

BILL ANALYSIS

Senate Research Center
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S.B. 421
By: West
Finance
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As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

S.B. 421 would implement the Legislative Budget Board recommendations from the *2011 Government Effectiveness and Efficiency Report* regarding the state constitutional debt limit. The debt limit calculates the state's debt service requirements for non-self-supporting debt, for which debt service is repaid with unrestricted general revenue. Specifically, this bill would permit the Texas Bond Review Board (BRB) to modify its assumptions for the annual debt limit calculation for any debt that is authorized but unissued at the point in time the calculation is performed, and would require the BRB to publish annually a document that explains how the debt limit is calculated, including all of the assumptions, authorizations, and legal requirements factored into the calculation.

The debt limit restricts the authorization of new debt if the debt service on issued and unissued debt would exceed 5.00 percent of the three-year average of unrestricted general revenue. In fiscal year 2010, it reached 4.10 percent, the closest it has ever been to the constitutional limit. Prior to 2008, the debt service had never been higher than 3.20 percent.

The annual debt limit calculation includes debt service amounts for all issued debt and estimates of debt service for all authorized but unissued debt (Section 49-j (Limit on State Debt Payable from General Revenue Fund), Article III, Texas Constitution) requires an estimate for debt service associated with both issued and unissued debt). The BRB has used the methodology and assumptions for long enough that the Office of the Attorney General has informally advised BRB that a statutory change is required if BRB is to change its current practices for calculating the debt limit.

S.B. 421 authorizes BRB to modify its assumptions for unissued debt to allow for common issuing practices including those related to interest rates, debt maturity, and debt payment structure. An example of this would be allowing BRB to use an assumption for a 30-year term for Proposition 12 transportation bonds, as compared to a 20-year term, which is the current amount BRB uses for unissued debt for the debt limit calculation.

In addition, understanding how the debt limit is calculated is difficult. In order to increase transparency and understanding about the state's debt limit, S.B. 421 would require BRB to publish annually an explanation of how the debt limit is calculated, including debt service amounts and any assumptions used for unissued debt. This requirement could be fulfilled as a separate publication or as part of another publication, such as BRB's annual report.

As proposed, S.B. 421 amends current law relating to the computation of the state debt limit.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Chapter 1231, Government Code, by adding Subchapter G, as follows:

SUBCHAPTER G. LIMIT ON STATE DEBT PAYABLE FROM GENERAL REVENUE
FUND

Sec. 1231.151. DEFINITIONS. Defines "maximum annual debt service," "state debt payable from the general revenue fund," and "unissued debt" in this subchapter.

Sec. 1231.152. COMPUTATION OF DEBT LIMIT. Requires the Texas Bond Review Board (BRB), in computing the annual debt service in a state fiscal year on state debt payable from the general revenue fund for purposes of determining whether additional state debt may be authorized without exceeding the maximum annual debt service, to employ any assumptions related to unissued debt that BRB determines are necessary to reflect common or standard debt issuance practices authorized by law, including assumptions regarding interest rates, debt maturity, and debt service payment structures.

Sec. 1231.153. REPORT ON COMPUTATION. (a) Requires BRB to publish during each state fiscal year a report providing a detailed description of the method used to compute the annual debt service in that fiscal year on state debt payable from the general revenue fund for purposes of determining whether additional state debt may be authorized. Requires that the report describe the debt service included in the computation, including debt service on issued and unissued debt, the assumptions on which the debt service on the unissued debt was based, and any other factors required by law that affect the computation.

(b) Authorizes BRB to publish the report required by this section as a component of any other report required by law, including the annual report required by Section 1231.102 (Annual Report), or as an independent report. Requires BRB to make the report available to the public.

SECTION 2. Requires BRB to publish the initial report required by Section 1231.153, Government Code, as added by this Act, during the state fiscal year beginning September 1, 2011.

SECTION 3. Effective date: upon passage or September 1, 2011.