

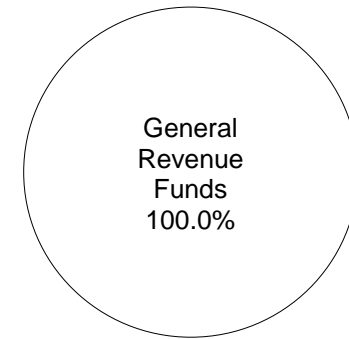
**Bond Review Board  
Summary of Recommendations - Senate**

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RECOMMENDED FUNDING  
BY METHOD OF FINANCING

Method of Financing	2010-11 Appropriations	2010-11 Base	2012-13 Recommended	Biennial Change	% Change
General Revenue Funds	\$1,225,081	\$1,163,827	\$933,935	(\$229,892)	(19.8%)
GR Dedicated Funds	\$0	\$0	\$0	\$0	0.0%
<i>Total GR-Related Funds</i>	<i>\$1,225,081</i>	<i>\$1,163,827</i>	<i>\$933,935</i>	<i>(\$229,892)</i>	<i>(19.8%)</i>
Federal Funds	\$0	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	\$0	0.0%
<b>All Funds</b>	<b>\$1,225,081</b>	<b>\$1,163,827</b>	<b>\$933,935</b>	<b>(\$229,892)</b>	<b>(19.8%)</b>



