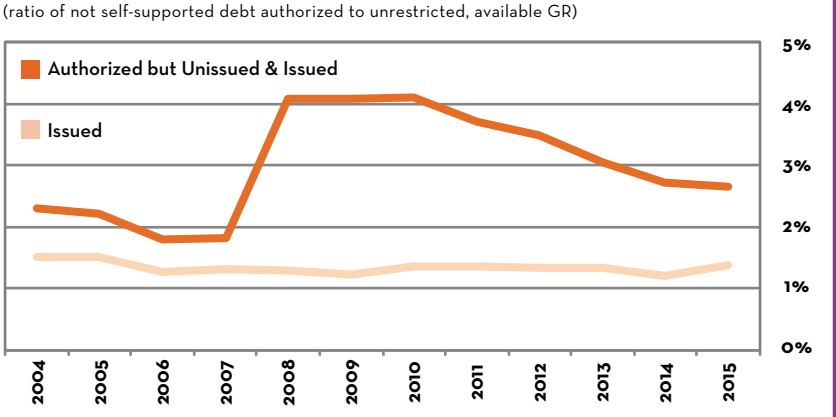
Authorized But Unissued Debt
Authorized but Unissued Debt is debt that may be issued at any time without further action by the Legislature.

Outstanding Debt by Repayment Category (billions of dollars)



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 unrestricted GR (not self-supporting debt), excluding constitutionally dedicated revenues, exceeds 5.0 percent of the average annual unrestricted GR for the previous three years. As of fiscal year 2015, the ratio of debt service on outstanding or issued debt was 1.38 percent; including debt service for authorized but unissued debt increases the ratio to 2.65 percent. The increase in authorized debt from fiscal year 2007 to 2008 occurred due to the passage of three ballot propositions: Proposition 4 (TPFA), Proposition 12 (TxDOT), and Proposition 15 (Cancer Prevention & Research Institute of Texas).

Constitutional Debt Limit





TEXAS LOCAL BOND DEBT

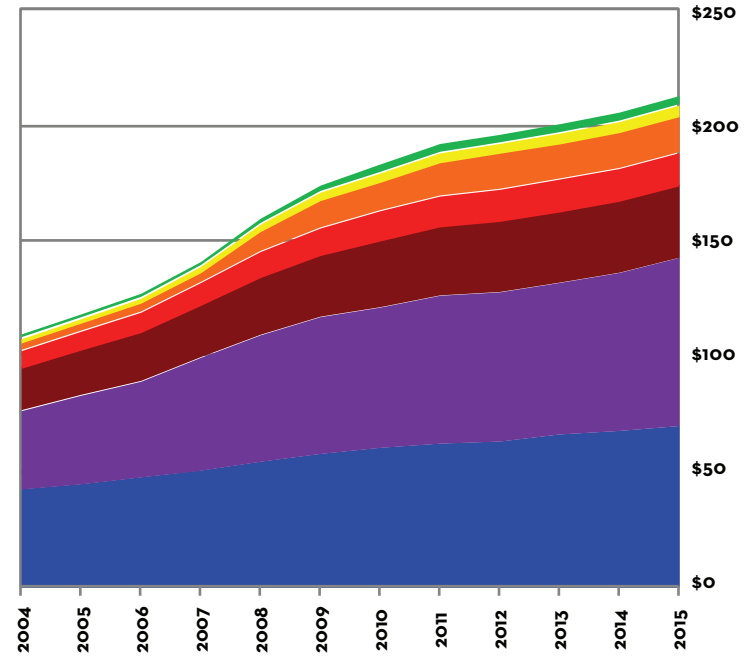
Local governments in Texas issue debt to finance construction and renovation of government facilities, public infrastructure, and various other projects authorized by law. Local governments issue two main types of debt - tax-supported General Obligation (GO) and Revenue Debt. GO debt is secured by the full faith and credit of the issuer's ad valorem tax revenue while Revenue Debt is secured by a specified revenue source. **Total outstanding local debt as of August 31, 2015 was \$212.4 billion including approximately \$8.2 billion of conduit debt.**

LOCAL DEBT OUTSTANDING
\$212.4 BILLION

STATE RECORDS AND OVERSIGHT OF LOCAL DEBT

Local debt issues are recorded by the Texas Bond Review Board (BRB) to fulfill Chapter 1231 of the Texas Government Code that requires the BRB to prepare statistical reports on local government debt. The BRB has no direct oversight of local debt issuance. This information is primarily collected by the Office of the Attorney General in its review and approval of public securities under Chapter 1202 of the Government Code and then forwarded to the BRB. These data allow the BRB to track the growth of outstanding local debt over time, as shown in the adjacent chart, distributed across the BRB-defined government types.

