



Texas Public Finance Authority Bonds 101

A Case Study

**Bob Bullock Texas State History Museum
Texas State Preservation Board**



BULLOCK
TEXAS
STATE HISTORY
MUSEUM

"Texas is the greatest state in the country."

- Bob Bullock



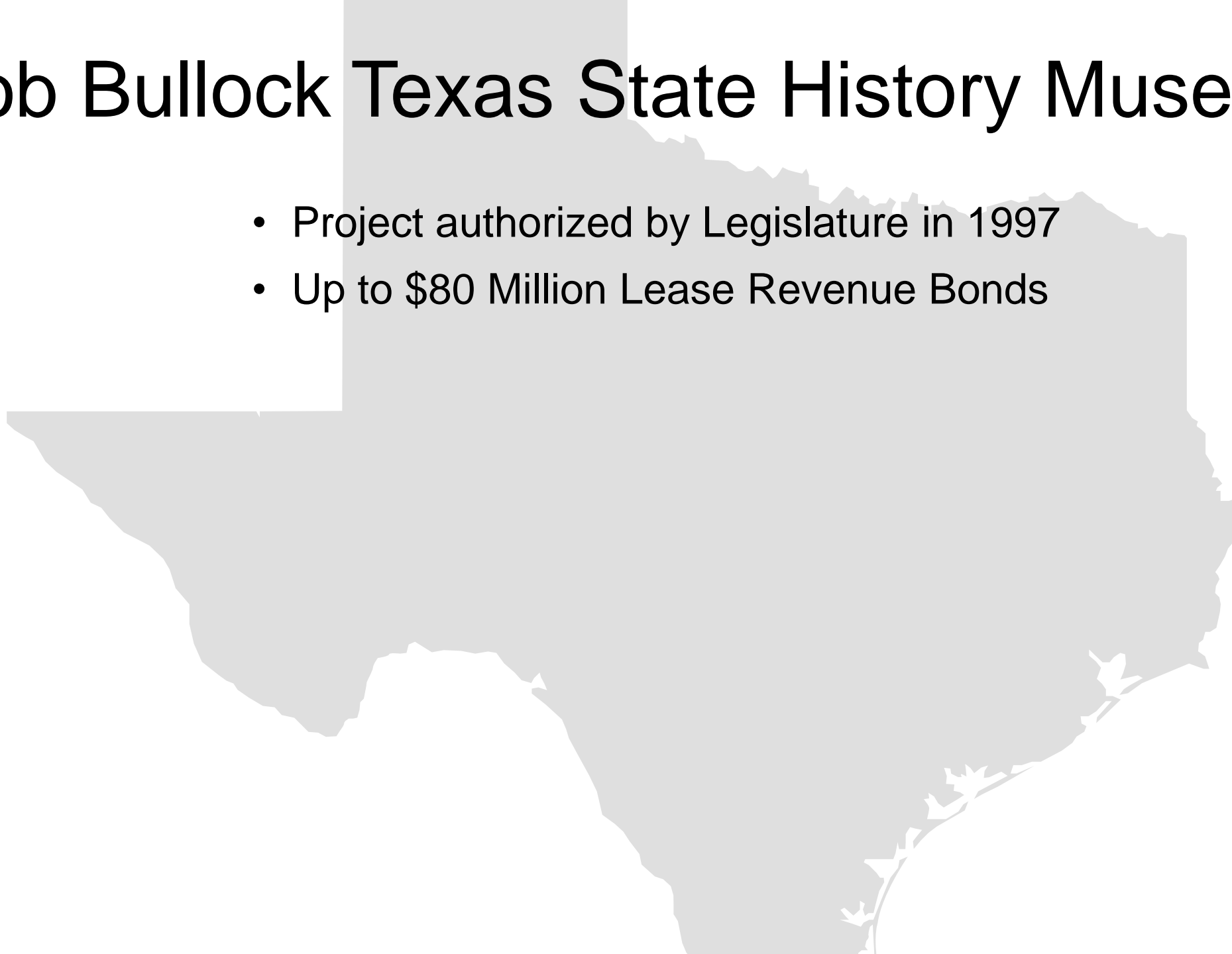
BULLOCK
TEXAS
STATE HISTORY
MUSEUM

“As great as this state is, we have no state museum in our state capital, a magnificent museum where our history can be properly displayed...Texas has gone too long without one.”

