

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 19, 2013

TO: Honorable Troy Fraser, Chair, Senate Committee on Natural Resources

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB4 by Ritter (Relating to the administration and functions of the Texas Water Development Board; authorizing the issuance of revenue bonds.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4, Committee Report 2nd House, Substituted: a negative impact of (\$4,354,390) through the biennium ending August 31, 2015.

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
2014	(\$1,777,668)
2015	(\$2,576,722)
2016	(\$3,640,548)
2017	(\$3,598,533)
2018	(\$3,598,533)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2013
2014	(\$1,777,668)	9.0
2015	(\$2,576,722)	21.3
2016	(\$3,640,548)	33.6
2017	(\$3,598,533)	33.6
2018	(\$3,598,533)	33.6

Costs shown in tables are administrative costs estimated to support the assumed passage of either HB11, which would make an appropriation of \$2.0 billion from the Economic Stabilization Fund to the State Water Implementation Fund for Texas (SWIFT), or SJR 1, which would transfer \$2.5 billion from the Economic Stabilization Fund to the SWIFT. These administrative costs associated

with the water plan were previously included in the fiscal note for HB 11. They will no longer be reflected in the fiscal note for that legislation.

Fiscal Analysis

The bill would provide that the Texas Water Development Board (TWDB) be composed of three full-time members rather than six part-time members and meet certain requirements. The bill creates the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT), each as a special fund outside the State Treasury, to be administered by TWDB and to be used to finance projects in the state water plan. The funds could consist of money transferred or deposited by law; the proceeds of any fee or tax imposed by the state; other revenue dedicated by the Legislature; and investment and interest earned on the balance of the funds. The SWIFT may receive money transferred to the fund under a bond enhancement agreement (BEA). The SWIRFT may receive the proceeds from the sale of certain bonds as well as money disbursed to the fund from the SWIFT.

The SWIFT would be held by the Texas Treasury Safekeeping Trust Company (TTSTC) for, and in the name of, TWDB. The TTSTC may charge fees consistent with other fees it charges for investment management services from earnings of the SWIFT. TWDB may direct the TTSTC to disburse money from the SWIFT not more than twice annually, pursuant to BEAs in amounts determined by TWDB for the support of general obligation bonds or revenue bonds, the proceeds of which could be deposited to the SWIRFT, the Water Infrastructure Fund, the Rural Water Assistance Fund, the State Participation Account, or the Agricultural Water Conservation Fund.

The SWIFT must be disbursed through a BEA for debt service payments on or security provisions of authorized TWDB general obligation or revenue bonds. Of money disbursed from the SWIFT during a five-year period between adoption of state water plans, TWDB must undertake to apply not less than: 10 percent to support projects that are for rural political subdivisions or agricultural water conservation; and 20 percent to support projects for water conservation or reuse, including agricultural water conservation in certain statistical areas of the state.

TWDB may direct the TTSTC to enter into BEAs to support the financing or refinancing of projects included in the state water plan which may be pledged for the payment of revenue and general obligation bonds, including TWDB's constitutionally-authorized bonds under Article III, Sections 49-d-9 and 49-d-11 of the Texas Constitution. A BEA may also be entered into for not self-supporting bonds issued before September 1, 2013.

The bill would require TWDB to prioritize state water plan projects for the purpose of providing financial assistance, based on certain criteria. Regional water planning groups would also prepare a draft prioritization of projects and submit it to TWDB by June 1, 2014 and a final prioritization by September 1, 2014. The prioritization applies to a regional water plan due January 5, 2016.

The bill would also create the SWIFT Advisory Committee consisting of seven members, and require the Committee to submit comments and recommendations to the TWDB regarding the prioritization of projects, rulemaking, and an evaluation related to the financing of state water plan projects and other provisions as described in the bill.

The bill would require TWDB to adopt rules providing for the use of the SWIFT, including criteria for project funding and the manner for prioritizing projects. The bill would require that TWDB provide a biennial report to the Governor, Lieutenant Governor, Speaker of the House, and members of the Legislature regarding the use of the SWIFT, including projects for rural areas, conservation, and reuse. Additionally, the bill would require TWDB to post certain related

information on its website.

SWIRFT money may be used without further appropriation to provide financing for projects included in the state water plan, which may include using money in the fund as a source of revenue or security for principal and interest payments. TWDB may issue revenue bonds for the purpose of providing money for the fund. The SWIRFT may be used to make loans to fund participants, purchase participant bonds or other obligations, guarantee debt service payments and purchase insurance. At the direction of TWDB, the SWIRFT may be held by either the Comptroller or a corporate trustee that is a trust company or a bank with the powers of a trust company.

