

SUBJECT: Authorizing commercial paper for cash flow to be issued and rolled over

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 22 ayes — Otto, Sylvester Turner, Ashby, Bell, G. Bonnen, Burkett, Capriglione, S. Davis, Giddings, Gonzales, Howard, Hughes, Koop, Longoria, R. Miller, Phelan, Price, Raney, J. Rodriguez, Sheffield, VanDeaver, Walle

0 nays

5 absent — Dukes, Márquez, McClendon, Miles, Muñoz

SENATE VOTE: On final passage, April 14 — 31-0

WITNESSES: For — None

Against — None

On — (*Registered, but did not testify*: Piper Montemayor, Comptroller of Public Accounts)

BACKGROUND: Government Code, sec. 404.123 authorizes the comptroller to issue, sell, and deliver tax and revenue anticipation notes if the comptroller anticipates that the state will have a temporary cash shortfall in the general revenue fund. Under sec. 404.123(c), the notes are not debts of the state for the purpose of calculating state debt under the constitutional limits and can be used solely to coordinate the state's cash flow within a fiscal biennium.

The authority to issue the notes is subject to several provisions in Government Code, secs. 404.123 and 404.124. Under sec. 404.124, the state's cash management committee must approve the issuance of the notes. The committee is composed of the governor, lieutenant governor, House speaker, and comptroller.

The comptroller must submit to the committee a general revenue cash flow shortfall forecast before issuing the notes, and the committee must hold a public hearing to receive testimony on the forecast. The committee's approval of the issuance of the notes expires on the 91st day after the initial public hearing. The comptroller can issue notes on or after the 91st day only after submitting another forecast to the committee and approval by the committee. Each subsequent approval expires on the 61st day after the hearing on which its approval was based.

DIGEST: SB 1657 would authorize the comptroller to issue commercial paper notes under Government Code, secs. 404.123 and 404.124, which currently authorize tax and revenue anticipation notes. Commercial paper notes would be subject to approval by the cash management committee.

The cash management committee's approval of the issuance of commercial paper notes would expire on the last day of the fiscal year for which tax and revenue anticipation notes were approved. Commercial paper notes could be issued and rolled over during that fiscal year. The commercial paper notes would have to mature and be paid in full during the fiscal biennium in which they were issued.

The bill would extend the current time frame in which tax anticipation notes and commercial paper notes had to be issued after the initial deadline for their issuance has expired. Instead of requiring the notes to be issued within 61 days of the public hearing on which their approval was based, the notes would have to be issued within 91 days of the hearing.

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, 2015.

SUPPORTERS SAY: SB 1067 would reinstate a cash management tool that gives the comptroller more options to handle short-term mismatches between the state's expenditure and revenue flows. Currently, the state handles these discrepancies with Tax and Revenue Anticipation Notes (TRANs) and has sometimes used commercial paper in connection with TRANs. Both of

these are financial instruments that allow the state to borrow money on a short-term basis.

TRANs are used to address the cash flow problem that arises because the state makes large payments to school districts in the fall, while state revenues come in throughout the year. To handle this mismatch in funds, the state uses TRANs to borrow money and repays the money later in the biennium when revenues are collected.

However, in some situations, it could benefit the state to delay borrowing all the funds for TRANs at one time and instead borrow a portion of the amount on a short-term basis. This short-term borrowing can be achieved through commercial paper. For example, the state may be planning to borrow several billion dollars through TRANs, but if interest rate fluctuations were anticipated, the state could save money by not locking in all the debt at a single interest rate and instead attempting to get a more favorable rate on a portion of the money at a later time.

Commercial paper could be a good choice as a borrowing instrument in this situation because it can be issued for terms of one to 270 days. At the end of the term, instead of paying off commercial paper, sometimes it is rolled over into another short-term borrowing instrument. These short-term borrowing instruments can allow the state to consider changing economic and revenue fluctuations and allow for the incremental use of commercial paper as funds are needed and as they become available.

Since 1986, the issuance of commercial paper has been approved by the cash management committee 13 times, and issued five of those times. However, a 2011 change to the law governing TRANs intended to increase transparency led the attorney general to determine that the rollover of commercial paper was no longer permissible. This effectively eliminated the use of commercial paper.

The bill would address this unintended restriction on commercial paper by authorizing its use and making clear that commercial paper could be issued and rolled over within a specified time frame. The bill would

establish that the approval to issue commercial paper would expire on the last day of the fiscal year for which TRANs were approved and require that rollovers occur within that fiscal year. This limit on the authorization of commercial paper would enable the issuing and rolling over of commercial paper as needed by the state but would incorporate oversight by the cash management committee to ensure its proper use.

The bill would adjust the deadline from 61 days to 91 days for notes issued subsequent to the first issuance period to give the comptroller the necessary flexibility in issuing TRANs and commercial paper after meetings of the committee.

OPPONENTS
SAY:

No apparent opposition.