- Bob Bullock

Bob Bullock Texas State History Museum

- Project authorized by Legislature in 1997
- Up to \$80 Million Lease Revenue Bonds



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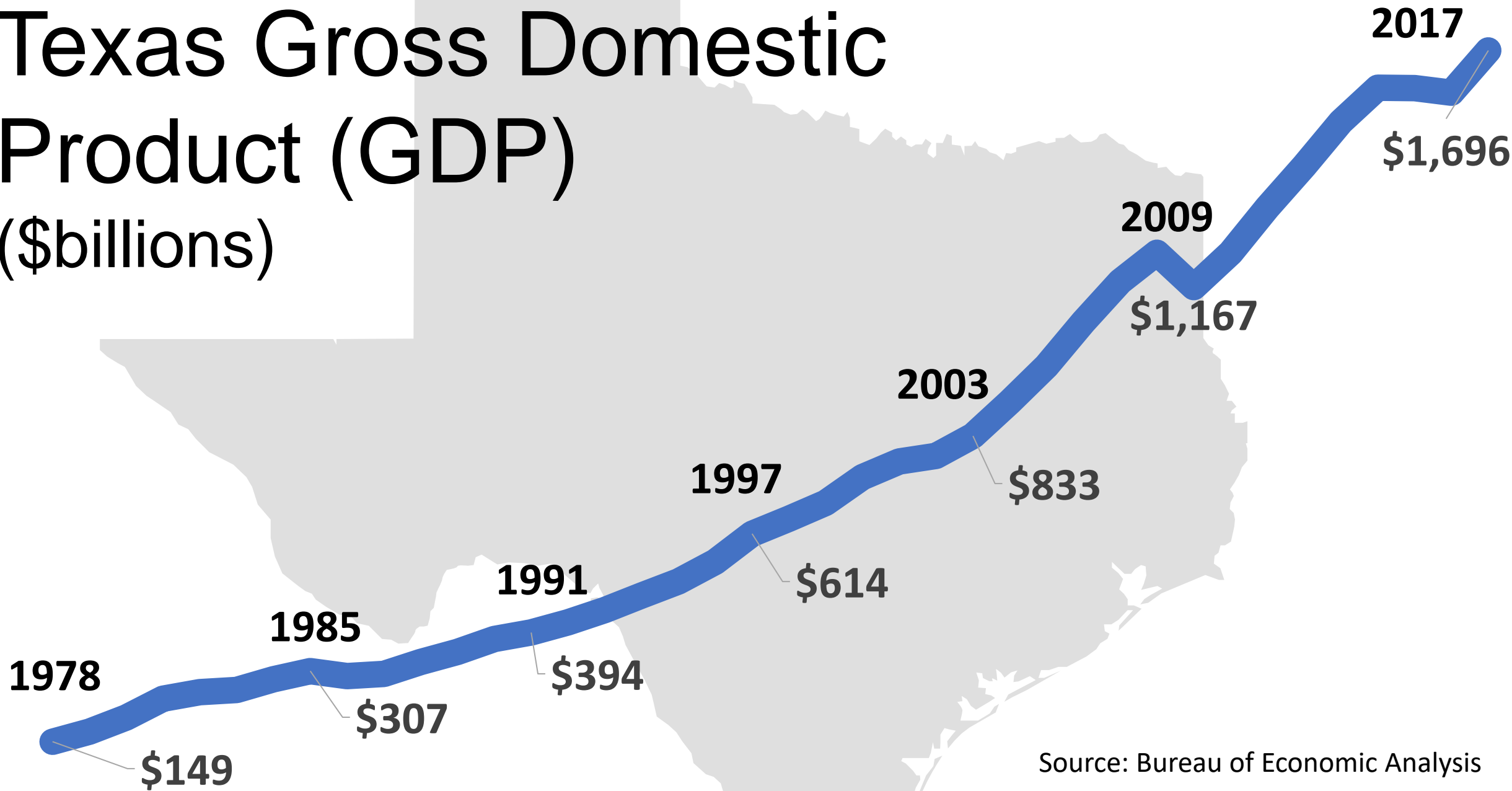
Series	Proceeds	Max Term
1997B	\$9,935,000.00	20 Years
1999A	\$39,185,000.00	20 Years
2000B	\$29,480,000.00	20 Years
Total:	\$78,600,000.00	

- Debt Service
 - General Revenue Appropriations
 - Operational Proceeds as available
- Project complete in 2001

Why not just pay cash?

