

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 11, 2007

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: SB1332 by West, Royce (Relating to the establishment of debt management policies and guidelines by the Bond Review Board.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1332, As Introduced: a negative impact of (\$132,918) through the biennium ending August 31, 2009.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	(\$66,459)
2009	(\$66,459)
2010	(\$66,459)
2011	(\$66,459)
2012	(\$66,459)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from GENERAL REVENUE FUND 1
2008	(\$66,459)
2009	(\$66,459)
2010	(\$66,459)
2011	(\$66,459)
2012	(\$66,459)

Fiscal Analysis

The bill would implement recommendations in the *LBB Government Effectiveness and Efficiency Report* entitled "Enhance the Management and Oversight of State Debt." The goal of these recommendations is to improve the management and oversight of state debt by establishing or expanding the duties of the Bond Review Board (BRB) and other agencies with a role in the debt management process.

Section 1 amends the Government Code § 1201.027 to require issuers of a state security to submit to the BRB for informational purposes their Request for Proposal (RFP) documents when choosing service providers. The bill would require issuers to submit information in three stages: 1) seven days prior to RFP publication; 2) upon receipt of all final proposals prior to entering into a contract for such services; and 3) documentation related to the contracting of the services, including an explanation

for the selection of the service provider, no later than seven days after the contract has been entered into.

Section 2 amends the Government Code by adding § 1231.034 to create a Debt Management Committee. The committee would provide expertise on debt related issues and projects, policy guidance for the Debt Affordability Study, and assistance on evaluating and ranking capital project proposals. The committee would be composed of one representative from the BRB, the Texas Public Finance Authority (TPFA), Texas Higher Education Coordinating Board (THECB), the Office of the Attorney General (OAG), the Comptroller's office, the Governor's office, the Legislative Budget Board (LBB), the Lieutenant Governor's office, the Speaker of the House, the Senate Finance Committee and the House Appropriations Committee. In addition, one other state debt issuer would be included, as selected by the executive director of the Board. Section 2 also requires capital project evaluation by adding § 1231.025 to the Government Code. This section provides the BRB authority to develop procedures for evaluating and objective ranking by priority each capital project proposal.

Section 3 amends the Government Code by adding § 1231.045 which outlines that an entity that issues a state security may not enter into an interest rate swap agreement unless approved by the BRB or exempted by the BRB under the existing § 1231.022(2).

Section 4 adds the Government Code § 1231.063. This requires the BRB, in consultation with the TPFA and the LBB, to annually prepare a Debt Affordability Study. The study would be submitted no later than December 1 of each year to the Governor, Comptroller, Lieutenant Governor, Speaker of the House as well as the Senate Finance and House Appropriations Committees. The study must include a target and limit for debt service as a percentage of unrestricted revenues and monitor changes in four other debt burden measures outlined in Section 4.

Section 5 amends the Government Code § 1231.081 by adding Subsection (d) requiring issuers to submit to the BRB for prior approval all issuance costs described by Subsection (c) while planning state security issuance.

Sections 6, 7, 8, and 9 amend the Government Code § 2306.351 as well as the Natural Resources Code § 161.074, § 162.052, and § 164.010 respectively. Each requires that the BRB approve an interest rate swap agreement entered into under the authority of those sections.

The Act would take effect on September 1, 2007.

Methodology

The methodology used to determine the cost is based on the new duties added to the Bond Review Board including the annual update to the Debt Affordability Study (DAS), the coordination of the Debt Management Committee, and the integration of capital planning with the level of additional debt service capacity identified by the DAS.

The costs included are attributed to the hiring of a FTE at the B15 salary level (\$51,225) and benefits (29.74 percent of salary, \$15,234) for a total of \$66,459 per fiscal year. This cost does not raise the BRB's FTE cap of 9.5 FTEs, but rather appropriates additional funds to fully fund the agency's current FTE cap. The new staff member would be expected to work on some of these new duties, but the division of labor could be adjusted by the agency.

The bill also expands existing duties of the BRB in areas related to cost of issuance approval, reviewing issuer submission of Request for Proposal (RFP) information for service providers, and the approval of interest rate swap agreements. The agency should be able to absorb these duties within existing agency resources.

Technology

No significant fiscal impact to technology is expected from the implementation of this bill.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 347 Public Finance Authority, 352 Bond Review Board

LBB Staff: JOB, CT, JRO, JI, JJO