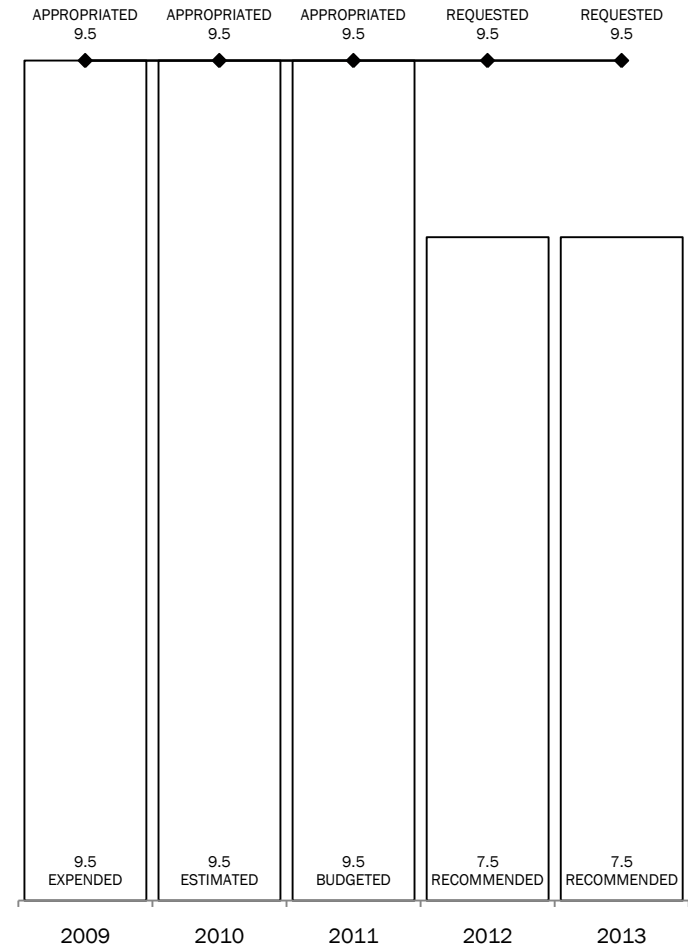
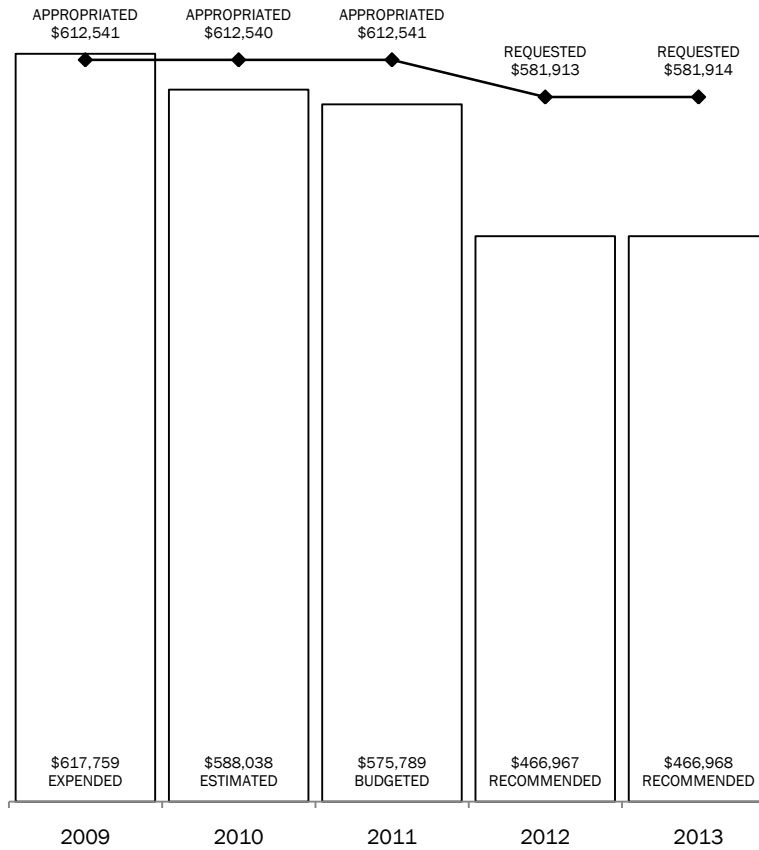
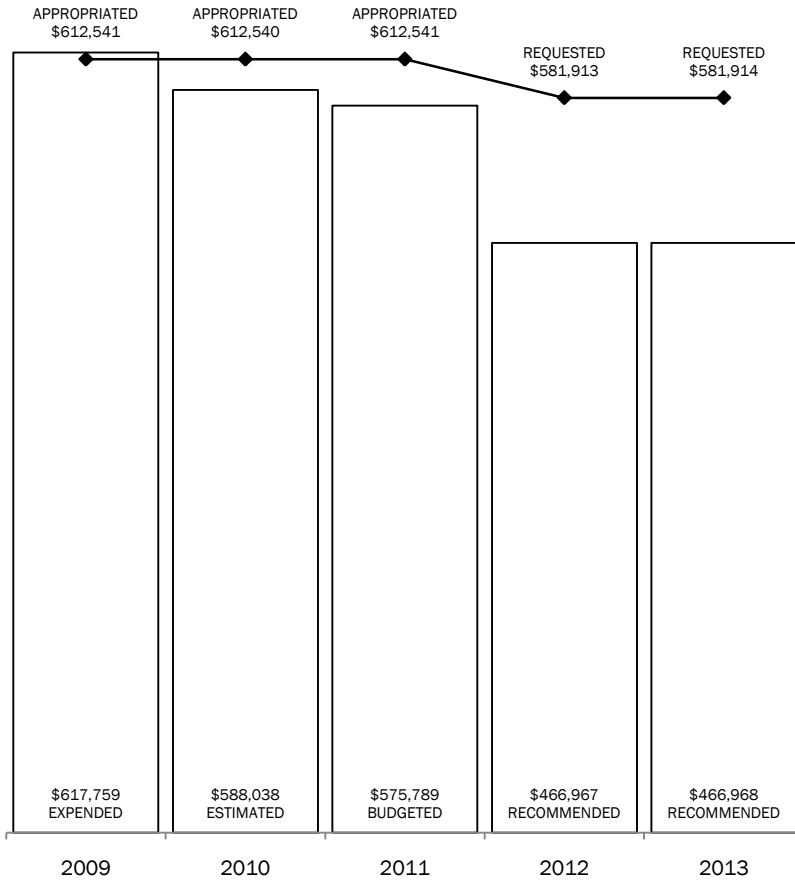
	FY 2011 Appropriations	FY 2011 Budgeted	FY 2013 Recommended	Biennial Change	% Change
<b>FTEs</b>	9.5	9.5	7.5	(2.0)	(21.1%)

The bill pattern for this agency (2012-13 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2012-13 biennium.