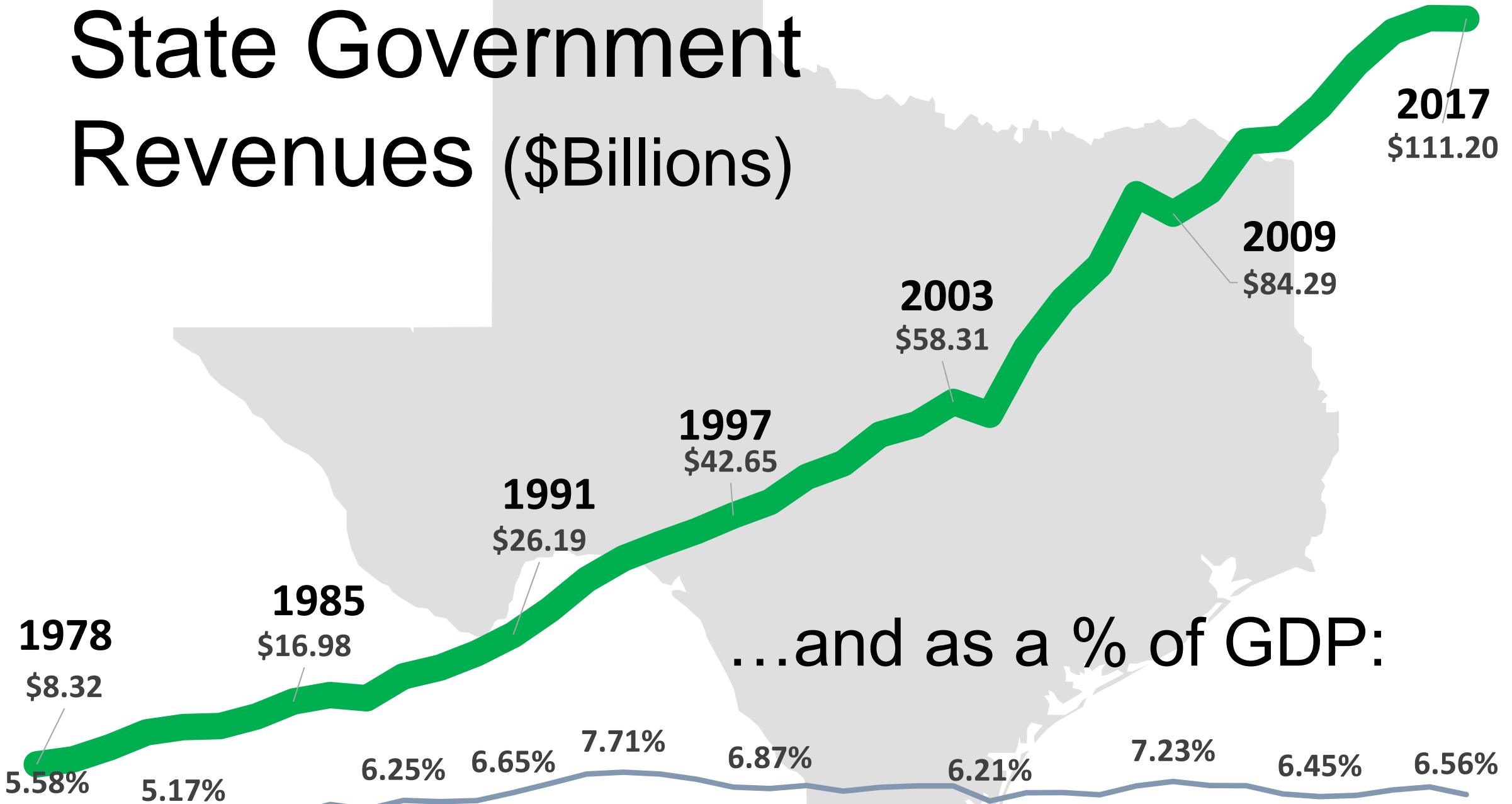
- Significant component of 1998/1999 budget
 - 12% of total 1997 Article I General Revenue appropriations
- Access projected cash flows of project
- Leverage future Growth
 - ***Economic*** Growth
 - ***State Revenue*** Growth
 - ***Population*** Growth

Texas Gross Domestic Product (GDP) (\$billions)



Source: Bureau of Economic Analysis

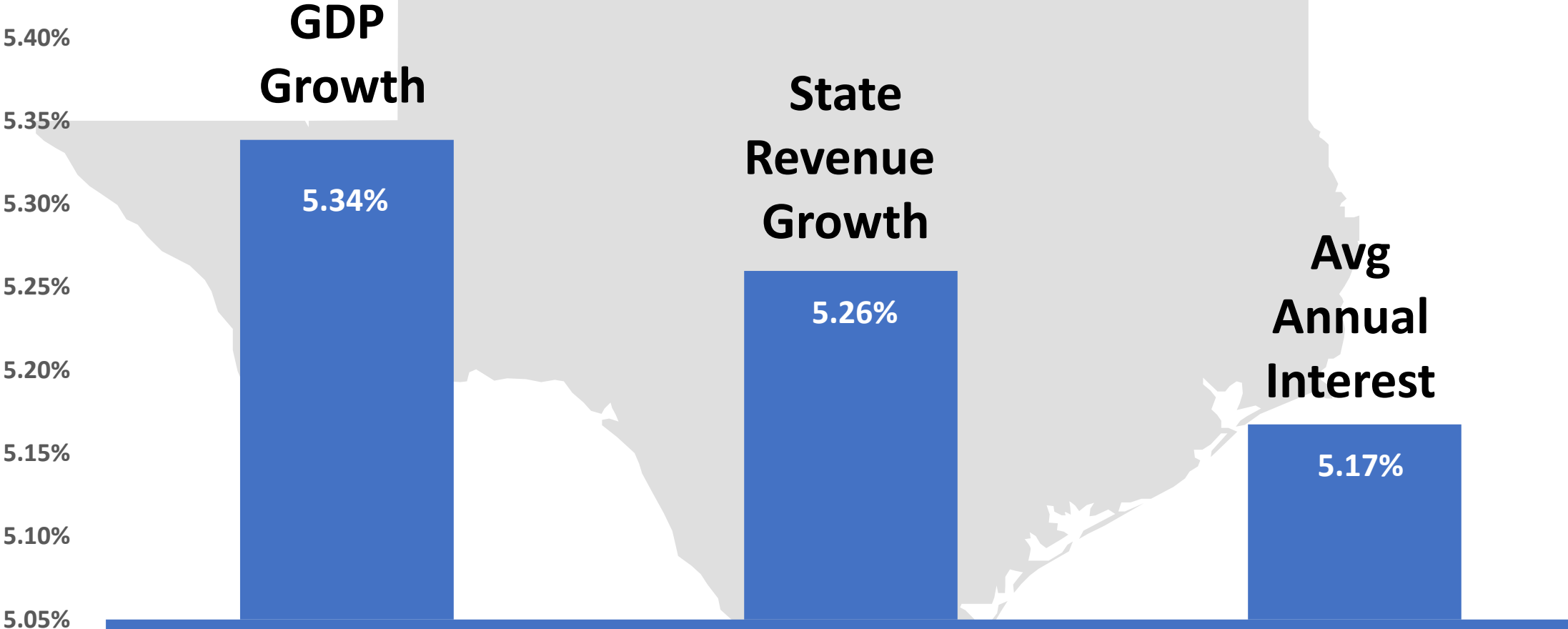
State Government Revenues (\$Billions)



