Financing Mechanisms

TPFA uses several types of debt instruments to finance projects and programs. The most commonly used instruments include:

- **Bonds**: Long term (5+ years); fixed or variable interest rate
- **Notes**: Intermediate Term (1-5 years); fixed or variable interest rate
- **Commercial Paper** ("CP"): Short Term (1-270 days); variable interest rate
    - When the CP matures, it is either paid off **<u>or</u>** reissued ("rolled over") at a new interest rate until funds are available to pay off the debt.
    - To issue CP, an issuer establishes a CP Program and sets a maximum amount of debt to be issued under that program, such as $100 million (i.e., the Program Amount). The CP is then typically issued in much smaller increments, such as $5 million, as funds are needed, up to the Program Amount.
    - Long term fixed rate bonds can be issued to "fix out" commercial paper, in order to provide additional capacity for a CP program, or to lock in low long-term interest rates. New CP can then be issued under the same program.

Types of Debt

TPFA issues several types of debt, as defined by the security pledge, i.e., the source of funds legally pledged to repay the debt. The most commonly used instruments are:

- **General Obligation Bonds**
    - Constitutional Pledge: Legally secured by a constitutional pledge of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose.
    - Voter Approval: Constitutional Amendment authorizing the bonds must be approved by a 2/3 vote of both houses of the legislature and then by a majority of the voters.

- **Revenue Bonds**
    - Legally secured by a specific revenue source
    - Do <u>not</u> require voter approval
    - Revenue Bonds are usually issued to support enterprise activities, such as utilities, airports, toll roads, colleges and universities.
    - Examples of TPFA Revenue Bonds
      - University Revenue Financing Systems
      - Texas Workforce Commission Obligation Assessment Revenue Bonds
      - Lease Revenue Bonds: these bonds are secured by rent payments from the occupying agency. The "rent payments" are funded by legislative appropriations.

Additional information is available in the "Workshop and Seminar Materials" section of our website.