

Section 1

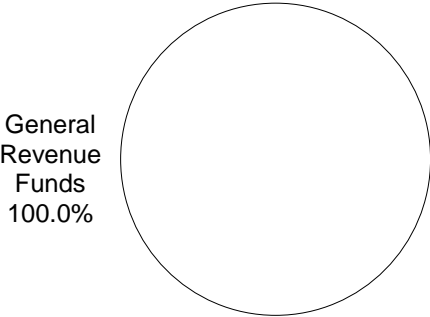
Bond Review Board
Summary of Recommendations - Senate

Page: I-14
Robert Kline, Executive Director

Emily Morganti, LBB Analyst

Method of Financing	2012-13 Base	2014-15 Recommended	Biennial Change	% Change
General Revenue Funds	\$975,456	\$975,456	\$0	0.0%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$975,456	\$975,456	\$0	0.0%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$975,456	\$975,456	\$0	0.0%

RECOMMENDED FUNDING
BY METHOD OF FINANCING



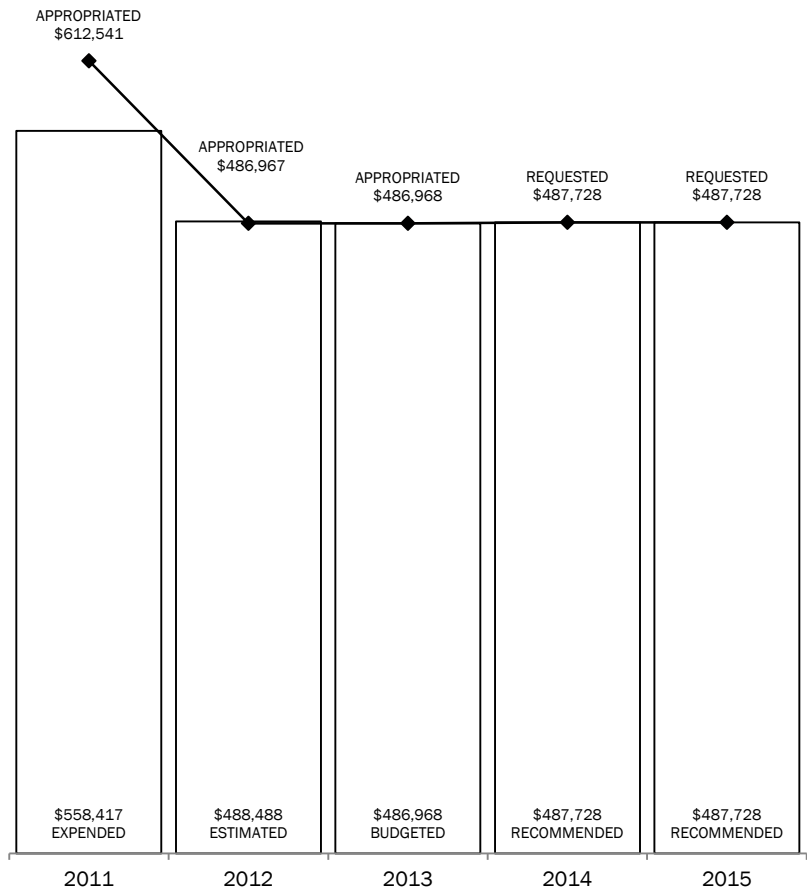
	FY 2013 Budgeted	FY 2015 Recommended	Biennial Change	% Change
FTEs	8.0	8.0	0.0	0.0%

The bill pattern for this agency (2014-15 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2014-15 biennium.

