HOUSE RESEARCH ORGANIZATION bill analysis | 4/15/2011 | HB 2251 Bonnen (CSHB 2251 by C. Anderson)

SUBJECT: Continuing the Texas Public Finance Authority

COMMITTEE: Pensions, Investments, and Financial Services — committee substitute recommended

VOTE: 9 ayes — Truitt, Anchia, C. Anderson, Creighton, Hernandez Luna, Legler, Nash, Orr, Veasey

0 nays

WITNESSES: For — None

Against — None

On — Michelle Downie, Sunset Advisory Commission; Dwight Burns, Texas Public Finance Authority; Mike Reeser, Texas State Technical College System; (*Registered, but did not testify*: Susan Durso, Texas Public Finance Authority; J. Gary Hendricks, Texas State Technical College System)

BACKGROUND: The Texas Public Finance Authority (TPFA) issues bonds and manages debt service on behalf of its clients, which currently include 18 state agencies, three universities, the TPFA Charter School Finance Corporation, and the Windstorm Insurance Association. TPFA's mission is to provide the most cost-effective financing available to fund capital projects, equipment purchases, and other programs authorized by the Legislature. TPFA centralizes the state's debt issuance by serving agencies and universities that generally use debt financing infrequently and lack the in-house expertise to issue bonds cost effectively.

TPFA is governed by a seven-member board of directors appointed by the governor. The agency employs 13.5 FTEs, and its fiscal 2010-2011 budget was $6.6 million in all funds, which included $1.1 million in general revenue, $4.8 million in general revenue-dedicated funds, and $0.7 in other funds. In 2009, TPFA managed about $2.8 billion in outstanding state debt. As of December 2009, TPFA had $4 billion in authorized but unissued general obligation debt authority.

TPFA last underwent Sunset review in 1997. The agency is subject to the Texas Sunset Act and is scheduled to expire September 1, 2011, unless continued by the Legislature.

DIGEST:

CSHB 2251 would continue the TPFA until September 1, 2023.

The bill would remove the requirement that the Cancer Prevention and Research Institute of Texas (CPRIT) escrow grant award funds for multiyear projects and would instead require CPRIT to distribute the grant funds as needed in each fiscal year of a multiyear project. The bill would require the CPRIT oversight committee to specify the total amount of money approved to fund the project. CPRIT would be allowed to distribute funds to a grant recipient for a multiyear project after TPFA had certified that bonds sufficient to pay for the project had been authorized by TPFA and approved by the Bond Review Board. After issuing the bonds, the TPFA board would pay the costs of the issuance and any related bond administrative costs, certify to CPRIT and the comptroller that the proceeds from the issuance were available, and deposit the proceeds into the state treasury to be credited to CPRIT’s account.

The bill would authorize TPFA to enter into an agreement with the Texas State Technical College System (TSTC) or a general academic teaching institution to provide debt issuance services. TPFA could be reimbursed for providing these services. The bill would remove the requirement that TPFA issue bonds for Stephen F. Austin State University, allowing the university to choose to use TPFA or to issue its own debt.

The bill also would add standard sunset provisions requiring TPFA to develop a policy that encourages the use of negotiated rulemaking and alternative dispute resolution.

CSHB 2251 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, 2011. The changes would apply only to those CPRIT grant funds awarded on or after the effective date and those higher education bonds authorized on or after the effective date.

SUPPORTERS SAY:

TPFA should be continued because it uniquely achieves cost efficiencies for the state by consolidating a significant portion of the state’s debt, by successfully negotiating low-cost debt issuance, and by identifying ongoing opportunities to reduce debt service costs. The Sunset Advisory

Commission found no organizational alternatives for TPFA that would reduce costs or increase its effectiveness.

By removing a needless escrow requirement in the newly created CPRIT statute, CSHB 2251 would allow TPFA to manage CPRIT's debt as efficiently as it manages other clients' debt, minimizing debt service costs to the state. Savings to general revenue would result primarily from enabling TPFA to postpone debt issuance until CPRIT needed the funds to reimburse grantees. The LBB estimates that these provisions would result in general-revenue savings over the next biennium of $13.6 million if the bill took effect on September 1, 2011, and an additional $19.8 million if the bill took effect immediately, due to bonds anticipated to be issued in fiscal year 2011. CPRIT supports these changes.

Under current law, TPFA may not issue bonds for any university not specifically identified in statute as a TPFA client, but there is no reason to statutorily cap access this way. CSHB 2251 would allow TPFA to assist state colleges and universities that are not current TPFA clients but nevertheless could benefit from TPFA's expertise. TPFA would be able to consider requests from nonclient higher education entities on a case-by-case basis and enter into agreements with those it could accommodate. Under such an agreement, the college or university would maintain their own authority to issue debt as well.

CSHB 2251 would give TSTC the option to use TPFA's bond issuance services, but would not require it. Such an arrangement should not be required because TSTC created a revenue financing system in 2002 allowing it to issue bonds efficiently and effectively. In comparable bond issuances, TSTC has received essentially the same direct costs as TPFA and slightly better true interest costs than TPFA. Furthermore, issuing bonds through TPFA would not substantively reduce TSTC staff workload because there still would be numerous issuance-related activities requiring significant TSTC staff participation. However, TSTC and TPFA should have the option to enter an agreement because they enjoy an excellent working relationship, and TSTC regularly conducts business with TPFA on lease-purchase transaction financing. If TPFA could demonstrate better results on bond issuance than TSTC, it would benefit everyone to allow TSTC the option to use TPFA's services.

Similarly, CSHB 2251 would give Stephen F. Austin State University the flexibility to choose to issue its own debt or to use TPFA's services. Since the university has grown and needs to issue debt more regularly, the Sunset Commission has concluded that the university now may be able to issue its own debt cost effectively and no longer should be mandated to use TPFA.

OPPONENTS SAY:

CSHB 2251 should require TPFA to issue the debt for TSTC's legislatively authorized projects, as the Sunset Advisory Commission recommended and the original bill would have provided. Since TSTC only issues a small amount of debt about once a biennium, staff cannot maintain the expertise needed to minimize issuance costs to the state. TSTC has limited staff and financial resources and must divert them from other responsibilities to navigate the bond issuance process, including contracting for bond counsel, financial advisors, and underwriters. Transferring authority to TPFA likely would lower bond issuance costs and free up TSTC staff resources for other duties.

NOTES:

The committee substitute differs from the bill as filed by removing the requirement that TPFA issue all bond debt on behalf of TSTC and instead listing TSTC among the entities with which TPFA could enter into an agreement to provide bond services; altering how multiyear CPRIT grant projects would be initiated; enabling the bill to go into immediate effect with a sufficient vote; and making the bill's statutory changes apply to CPRIT grant funds awarded on or after the effective date, rather than specifically September 1, 2011.

The companion bill, SB 654 by Whitmire, was reported favorably, as substituted, by the Senate Government Organization Committee on March 31.