**ALL FUNDS**

**GENERAL REVENUE AND  
 GENERAL REVENUE-DEDICATED FUNDS**

**FULL-TIME-EQUIVALENT POSITIONS**



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

Strategy/Goal	2010-11 Base	2012-13 Recommended	Biennial Change	% Change	Comments
					Recommendations maintain staff related to calculating the state debt limit, and the review of state debt for approval by the Bond Review Board.
					Recommendations also maintain the structure of the Private Activity Bond program in anticipation of a rebound in the economy which would result in an increase in the number of applications processed.
REVIEW BOND ISSUES A.1.1	\$325,872	\$325,873	\$1	0.0%	
STATE BOND DEBT A.1.2	\$256,041	\$167,150	(\$88,891)	(34.7%)	Recommendations include a reduction of \$0.1 million in General Revenue for 1 full-time equivalent (FTE), a financial analyst associated with the debt affordability study.
<b>Total, Goal A, PROTECT TEXAS BOND RATING</b>	<b>\$581,913</b>	<b>\$493,023</b>	<b>(\$88,890)</b>	<b>(15.3%)</b>	
ANALYZE LOCAL BOND DEBT B.1.1	\$290,957	\$149,956	(\$141,001)	(48.5%)	Recommendations include a reduction of \$0.1 million in General Revenue for 1 FTE, a financial analyst position associated with local debt analysis.
<b>Total, Goal B, LOCAL BOND DEBT</b>	<b>\$290,957</b>	<b>\$149,956</b>	<b>(\$141,001)</b>	<b>(48.5%)</b>	
ADMINISTER PRIVATE ACTIVITY BONDS C.1.1	\$290,957	\$290,956	(\$1)	(0.0%)	
<b>Total, Goal C, PRIVATE ACTIVITY BONDS</b>	<b>\$290,957</b>	<b>\$290,956</b>	<b>(\$1)</b>	<b>(0.0%)</b>	
<b>Grand Total, All Strategies</b>	<b>\$1,163,827</b>	<b>\$933,935</b>	<b>(\$229,892)</b>	<b>(19.8%)</b>	

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### Bond Review Board Selected Fiscal and Policy Issues

1. **Fiscal Implications of Recommendations.** Potential creation of a backlog in the analysis of state and local debt information and delays in the availability of this information to public officials due to the elimination of 2 full-time equivalent positions (Financial Analysts) for the following activities:
  - Debt affordability study which is due February of even-numbered years; and
  - Analysis of local government debt for updating the web accessible local debt data base and the annual report which is due every December.
2. **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 – excludes revenues constitutionally dedicated for purposes other than payment of state debt – 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 2010, the BRB 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 2010, the issued, and authorized but unissued debt was reported at 4.10 percent.

Any significant changes in the following components could impact where the state stands in relation to the CDL:

- Increase in authority and/or issuance of not self-supporting (debt supported by General Revenue) GO or Revenue Bond debt;
- Reduction in the amount of unrestricted General Revenue;
- Increased interest rates on issued debt and in the assumptions used for authorized but unissued debt;
- Amount of outstanding debt paid in fiscal year 2011;
- Repeal of existing authorized but unissued and unobligated not self-supporting debt; and/or,
- Reclassification of debt from not self-supporting to self-supporting debt. For example, in July 2010, the BRB reclassified State Participation GO bond debt from not self-supporting to self-supporting. Assuming no other factors changed, LBB staff estimate the impact of this reclassification of debt to the fiscal year 2009 CDL ratio would be reduced from 4.08 percent to 4.06 percent.

3. **Legislative Budget Board Staff Review – Constitutional Debt Limit.** LBB staff researched issues involving the debt limit including current debt authorizations, how the limit is calculated, and issuance history. As mentioned above, the Texas Constitution prohibits annual debt service on General Revenue supported debt from exceeding 5 percent of the three-year average of unrestricted General Revenue. Revisions to certain assumptions in the debt limit calculation and to the process for authorizing new debt would enable the state to remain below the debt limit. The report is included in the Government Effectiveness and Efficiency Report.

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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. In August 2009, S&P raised its rating for Texas' general obligation debt to AA+ from AA, indicating that the state's GO bonds were high quality and one grade from AAA, or best quality. S&P also indicated that the outlook is stable for Texas due to the expectation that Texas' economy will recover soon and at a faster rate than other states.

In April 2010, Moody's and Fitch, separately, recalibrated municipal bond ratings for states to align the municipal ratings criteria with the criteria used to assess the creditworthiness of other types of issuers, such as corporations. As a result of the recalibration, Moody's changed Texas' GO Bond rating to Aaa, best quality, from Aa1; and Fitch changed the rating to AAA, best quality, from AA+. Changes to the state's GO bonds at the time of sale are expected to be minimal because prior to the recalibration, Texas is selling at near AAA interest rates.

Notwithstanding these changes to Texas' GO bond rating, according to the BRB significant changes to all or some of the following factors may result in a downgrade in the rating and subsequently an increase in interest rates for the state's GO bond debt:

- *Economy:* A continued downturn in the state's income, employment, economic diversity and demographics;
- *Finances:* The financial structure of the state including revenues, costs, balance sheet health, and liquidity; rainy day fund balance; spending per capita; and changes in full-time equivalents;
- *Debt:* The financial condition of the state including debt ratios such as debt per capita and debt to percent of personal income, debt security, and debt structure;
- *Management:* Management practices and the development of the budget including, balanced budget requirements, statewide restructuring of debt, the use of lease-purchase agreements without new revenues to support the debt, constitutional restrictions, and reserve fund policies including the use of the Rainy Day Fund.