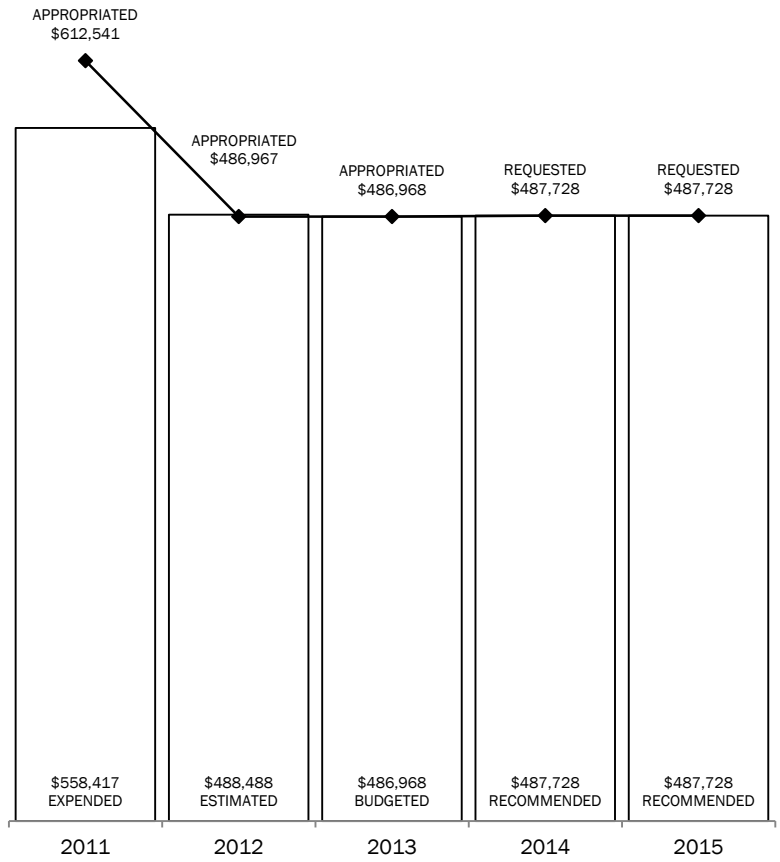
Section 1
Bond Review Board
2014-2015 BIENNIUM

TOTAL= \$975,456

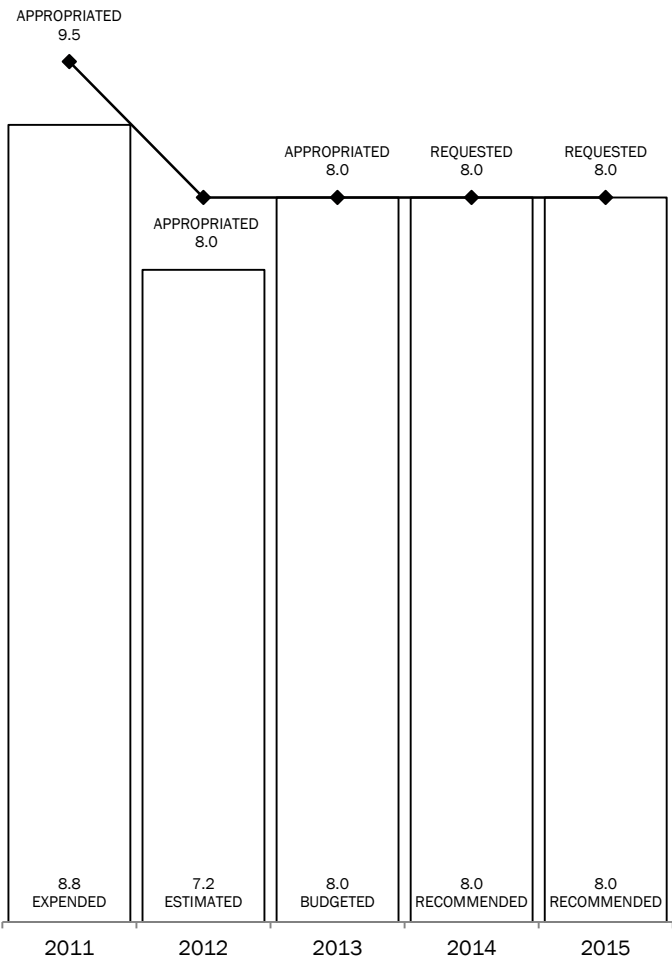
ALL FUNDS



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	2012-13 Base	2014-15 Recommended	Biennial Change	% Change	Comments
					Recommendations include an agency requested reallocation of General Revenue among all strategies to reflect a shift in workload primarily due to increased inquiries related to local debt and staff turnover. The agency continues to cross-train all staff to distribute the workload.
REVIEW BOND ISSUES A.1.1	\$327,394	\$224,356	(\$103,038)	(31.5%)	
STATE BOND DEBT A.1.2	\$167,151	\$214,600	\$47,449	28.4%	
Total, Goal A, PROTECT TEXAS BOND RATING	\$494,545	\$438,956	(\$55,589)	(11.2%)	Recommendations reflect a decrease of \$0.1 million in General Revenue, primarily due to a decrease in the number of required reviews for certain institutions of higher education with a bond rating of AA- or higher.
ANALYZE LOCAL BOND DEBT B.1.1	\$189,956	\$292,636	\$102,680	54.1%	
Total, Goal B, LOCAL BOND DEBT	\$189,956	\$292,636	\$102,680	54.1%	Recommendations reflect an increase on \$0.1 million in General Revenue, primarily due to an increase in the number of inquiries related to local debt. (See Selected Fiscal and Policy Issues #1).
ADMINISTER PRIVATE ACTIVITY BONDS C.1.1	\$290,955	\$243,864	(\$47,091)	(16.2%)	
Total, Goal C, PRIVATE ACTIVITY BONDS	\$290,955	\$243,864	(\$47,091)	(16.2%)	
Grand Total, All Strategies	\$975,456	\$975,456	\$0	0.0%	

