Texas Public Finance Authority

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Agency at a Glance

The Legislature created the Texas Public Finance Authority (TPFA) in 1983 to issue bonds on behalf of the General Services Commission, and has since expanded its clients to currently include 23 state entities. Today, TPFA is the State's primary issuer of debt repaid from General Revenue.

The Authority's mission is to provide the most cost-effective financing available to fund capital projects, equipment purchases, and other programs authorized by the Legislature. To achieve its mission, the Authority carries out the following key activities.

- Analyzes and issues general obligation and revenue bonds for its client agencies and other programs authorized by the Legislature.
- Makes debt service payments and manages debt proceeds, ensuring compliance with federal and state law governing the proper use of the funds.
- Provides financing for certain capital equipment purchases such as computers, phone systems, or vehicles.

Summary

The State of Texas sells millions of dollars in bonds to finance projects as wide-ranging as building construction, cancer research, and major technology purchases. Rather than every state agency going out on its own to issue and market bonds, the Legislature in 1983 centralized much of the State's debt issuance into one agency, the Texas Public Finance Authority. TPFA currently manages $2.8 billion in outstanding state debt.

Consolidating debt issuance into TPFA has significant value for the State.

TPFA's main role is to cost-effectively issue bonds and service debt for 23 state agencies and universities that generally use debt financing infrequently and lack in-house bond finance expertise. The Sunset Commission concluded that the consolidation of smaller and infrequent debt issuance and service in one agency has significant positive value for the State. Given the ongoing need for TPFA's functions, the Sunset Commission identified opportunities to expand use of TPFA's expertise and track record and, in one recommendation, remove a multi-million dollar obstacle to efficiently issuing state debt.

Issue 1

Texas Has a Continuing Need for the Texas Public Finance Authority.

Texas achieves cost efficiencies by consolidating the issuance of a large portion of the State's debt in the Texas Public Finance Authority. The Authority successfully negotiates low cost debt issuance and identifies ongoing opportunities to reduce debt service costs. No organizational alternatives for TPFA were identified that would reduce costs or increase its effectiveness.

Recommendations

Change in Statute

1.1 Continue the Texas Public Finance Authority as an independent agency for 12 years.

This recommendation would continue the Authority as an independent agency, responsible for issuing and managing debt on behalf of other state entities.

1.2 Apply the standard Sunset across-the-board requirement for TPFA to develop a policy regarding negotiated rulemaking and alternative dispute resolution.

This recommendation would ensure that TPFA develops and implements a policy to encourage alternative procedures for rulemaking and dispute resolution, conforming to the extent possible, to model guidelines by the State Office of Administrative Hearings. Because the recommendation only requires the agency to develop a policy for this alternative approach to solving problems, it would not require additional staffing or other expenses.

Issue 2

Limitations on the Cancer Prevention and Research Institute's Debt Issuance Waste State Funds.

Key to TPFA's effectiveness in managing the State's debt are its close working relationships with client agencies to carefully time debt issuance and its flexibility to take advantage of financing methods best suited for market conditions. However, a needless restriction in the newly created Cancer Prevention and Research Institute's (CPRIT) statute prevents TPFA from managing the Institute's $3 billion in general obligation bond authority in the most efficient way. Removing the restriction and allowing TPFA to manage CPRIT's debt the same as other general obligation debt could save $31 million in General Revenue debt service costs during the next biennium.

Recommendation

Change in Statute

2.1 Remove CPRIT's requirement to escrow multi-year grant awards, and extend TPFA's standard authority to stagger debt issuance to include CPRIT's grants.

Paying bond debt while money sits in escrow is not cost-effective. Under this recommendation, statute would no longer require CPRIT to hold multi-year grant funds in an escrow account at the time of the award. TPFA would manage CPRIT's general obligation debt the same way it manages its other client agencies' debt, using its expertise and flexibility to minimize debt service costs to the State. The recommendation would also improve the timing of debt issuance by adding CPRIT's grants to the list of projects funded by general obligation bonds that can move forward before TPFA has issued the debt, as long as TPFA and the Bond Review Board have approved the issuance.

Issue 3

State Law Limits TPFA's Ability to Assist State Colleges and Universities.

Since creating TPFA in 1983, the Legislature has recognized the Authority's success by expanding the number of clients it serves, including the addition of three state universities. No reason exists for limiting the number of universities that TPFA may assist, and several others could potentially benefit from having access to TPFA's expertise. In particular, Texas State Technical College (TSTC) is one of the smallest and least frequent state debt issuers and would benefit from becoming a full client of TPFA.

Recommendations

Change in Statute

3.1 Authorize TPFA to provide debt issuance services, upon request, to state colleges and universities.

This recommendation would allow TPFA to provide debt issuance services to state universities upon agreement between TPFA and the university. Should a state university wish to access TPFA's bond or commercial paper expertise, the Authority would be able to consider requests on a case-by-case basis and enter into agreements with those it can accommodate. These colleges and universities would maintain the authority to issue their own debt as well.

TPFA whould be authorized to receive reimbursement for services it renders under these agreements although the agency would continue to issue all debt without reimbursement for its client universities.

3.2 Require TPFA to issue the debt for Texas State Technical College's legislatively authorized projects.

This recommendation would transfer the debt issuance functions of Texas State Technical College to TPFA. TPFA's relationship with TSTC would be the same as its relationship with current university clients, all of which ceased issuing debt upon the transfer of their bonding authority to TPFA. TSTC would still be fully responsible for project planning, obtaining legislative approval, and all related decisions. As a result, the University would no longer have to contract and pay for bond counsel, financial advisors, or underwriters. TPFA's role would only be to arrange cost-effective bond financing, and would have no authority over TSTC or its projects. TPFA would provide these services without reimbursement.

Issue 4

Authorize Stephen F. Austin State University to Use TPFA or Issue Its Own Debt.

Stephen F. Austin State University is currently required by law to use TPFA's services for its debt needs. Since the university has grown and needs to issue debt more regularly, the Sunset Commission concluded that the university may be able to cost-effectively issue its own debt and should no longer be mandated to use TPFA.

Recommendation

Change in Statute

4.1 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 for legislatively approved projects.

This recommendation would give Stephen F. Austin State University the flexibility to choose to use TPFA or to issue its own debt for legislatively approved projects.

Fiscal Implication Summary

None of the recommendations in this report would result in additional costs to the State. One of the recommendations would result in significant savings to the General Revenue Fund.

- ***Issue 2*** – Removing the requirement that the Cancer Prevention and Research Institute of Texas escrow grant funds would provide significant savings to the General Revenue Fund by giving TPFA the flexibility to manage the Institute's debt the same as its other client agencies' debt. Based on information from TPFA, estimated savings total about $31 million in the next biennium. The savings primarily result from cost avoidance by postponing debt issuance until CPRIT actually needs funds to reimburse its grantees. The estimates could fluctuate based on TPFA's choice of financing methods, actual market conditions, and CPRIT's timing of grant awards in the future.

Fiscal Year	Savings to the General Revenue Fund
2012	$6,770,301
2013	$24,263,890
2014	$35,755,814
2015	$38,336,964
2016	$37,414,718