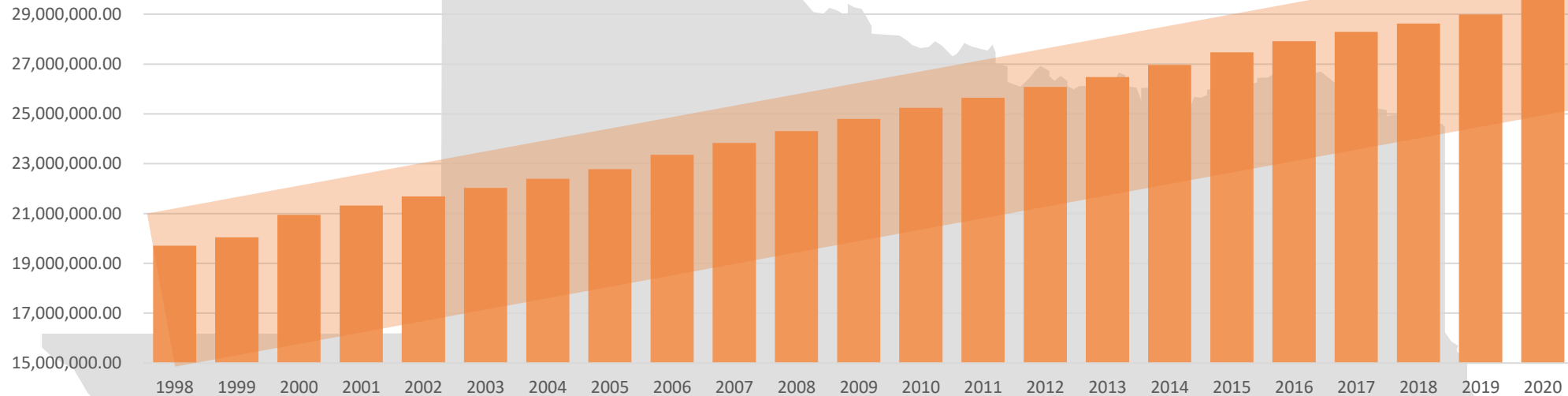
Source: Texas Comptroller

Rate of Interest Paid vs Growth Metrics

(over life of 1997, 1999 and 2000 Series Revenue Bonds)



Population Growth



More than 10 Million people added to the population since initial appropriation

❑ Cost per capita based upon 1998 population: \$3.87

❑ Actual cost per capita (principal): \$3.11

Why Issue Government Debt?

1. Align cost of capital projects with the timing of benefits
2. Conserve current cash and liquidity
3. Distribute costs among current and future beneficiaries

Texas Public Finance Authority (TPFA)

- Established in 1984 as the **Texas Public Building Authority** to issue facilities debt
 - Texas Government Code Chapter 1232 (enabling legislation), and chapters 1401 and 1403
- Evolved as a source through which multiple agencies can issue debt
 - Issued and/or managing debt for 22 client agencies
 - May be explicitly designated as *Issuer* by the Legislature
 - Alternatively, agencies may choose to issue through TPFA
 - 4 Commercial Paper programs
 - \$3 Billion Fixed Rate obligations

