HOUSE
RESEARCH
ORGANIZATION bill analysis 5/1/2001

HB 2190
Junell

SUBJECT: Establishing debt issuance policies by the Bond Review Board

COMMITTEE: Financial Institutions — favorable, without amendment

VOTE: 8 ayes — Averitt, Solomons, Denny, Grusendorf, Hopson, Menendez, Pitts, Wise

0 nays

1 absent — Marchant

WITNESSES: For — None

Against — None

On — *Registered but did not testify:* Lita Gonzalez, Comptroller of Public Accounts

BACKGROUND: The Texas Bond Review Board, created in 1987, reviews and approves all bonds, as well as installment sales or lease-purchases over $250,000, issued by state agencies and universities. The board reviews the financial feasibility of proposed bond issues, planned uses for proceeds, issuance costs, and legal authority of an issuing agency. Often, the board studies matters involving legislative policy and provides information on state debt to the Legislature, the financial community, other state agencies, and the general public. A four-member board composed of the governor, lieutenant governor, House speaker, and comptroller or their respective designees, governs the agency, which has 10.5 full-time employees. The board is not subject to sunset review.

DIGEST: HB 2190 would amend Government Code, ch. 1231, by adding sec. 1231.023 to establish debt issuance policies and guidelines by the Bond Review Board. The board would have to adopt debt issuance policies to guide issuers of state securities and to ensure that state debt was prudently managed. Board policies would have to be sufficiently flexible to allow the state and issuers of state securities to respond to changing economic conditions. The board would consult with issuers of state securities in developing policies.

Under HB 2190, the board would adopt policies that:

- provided a mechanism for evaluating the amount of state debt that could be managed prudently;
- addressed opportunities to consolidate debt authority;
- included guidelines for appropriate levels of reserves, types of state securities, and terms or structure of state securities;
- helped the board and issuers of state securities to evaluate potential risks and effects of issuances on the finances and overall debt position of the issuer and of the state; and
- recommended other advisable practices related to the issuance of a state security.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

SUPPORTERS SAY:

HB 2190 would allow the board to work with debt-issuing agencies under approved state policies and standards for debt issuance to enhance the state's financial standing. Texas issues billions of dollars' worth of debt in bonds and commercial paper notes each year through the board, but has no formal statewide debt policy. This legislation would ensure that decisions related to state debt do not limit the state's ability to issue future debt, that all debt is managed prudently, and that state strategic goals are met. A formal debt policy for the board could result in a higher bond rating for state government, which could in turn reduce its borrowing costs.

When the Legislature created the board, it gave the board oversight responsibilities for feasibility of proposed bond issues, planned uses for proceeds, issuance costs, and the legal authority of the issuing agency. However, the board's supervision does not begin until the final phases of the debt issuance process. Decisions involving the structure and issuance of state bonds and notes are made by the debt-issuing agencies. The state needs debt policies, such as an affordability study, that would permit involvement sooner in the debt process and allow response to changing economic conditions.

OPPONENTS SAY: No apparent opposition.