Additionally, in January 2011, Fitch Ratings' outlook for the US state government sector was reported as negative and an above average number of downgrades to states' bond ratings are possible in 2011. Fitch identifies several key indicators of a state's strength in fiscal management and the actions states take in response to these factors may impact a state's GO bond rating. Some of the key factors are identified below:

- Expiration of Federal Stimulus Funds;
- Slow Revenue Recovery;
- Elevated Demand for State Services;
- Anti-Tax Environment; and
- Pension Funding Demands.

5. **Private Activity Bond Allocation Program Revenue.** The BRB administers the private activity bond (PAB) allocation program as required by Government Code §1372. Statute authorizes the BRB 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. The BRB collects a \$500 non-refundable application fees for a reservation or carry-forward of state ceiling and certain issuers are also required to remit to the BRB related closing costs of at least \$1,000. Statute also authorizes the BRB to collect a \$5,000 application fees 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

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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 BRB are currently deposited to the unappropriated General Revenue Fund.

According to the BRB, the decrease of approximately \$0.6 million, or 42.8 percent in PAB related revenue in fiscal year 2008 as compared to fiscal year 2007, was primarily due to the downturn in the housing tax credit market, unstable interest rates, and the hesitancy of lenders to make mortgage loans. The difficulties in the housing market, specifically the ability of low-income housing issuers to close on multi-family mortgage revenue bonds mostly attribute to the continued decline in PAB related revenue in subsequent fiscal years.

The table below shows the amount collected for Private Activity Bond Allocation Program related fees from fiscal year 2006 to fiscal year 2010.

<b>Private Activity Bond Allocation Program Revenue</b>				
FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual
\$1,149,316	\$1,348,330	\$770,884	\$457,408	\$548,986

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**Bond Review Board  
FTE Highlights**

Full-Time-Equivalent Positions	Expended 2009	Actual 2010	Budgeted 2011	Recommended 2012	Recommended 2013
Cap	9.5	9.5	9.5	7.5	7.5
Actual/Budgeted	9.5	9.5	9.5	NA	NA
<b>Schedule of Exempt Positions (Cap)</b>					
Executive Director, Group 3	\$90,000	\$99,000	\$99,000	\$99,000	\$99,000

Recommendations include reductions of 2 Financial Analyst positions affecting strategies A.1.2, State Bond Debt for the debt affordability study; and B.1.1, Analyze Local Bond Debt for updating the agency's web accessible local debt data base and the annual report.

State Auditor's Office Report 10-706, *A Classification Study on Exempt Positions*, recommends that the salary cap for the Executive Director be increased from \$99,000 per fiscal year to the market average of \$116,611, with no change to the current Group 3 classification.

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**Bond Review Board  
Performance Measure Highlights**

	Expended 2009	Actual 2010	Budgeted 2011	Recommended 2012	Recommended 2013
<ul style="list-style-type: none"> <li>• <i>Number of State Bond Issues and Lease-purchase Projects Reviewed</i></li> </ul> <p><i>Provides for the number of state bond issues and lease-purchase projects that are greater than \$250,000 and /or with a term of five years or more that require BRB approval and are reviewed by BRB staff.</i></p>	50	53	65	55	60
<ul style="list-style-type: none"> <li>• <i>Number of Responses to Debt Information Requests</i></li> </ul> <p><i>Provides for the number of responses regarding debt information such as published material, informational reports and formal written communications that are provided to rating agencies, bond counsel, state agencies and other third-party users.</i></p>	126	98	250	100	150
<ul style="list-style-type: none"> <li>• <i>Number of Local Government Financings Analyzed</i></li> </ul> <p><i>Provides for the number of individual local government financings closed during fiscal year that are analyzed by BRB staff.</i></p>	1,137	1,194	1,200	600	600
<ul style="list-style-type: none"> <li>• <i>Number of Applications Reviewed</i></li> </ul> <p><i>Provides for the total number of private activity bond applications reviewed by BRB staff.</i></p>	88	84	185	90	100

2012-13 recommended targets reflect the reduction of 2 full-time equivalents related to the debt affordability study and the analysis of local debt information.



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

Reports & Recommendations	GEER Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Is included in the Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

## Section 5

### Bond Review Board Rider Highlights

2. (Old) **Debt Issuance Technical Assistance to School Districts.** Delete rider due to related budget reduction.

**Section 6**

**Bond Review Board  
Items not Included in the Recommendations**

	<u>2012-13 Biennial Total</u>	
	<u>GR &amp; GR- Dedicated</u>	<u>All Funds</u>
1. Increase FTE cap by 0.5 FTEs for an Accounting Technician position to maintain the local government debt database.	\$ 40,000	\$ 40,000
<b>Total, Items Not Included in the Recommendations</b>	<b>\$ 40,000</b>	<b>\$ 40,000</b>