LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 27, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HJR8** by Otto (Proposing a constitutional amendment to dedicate certain money to the purpose of retiring state debt early.), **As Engrossed**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $118,681.

The resolution would propose an amendment to Section 49-g (Economic Stabilization Fund), Article III, of the Texas Constitution, regarding the dedication of certain money to the purpose of retiring state debt early.

The Comptroller would be directed, when required by this resolution to reduce the amount of General Revenue (GR) funds otherwise transferred to the Economic Stabilization Fund (ESF) to prevent the ESF balance from exceeding its constitutional cap, to transfer that amount of money from GR to the new GR account created by this amendment. The Comptroller also would follow this procedure when GR interest earnings would otherwise be due to the ESF. Money in the new GR account may be appropriated only for the purpose of retiring state debt early. Depending on the type and size of debt repayment there could be an indeterminate savings of General Revenue debt service payments.

With respect to unencumbered balances, no such amounts have been projected affecting the upcoming 2016-17 biennium. In future periods, the resolution could have a negative impact on the ending GR balance. The fiscal impact, however, cannot be estimated at this time. Assuming no further legislative actions regarding the ESF effective for the 2016-17 biennium, the expected ESF balance is expected to be $11.1 billion at the end of the 2016-17 biennium, below the ESF constitutional limit of an estimated $16.1 billion. According to the Biennial Revenue Estimate, the passage of House Bill 8 would lower the estimated 2018-19 ESF cap to $11.8 billion, which would make funds available to be transferred to the new GR account for retiring state debt early beginning in fiscal year 2018. Estimates of these amounts are shown in the fiscal note for House Bill 8 as a gain to GR, since House Bill 8 does not dedicate the revenue to the new GR account for retiring state debt early.

The joint resolution indicates no preference of debt retirement for self-supporting debt or not-self supporting debt. The Bond Review Board indicated that financial advisors and issuers continually review outstanding state obligations looking for maturities to refund.

According to the BRB, state issuers of not-self supporting debt have generally adopted level-principal amortization in which the initial par of the bonds is divided equally among the maturities and the principal is repaid equally each year. Level-principal debt service is a conservative structure that front-end loads debt service. As a result, after 10 years the interest component of the remaining debt service is much less compared to other common structures, and almost 75% of the interest will have been paid before the debt is callable. In addition, by reducing par more quickly than other repayment structures, level-principal payments restore debt capacity more quickly than other structures. The likely remaining candidates for a theoretical debt repayment would be lower interest maturities and outstanding commercial paper.

Once enacted and utilized, the process allowed for in the resolution should have a positive impact on the Constitutional Debt Limit.

The proposed amendment would be submitted to voters at an election to be held November 3, 2015.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 347 Public Finance Authority, 352 Bond Review Board

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