A Few TPFA Client Agencies

Facilities Commission

Military Department

Cancer Prevention & Research Institute

School for the Blind and Visually Impaired

Health and Human Services

Commission

School for the Deaf

Parks and Wildlife Department

Juvenile Justice Department

Military Preparedness Commission

Agricultural Finance Authority

Department of Criminal Justice

Department of Agriculture

Historical Commission

Commission on Environmental Quality

State Preservation Board

Windstorm Insurance Association

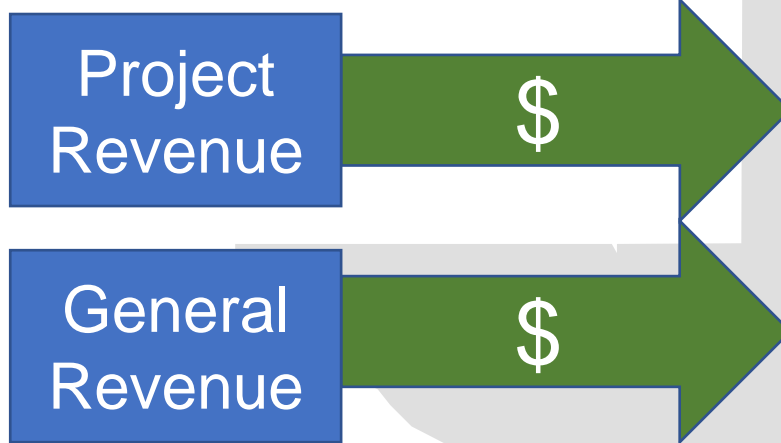
Midwestern State University

Workforce Commission

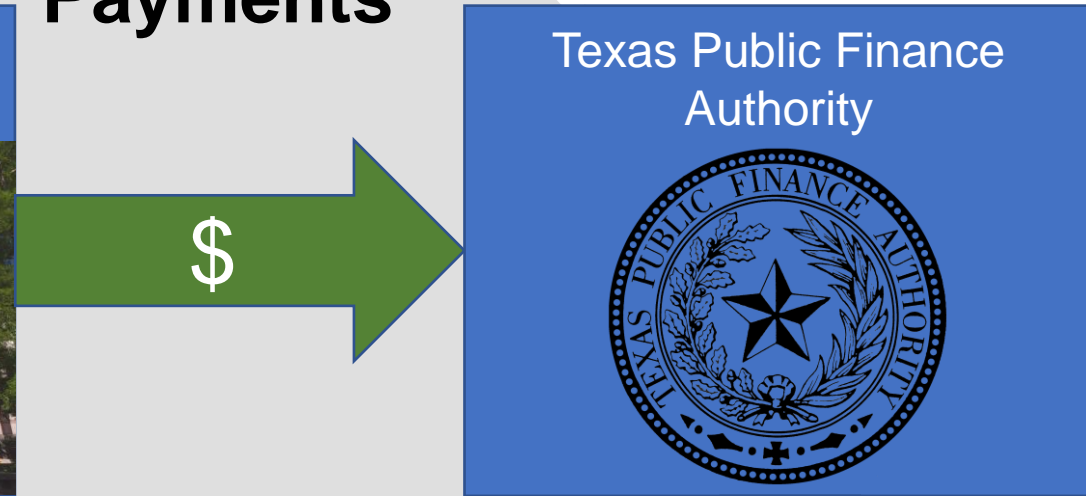
Texas Southern University

Lease Revenue Project Financing Structure

Legislative Appropriations



Lease Payments



- Project title retained by TPFA until bonds mature.
- Bonds secured by lease payments.
- Legislature under no obligation to appropriate funds.



Debt Instruments



- Bonds: Long Term (mature in greater than 5 years)
- Notes: Medium Term (mature in less than 5 years)
- Commercial Paper: Short Term (matures in 1 to 270 days)