Outstanding Local Debt by Government Type (billions of dollars)

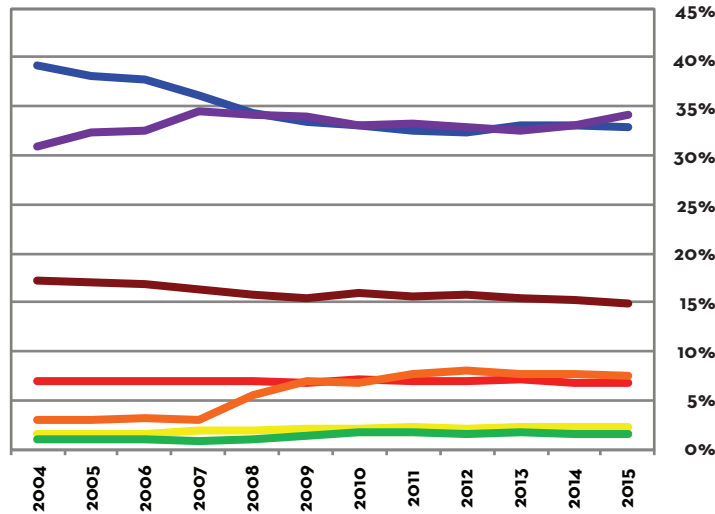


GOVERNMENT TYPE

- Cities, Towns, Villages
- Public School Districts
- Water Districts and Authorities
- Counties
- Other Special Districts and Authorities
- Community and Junior Colleges
- Health/Hospital Districts

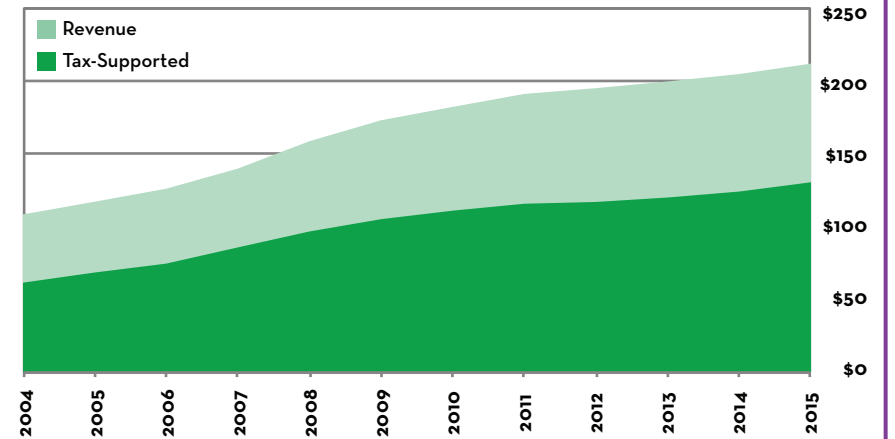
Since 2004, as the overall level of local indebtedness grew from \$109.0 billion to \$212.4 billion, the distribution of debt changed. Cities, towns, and villages owed proportionally less debt, while school districts and other special districts (largely driven by the North Texas Tollway Authority) owed proportionally more.

Change In Distribution Of Local Debt (percent change)



Since 2004, the proportion of tax-supported local GO debt has increased, from 57.0 percent to 62.0 percent. This is largely due to the increase in tax-supported debt represented by public school borrowing followed by cities.

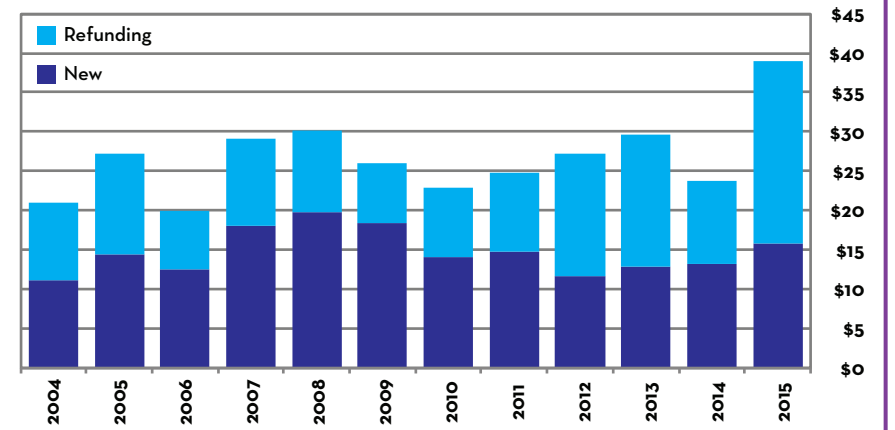
Local Debt by Source of Payment (billions of dollars)



Issued debt is categorized by the BRB as Refunding Debt or New Money Debt. Refunding debt is issued to refinance all or a portion of outstanding debt. New money debt is issued to finance construction and renovation of government facilities, public infrastructure, and various other projects authorized by law. A majority of bond issuances in 2015 were for the purpose of refunding debt.