Bond Review Board
Selected Fiscal and Policy Issues

1. **State Debt Versus Local Debt.** According to the Bond Review Board (BRB), as of August 31, 2012, Texas had a total of \$249.9 billion in state and local outstanding debt. Approximately \$207.8 billion, or 83 percent, was considered local debt, with the remaining \$42.0 billion in state debt outstanding. Although local debt comprises the majority of Texas outstanding debt and has more than doubled in the past 10 years, state debt has also increased at a faster rate and nearly tripled in the same amount of time. Compared to other states, Texas ranks ninth out of the ten most populous states in the amount of state debt outstanding. For local debt outstanding out of the ten most populous states, Texas ranks second.

The agency's Local Debt Report is expected to be published in April 2013, and will include updated local debt figures. As of August 31, 2011, Texas local governments had approximately \$192.7 billion in outstanding debt, and of the outstanding local debt \$116.9 billion, or 61 percent, is supported by local tax collections. The large reliance on tax-supported local debt has led to increased scrutiny of local debt within Texas.

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 – 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 2012, the BRB reported that the issued debt was 1.34 percent, which is approximately \$4.1 billion debt outstanding;
- 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 2012, the issued, and authorized but unissued debt was reported at 3.48 percent, which is approximately \$11.9 billion debt outstanding plus authorized but unissued debt.

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 debt;
- Amount of outstanding debt paid in fiscal year 2013
- 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.

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, 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 August 2009, when 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. Both Moody's and Fitch rate Texas' general

obligation bond debt as AAA.

4. **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 fee 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 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 BRB are currently deposited to unobligated General Revenue.

Revenue collections from PABs have decreased by approximately 46 percent over the past five years. According to the BRB, the decrease in PAB related revenue is primarily related to fewer applicants due to extremely low interest rates. The attractiveness of PABs decreases with 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 2012.

Private Activity Bond Allocation Program Revenue				
FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual
\$770,885	\$457,408	\$548,986	\$507,076	\$413,753

Source: Bond Review Board

**Bond Review Board
FTE Highlights**

Full-Time-Equivalent Positions	Expended 2011	Estimated 2012	Budgeted 2013	Recommended 2014	Recommended 2015
Cap	9.5	8.0	8.0	8.0	8.0
Actual/Budgeted	8.8	7.2	8.0	NA	NA
Schedule of Exempt Positions (Cap)					
Executive Director, Group 3	\$99,000	\$99,000	\$99,000	\$99,000	\$99,000

State Auditor's Office Report 12-708, Executive Compensation at State Agencies, indicates a market average of \$122,242 for the Executive Director position. No changes to the current Group 3 classification were recommended.

**Bond Review Board
Performance Measure Highlights**

	Expended 2011	Estimated 2012	Budgeted 2013	Recommended 2014	Recommended 2015
<ul style="list-style-type: none"> Number of State Bond Issues and Lease- 	33	27	60	35	35
<i>Measures 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. There was a decrease in the number of state bond issues and lease-purchase projects reviewed due to a statutory change during the 82nd Legislature exempting institutions of higher education not issuing General Revenue supported debt with a long term debt rating of AA- or higher from obtaining approval from the BRB. The 2014-15 recommended targets reflect an expected decrease in the number of projects reviewed.</i>					
<ul style="list-style-type: none"> Number of Applications Reviewed 	55	55	110	60	60
<i>Measures the total number of private activity bond applications reviewed by BRB staff. The decrease in the number of applications reviewed is due to fewer applicants for the Private Activity Bond Allocation program. The 2014-15 recommended targets reflect a continued decrease in the number of applicants due to lower interest rates.</i>					

Section 4

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

Reports & Recommendations	Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
Increase Transparency for Tuition Revenue Bonds	405					
1. Include a rider to require the agency to distribute debt outstanding and debt service schedule information for tuition revenue bonds collected from higher education institutions to LBB.					Rider 2	

**Bond Review Board
Rider Highlights**

2. **Tuition Revenue Bond Debt Service.** Add new rider requiring the Bond Review Board to distribute debt outstanding and debt service schedule information for tuition revenue bonds collected from higher education institutions to the LBB.

Bond Review Board
Items not Included in the Recommendations

NONE