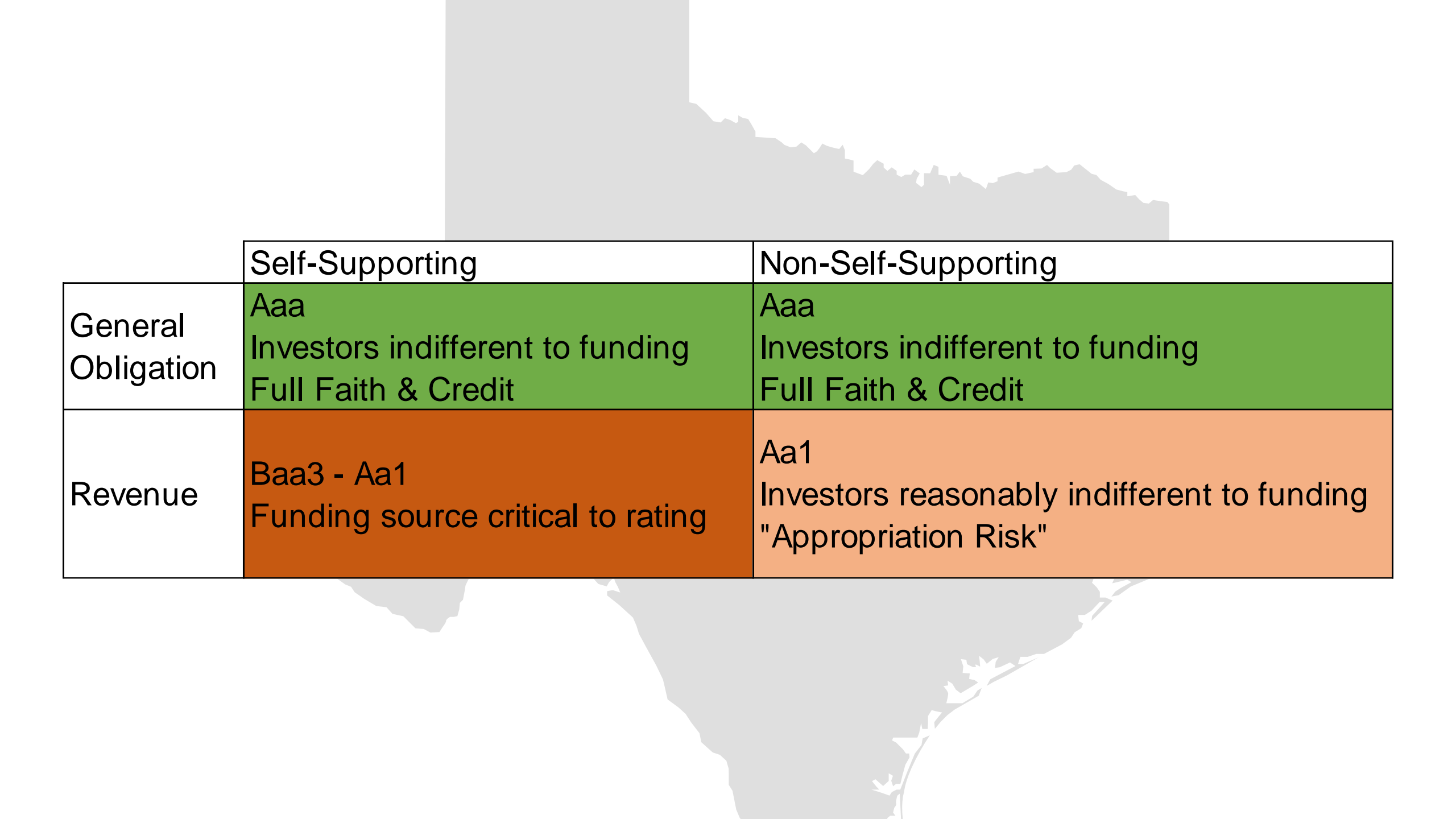
Source of Repayment

Appropriations/Budget perspective

- Non-Self-Supporting
 - Payable from general appropriations
- Self-Supporting
 - Dedicated revenue source for repayment

Market/Legal perspective

- General Obligation Bonds (GO)
 - Full Faith and Credit pledged.
 - Voter approval/constitutional amendment
 - Self-supporting or non-self-supporting
- Revenue Bonds
 - Self-Supporting - Texas Windstorm Insurance, for example
 - Non-Self-Supporting - lease revenue bonds, for example
 - No referendum
 - Secured only by pledged revenue



	Self-Supporting	Non-Self-Supporting
General Obligation	Aaa Investors indifferent to funding Full Faith & Credit	Aaa Investors indifferent to funding Full Faith & Credit
Revenue	Baa3 - Aa1 Funding source critical to rating	Aa1 Investors reasonably indifferent to funding "Appropriation Risk"

Interest Accrual

- **Fixed Rate**
 - Fixed duration, rate does not change
 - With or without optionality
- **Variable Rate**
 - Floating Rate Notes/Bonds (FRNs/FRBs)
 - Variable Rate Demand Obligation (VRDO)
- **Commercial Paper (CP)**
 - Short duration (30 – 90 days)
 - Requires “roll” to extend. Issue to fund/redeem maturities.
 - Liquidity considerations (as with VRDOs as well)
- **Master Lease**
 - Equipment financing program available to state agencies and universities
 - Separately authorized by legislature
 - Currently capitalized using a *tax exempt* commercial paper program

Federal Income Tax



- Taxable
 - Interest rate/spread function of bond rating and prevailing market
 - Flexible use of proceeds
- Tax Exempt
 - Interest income to investor is exempt from federal income tax
 - Market forces generally result in a reduced interest rate to borrower
 - Use of proceeds less flexible
 - Private activity
 - Arbitrage Rebate

Refunding

- Refinancing existing debt
 - For savings
 - To change covenants
 - To change debt service elements/repayment schedule
 - To change structure (variable to fixed, tax exempt to taxable)
- Par Call Options and Make Whole Provisions
 - Optionality is not free
- Advance Refunding
 - No longer an option for Tax Exempt obligations
 - Defeasance (as opposed to redemption)
- Redemption vs Defeasance?

Legislative Appropriations

- Legislature authorizes debt (within constitutional limits)
- Appropriates proceeds as needed
- Appropriates funds biennially to pay debt service

	GO Bonds	Revenue Bonds
Project Authorization	Client Agency	Client Agency
Appropriation of Proceeds	Client Agency	Client Agency
Appropriation of Debt Service	TPFA	Lease Payments Appropriated to Client Agency

Some Common Terms

- **Coupon** – Value as-stated on bond. May refer to the value of a payment or as a description of the yield or interest rate as-stated on the bond.
- **Par** – Similar to coupon. It is used to describe the face value of a security (as opposed to its market value.)
- **Discount** or **Premium** – The difference between the market value and the par value of a security.
- **Debt Service** – Principal and Interest payments on bonds.
- **Lease Payment** – Similar to Debt Service, but appropriated funds to pay required payments for Lease Revenue Bonds or Master Lease Payments.
- **Pledge** – Defined source of funds for repayment. May also refer to other collateral offered as security for bonds.