The bill amends sections of the Texas Water Code relating to engineering plans and certain related practices.

Methodology

TWDB estimates costs of approximately \$2.4 million in the 2014-15 biennium to transform TWDB from its current composition to three full-time members. The analysis assumes three new full-time board members would be paid \$150,000 per fiscal year, based upon commissioner compensation at the Texas Commission on Environmental Quality and the Public Utility Commission. Each member would be supported by an executive assistant paid \$53,061 per fiscal year and a program specialist paid \$85,603 per fiscal year. Together, salaries (\$865,992), related employee benefits (\$257,546), and operating expenses (\$51,100) would cost \$1.2 million each fiscal year. One-time start up costs in fiscal year 2014 for office space build-out, furniture, and equipment for new personnel would be \$91,730.

TWDB reports that the creation of the SWIFT and adoption of related rules could be absorbed within existing agency resources. Assuming the passage of either HB11 or SJR1, which would provide funding for the SWIFT from the Economic Stabilization Fund, the agency would incur costs of approximately \$1.9 million for program administration for the 2014-15 biennium. TWDB reports that the difference in potential SWIFT funding of \$2 billion or \$2.5 billion would not change the total program administration costs necessary to accomplish related provisions of the bill. This analysis assumes these costs would be paid from the General Revenue Fund as payment of administrative expenses is not an allowable use of SWIFT under provisions of the bill. TWDB has indicated that General Revenue appropriations for existing not self-supporting bonds may not be necessary in fiscal year 2015 or subsequent years depending on when assets became available and when the BEA is effective. Potential savings to the General Revenue Fund from this provision cannot be determined at this time and as such are not reflected in the tables above.

TWDB would require \$511,300 in fiscal year 2014 for bond counsel services and cost increases in Regional Planning grants for prioritization of projects in the current and upcoming State Water Plan. In fiscal year 2015, an additional \$1.4 million to fund 12.3 FTEs would be required to administer funds, manage the increased loan portfolio, and provide project review and technical assistance. Included in the \$1.4 million is \$250,000 for bond counsel services and increased Regional Planning grant costs. Specific staff would include: Financial Analysts (2.3 FTE) for loan portfolio management, application review and loan closings; Accountants (1.6 FTE) for loan closings, financial management and reporting; Financial Examiner (0.8 FTE) to provide technical assistance and monitor the financial stability of underlying borrowers; Program Specialist (1.0) for general project oversight and preparation of water loss audits; Engineer II (1.8 FTE) for engineering review of projects during application and after commitment; Natural Resource Specialist (0.8 FTE) to provide environmental review of projects; Engineering Specialist (2.4 FTE) to conduct field inspections during the construction phase of the project; and, other

support staff including an Attorney III (0.8 FTE) and Contract Specialist III (0.8 FTE) to review contracts and payments.

Provisions related to TTSC are anticipated to be absorbed within the earnings of the new fund and not have a significant fiscal impact. The Office of the Attorney General anticipates that any additional workload as a result of the passage of this bill could be reasonably absorbed with current resources. According to the Bond Review Board, bonds issued and BEAs created as a result of passage of this bill would be self-supporting debt and would not have a fiscal impact nor require a pledge of state resources.

The bill, in and of itself, would have no fiscal impact with regard to funds deposited to the funds created outside the state treasury. However, any eventual amounts provided to capitalize the funds would have a fiscal impact. According to the Comptroller of Public Accounts, the fiscal impact of any funds potentially transferred back into the treasury cannot be estimated.

The bill would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Technology

TWDB anticipates \$84,120 of projected administrative costs for the 2014-15 biennium would be needed for technology equipment.

Local Government Impact

The bill would provide local entities with subsidized financing for projects eligible for TWDB funding. Based on a hypothetical SWIFT portfolio model provided through the House Committee on Natural Resources, it is estimated that approximately \$750 million in new assistance would be provided each year beginning in fiscal 2015, based on provisions of SJR1. According to TWDB, this would provide for approximately 30 projects to be financed annually.

Source Agencies: 302 Office of the Attorney General, 352 Bond Review Board, 304 Comptroller of Public Accounts, 580 Water Development Board

LBB Staff: UP, TB, SZ, ZS, PM