New Versus Refunding Local Debt: Annual Issuances

(billions of dollars, includes authorized Commercial Paper)



**Bond Review Board
Rider Highlights - House**

Deleted Rider

2. **Tuition Revenue Bond Debt Service.** Recommendations delete this rider as the information is not the responsibility of the Bond Review Board. Senate Bill 5, Eighty-second Legislature, Regular Session, 2011 exempted bond issuances by institutions of higher education with long-term debt ratings of AA- from Bond Review Board oversight. However, information on tuition revenue bond issuances is available upon request or in the Bond Review Board's annual report.

Bond Review Board
Items Not Included in Recommendations - House

		2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
		GR & GR-D	All Funds	FTEs			
Agency Exceptional Items - In Agency Priority Order							
1)	Restore funding related to salaries across all strategies decreased pursuant to the 4 percent reduction.	\$65,253	\$65,253	0.0	No	No	\$0
2)	Funding for a contracted database administrator to perform security patches, software upgrades, and provide training.	\$126,000	\$126,000	0.0	Yes	No	\$0
TOTAL Items Not Included in Recommendations		\$191,253	\$191,253	0.0			\$0

**Bond Review Board
Appendices - House**

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* Appendix is not included - no significant information to report

Bond Review Board
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
REVIEW BOND ISSUES A.1.1	\$326,264	\$281,892	(\$44,372)	(13.6%)	Decrease of \$11,744 in salaries related to the 4 percent reduction; and decrease of \$32,628 related to additional funds allocated to Strategy B.1.1, Analyze Local Bond Debt.
STATE BOND DEBT A.1.2	\$326,264	\$281,892	(\$44,372)	(13.6%)	Decrease of \$11,744 in salaries related to the 4 percent reduction; and decrease of \$32,628 related to additional funds allocated to Strategy B.1.1, Analyze Local Bond Debt.
Total, Goal A, PROTECT TEXAS BOND RATING	\$652,528	\$563,784	(\$88,744)	(13.6%)	
ANALYZE LOCAL BOND DEBT B.1.1	\$652,529	\$720,392	\$67,863	10.4%	Decrease of \$30,021 in salaries related to the 4 percent reduction; offset by an increase of \$97,884 related to the expansion of duties for monitoring and reporting local debt.
Total, Goal B, LOCAL BOND DEBT	\$652,529	\$720,392	\$67,863	10.4%	
ADMINISTER PRIVATE ACTIVITY BONDS C.1.1	\$326,264	\$281,892	(\$44,372)	(13.6%)	Decrease of \$11,744 in salaries related to the 4 percent reduction; and decrease of \$32,628 related to additional funds allocated to Strategy B.1.1, Analyze Local Bond Debt.
Total, Goal C, PRIVATE ACTIVITY BONDS	\$326,264	\$281,892	(\$44,372)	(13.6%)	
Grand Total, All Strategies	\$1,631,321	\$1,566,068	(\$65,253)	(4.0%)	

**Bond Review Board
FTE Highlights - House**

Full-Time-Equivalent Positions	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
Cap	10.0	10.0	10.0	10.0	10.0
Actual/Budgeted	9.8	10.0	10.0	NA	NA

Schedule of Exempt Positions (Cap)					
Executive Director, Group 3	\$125,000	\$128,125	\$128,125	\$128,125	\$128,125

Notes:

a) The State Auditor's Office Reports, Executive Compensation at State Agencies (Report 16-706, August 2016), indicates a market average salary of \$151,577 for the Executive Director position at the Bond Review Board and recommends a change from the current Group 3 classification to Group 4. The agency is not requesting any changes to its Exempt Position.

b) The Bond Review Board's Executive Director retired in December 2016 and the agency is currently conducting a search for an Executive Director. Deputy Director Rob Latsha is serving as the Interim Executive Director.

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

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Programs – Service Reductions	The agency's current number of approved positions is 10 FTEs, and a 10 percent budget reduction for the biennium of \$156,607 would require a reduction in staff.	\$156,607	\$156,607	2.0	\$0	10.0%	Yes
TOTAL, 10% Reduction Options			\$156,607	\$156,607	2.0	\$0		