General Obligation Debt

- Requires Constitutional Amendment
- Guaranteed by State's full faith and credit
- May be self-supporting or non-self-supporting

Current TPFA GO Programs

As of 2/29/2020

Authorization	Authorization Amount	Issued	Unissued	Outstanding Principal
Self-Supporting				
1967 Art III, Sec. 49-e (P&W Code, Chapter 21)	\$75,000,000	\$75,000,000	\$0	
2003 Art III, Sec. 49-n (TMPC-Loans to defense communities)	\$250,000,000	\$49,595,000	\$200,405,000	
1985 Art III, Sec. 49-f (Farm and Ranch Loans)	\$500,000,000	\$0	\$500,000,000	
1989 Art III, Sec. 49-i (Texas Agricultural Fund)	\$30,000,000	\$0	\$30,000,000	
Total Self-Supporting	\$855,000,000	\$124,595,000	\$730,405,000	\$21,545,000
Non Self-Supporting				
1987 Art III, Sec. 49-g (Super Conducting Super Collider)	\$250,000,000	\$250,000,000	\$0	
Art III, Sec. 49-h Acquisition, construction and repair of State facilities (TDCJ, MHMR, TYC)				
1987 Art III, Sec. 49-h(a),	\$500,000,000	\$499,752,500	\$247,500	
1989 Art III, Sec. 49-h(c)(1)	\$400,000,000	\$399,497,500	\$502,500	
1991 Art III, Sec. 49-h(d)(1)	\$1,100,000,000	\$1,100,000,000	\$0	
1993 Art III, Sec. 49-h(e)(1)	\$1,000,000,000	\$999,325,000	\$675,000	
Total Art III, Sec. 49-h	\$3,000,000,000	\$2,998,575,000	\$1,425,000	
2001 Art III, Sec. 50-f (Construction & Repair Projects, & Equipment Acquisition)	\$850,000,000	\$849,429,995	\$570,005	
2001 Art III, Sec. 49-l (Colonias Roadway Projects)	\$175,000,000	\$172,000,000	\$3,000,000	
2007 Art III, Sec. 50-g (Construction & Repair Projects)	\$1,000,000,000	\$973,857,674	\$26,142,326	
2007 Art III, Sec. 67 (Cancer Research)	\$6,000,000,000	\$1,840,000,000	\$4,160,000,000	
Total Non Self-Supporting	\$11,275,000,000	\$7,083,862,669	\$4,191,137,331	\$2,131,910,000

Revenue Bonds



- Do not typically require voter approval
 - No obligation for future appropriations by future legislatures
- Self Supporting
 - Secured ONLY by specified revenue source
- Non-Self Supporting
- Appropriation Risk vs Pledged Revenue Stream
- Risk profile is largely dependent upon source of repayment

Revenue Debt by Type

As of 2/29/2020

Non-Self-Supporting Bonds (Not including CP)		\$248,250,000
Self-Supporting Revenue Bonds		
TWIA	\$318,600,000	
University Bonds (non-TRB)	\$194,376,216	
Tuition Revenue Bonds - MSU and TSU	\$131,650,000	
Total Self-Supporting Revenue Bonds		\$644,626,216
Revenue Bonds Outstanding		\$892,876,216

Commercial Paper (CP)

- General Obligation or Revenue Pledge
- Self-Supporting or Non-Self-Supporting
- Low administrative costs
- Ideal for project financing
- Issue only amounts needed. No outstanding, unused balances.
- Refund outstanding CP with fixed rate debt (fix out)
- May also be used as long term, variable facility (Master Lease, for example)

Current Commercial Paper Programs

As of 2/29/20

	Authority	Unissued	Commercial Paper Outstanding
Series 2008 General Obligation Commercial Paper Program* Use: Multi-agency, facilities improvements, construction	1,000,000,000	26,142,326	53,700,000
CPRIT Series A Taxable General Obligation Commercial Paper Program* Use: Cancer Research and Prevention Grants	6,000,000,000	<u>4,160,000,000</u>	<u>248,025,000</u>
Total General Obligation		<u>4,186,142,326</u>	<u>301,725,000</u>
TFC 2016 Series A Taxable Revenue Commercial Paper Program* Use: North Austin and Capitol Complex Projects	1,242,855,581	953,855,581	-
2019 Revenue Commercial Paper Program* Use: Master Lease and other authorized/eligible projects	300,000,000	<u>279,260,000</u>	<u>20,740,000</u>
Total Revenue		<u>1,233,115,581</u>	<u>20,740,000</u>

