HOUSE
RESEARCH
ORGANIZATION bill analysis 5/21/2007

SB 1332
West
(Chavez)

SUBJECT: Coordinating state agency debt management practices

COMMITTEE: Financial Institutions — favorable, without amendment

VOTE: 6 ayes — Solomons, Flynn, Chavez, Anchia, Anderson, Orr

0 nays

1 absent — McCall

SENATE VOTE: On final passage, May 3 — 31–0, on Local and Uncontested Calendar

WITNESSES: No public hearing

BACKGROUND: The Texas Bond Review Board is composed of the governor, the lieutenant governor, the speaker of the House, and the comptroller. The agency works to ensure that debt financing is used to meet Texas' infrastructure and other needs; to support the debt issuance and debt management functions of state and local entities; and to administer the state's private activity bond allocation.

Under Government Code, sec. 1201.027, an issuer of a public security has exclusive authority to contract with a person to provide services to aid in the issuance of a public security.

DIGEST: SB 1332 would make changes to the oversight of debt issuance by the state of Texas.

Request for proposals. The bill would require an issuer of a state security that contracted with a person to aid in the issuance of a security to submit, on request, to the Bond Review Board (BRB):

- the request for proposals to provide services;
- each proposal received to provide services; and
- an executed contract for services.

Interest rate management agreements. An issuer of a state security could not enter into an interest rate management agreement on a state security unless the BRB approved the agreement. Certain securities would be exempt from this requirement, including securities that were exempted from review by BRB rule, when was determined that review was unnecessary and impractical.

The requirement would not apply to an issuer that had at least three interest rate management agreements or one or more agreements with notional amounts of at least $400 million, which would include the Veteran's Land Board, the University of Texas, the Texas Department of Housing and Community Affairs and the Texas Department of Transportation.

Debt affordability study. The BRB would be directed to prepare an annual study on the state's debt burden. The study would determine the amount of additional non-self-supporting debt the state could accommodate, based on historic debt use and the financial and economic resources of the state. The study would have to include a mechanism that could calculate:

- non-self-supporting debt service as a percentage of unrestricted revenue;
- the ratio of non-self-supporting debt to personal income;
- the per capita amount of non-self-supporting debt;
- the rate of debt retirement; and
- the ratio of non-self-supporting debt to budgeted or expended general revenue.

The mechanism would be used to guide debt authorizations and debt service appropriations. The study would show how annual changes and new debt authorizations affected these factors. It would have to include a target and limit ratio for non-self-supporting debt service as a percentage of unrestricted revenues.

A copy of the study would have to be provided by December 1 of each year to the governor, the comptroller, the speaker of the House, the lieutenant governor, the House Appropriations Committee, and the Senate Finance Committee.

Effective date. The bill would take effect September 1, 2007. Sections related to requests for proposals and interest rate management agreements would apply to:

- contracts for which the solicitation was published on or after September 1, 2007; or
- contracts entered into on or after September 15, 2007.

SUPPORTERS SAY:

CSSB 1332 would implement recommendations from the Legislative Budget Board's 2007 *Texas State Government Effectiveness and Efficiency* report to improve the state's system of debt management. This report found that Texas' decentralized system of debt management could benefit from increased coordination among issuers of state debt. For example, the LBB found that the state does not comprehensively review the effect of new debt authorizations and appropriations on future debt capacity. The LBB further determined that increased information sharing among issuers could improve the ability of state agencies to manage the debt issuance process. CSSB 1332 would strengthen the oversight of debt management by state agencies and provide policymakers with the information needed to strengthen Texas' financial standing among bond rating agencies.

The recommendations included in CSSB 1332 have been vetted and agreed upon by state agencies involved in the process of debt issuance and management. The proposals represent a consensus that would improve coordination on this issue for the state.

OPPONENTS SAY:

While the proposals included in CSSB 1332 would improve the state management of its debt, the bill would miss an opportunity to implement additional reforms to further improve the oversight of debt. The LBB report included additional recommendations that are not included in CSSB 1332. These recommendations included the creation of a debt management committee to provide direction on the debt affordability study and cross-agency prioritization of capital projects. These reforms would further integrate the debt management activities of Texas state agencies.