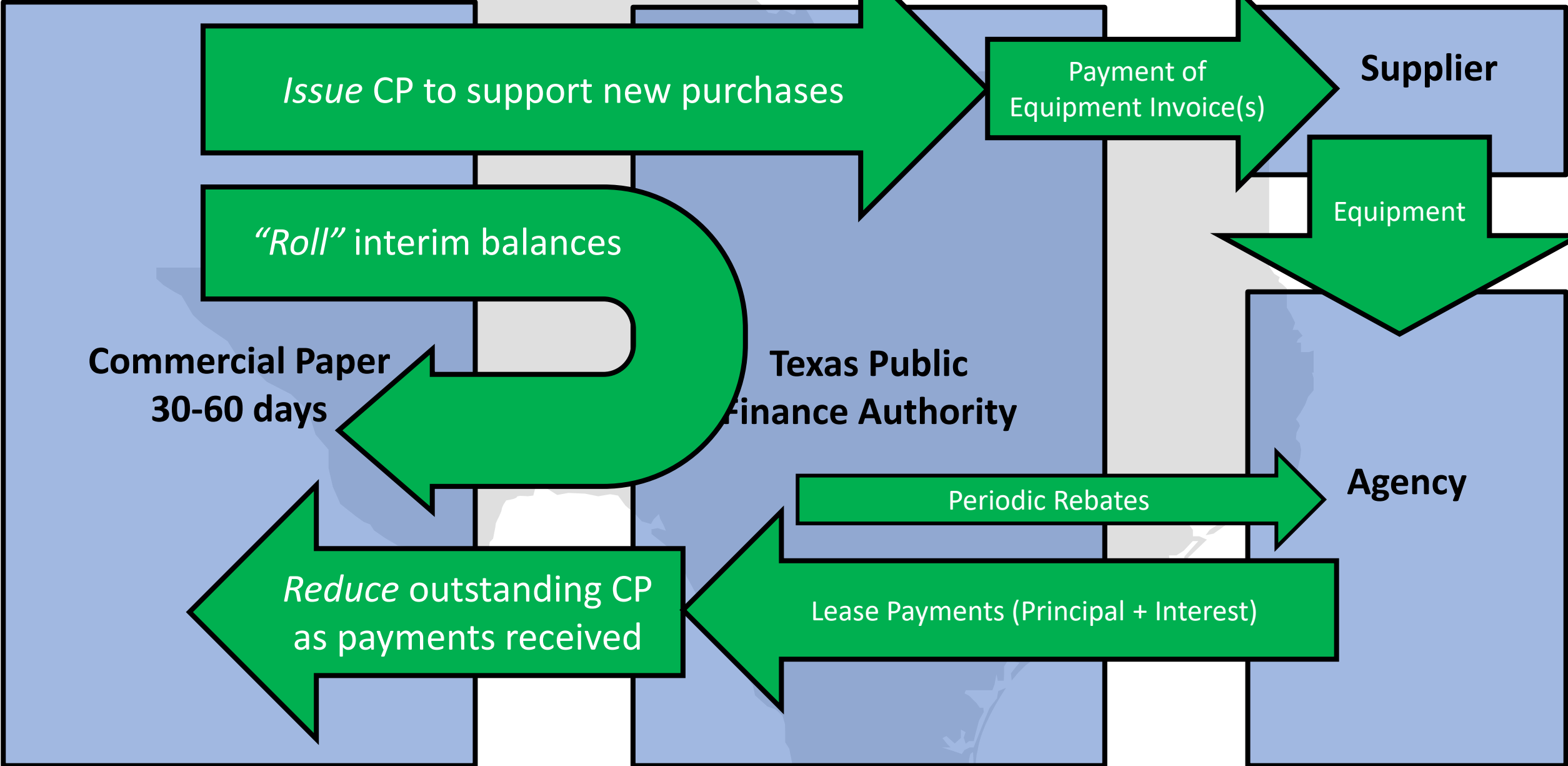
*Not to exceed the applicable liquidity commitment or Board Resolution. (The size of the Master Lease Purchase Program is established by Board Resolution)

Master Lease Purchase Program



- Lease-purchase financing program administered by Texas Public Finance Authority (TPFA)
- Established in 1992 to finance equipment and other eligible capital acquisitions, Texas Government Code, §1232.103
- MLPP program is funded by a low-cost variable rate tax-exempt commercial paper program also administered by TPFA
- MLPP is available to all state agencies and universities
- MLPP is currently not available to political subdivisions: junior colleges, community colleges, cities, counties, school districts

Master Lease Program Structure (CP-Funded)



Commercial Paper Advantages

- **Short duration**
- **Minimum balances outstanding**
- **Lowest interest costs**
- **Highly liquid and stable market**
 - **State of Texas – highest credit quality (Aaa equivalent)**
 - **Competition drives rates down**
- **Most closely aligned with economic conditions**
 - **Tracks *Federal Reserve* Short Term Rates**
 - **Strong correlation to economic growth rates**

Commercial Paper
30-60 days

Master Lease Example Uses

- Emergency Needs
- Leverage dedicated revenue sources for related capital equipment purchases
- Align capital costs with associated savings (energy retrofit, for example)
- Maintain base appropriations

Texas Public Finance Authority

Contact Information

Bon Wier

bon.wier@tpfa.texas.gov

512-463-1480

General

BondTeam@tpfa.texas.gov

512-463-5544

Thank you!