

Texas Public Finance Authority

Client Agency Orientation

May 21, 2008

Texas Public Finance Authority

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Agenda

- I. Overview of State Debt and TPFA Debt Programs
- II. Debt Issuance Process
 - Legislative Authorization
 - Request for Financing
 - Agency Approvals (Client Agency, TPFA, BRB)
 - Structure the Bond Issue
- III. Financing Documents – GO Financing Agreement
- IV. Ongoing Debt Administration
 - Federal Tax Law Compliance
 - Drawing & Spending Proceeds
 - Arbitrage Rebate
 - Paying Debt Service
 - Financial Reporting
 - Continuing Disclosure



I. Overview of State Debt



State of Texas Debt Issuers

1. Texas Public Finance Authority
2. Texas Department of Transportation
3. Texas Water Development Board
4. Texas Veteran's Land Board (General Land Office)
5. Texas Department of Housing & Community Affairs
6. Texas State Affordable Housing Corp
7. Office of Economic Development & Tourism
8. Texas Agriculture Finance Authority (Dept. of Agriculture)
9. Comptroller of Public Accounts – Tax Revenue Anticipation Notes (“TRANs”)
10. Texas Higher Education Coordinating Board (Student Loan Bonds)
11. University Systems

See Texas Bond Review Board Annual Report: Appendix C



Texas Bond Review Board

- ◆ Oversight Agency - does not issue bonds
- ◆ Members are: Governor, Lt. Governor, Speaker of the House, Comptroller
- ◆ Must approve any state debt, including capital leases, greater than \$250,000 or longer than 5 years
- ◆ Collects, analyzes and reports information on debt issued by state and local entities
- ◆ Prepares Capital Budget and Debt Affordability Study
- ◆ Administers the state's Private Activity Bond Allocation Program



Texas Public Finance Authority

1. State agency created in 1983 by the Texas Legislature
2. Seven-member board of directors appointed by the Governor;
15 member staff
3. Mission: Provide capital financing to other state agencies, as directed by the Legislature. Capital financing used to:
 - ◆ construct, acquire, or renovate facilities and equipment;
 - ◆ make loans or grants;
 - ◆ provide capital funding for programs such as unemployment compensation, workers compensation, and other insurance programs.

TPFA Client Agencies

1. Texas Facilities Commission
2. State Preservation Board
3. Texas Historical Commission
4. Department of State Health Services (DSHS)
5. Department of Aging and Disability Services (DADS)
6. Health and Human Services Commission
7. Texas School for the Blind and Visually Impaired
8. Texas School for the Deaf
9. Texas Department of Public Safety
10. Texas Department of Criminal Justice
11. Texas Youth Commission
12. Adjutant General/Texas Military Facilities Commission
13. Texas Parks and Wildlife Department
14. Department of Agriculture
15. Texas Military Preparedness Commission
16. Office of the Governor/Texas Dept. of Transportation – Colonias Roadways
17. Midwestern State University
18. Stephen F. Austin State University
19. Texas Southern University
20. TPFA Charter School Finance Corporation
21. Texas Workforce Commission*
22. Texas State Technical College System*
23. Texas Juvenile Probation Commission*
24. Texas National Research Laboratory Commission (Superconducting Super Collider)*
25. Texas Education Agency*
26. Texas Department of Insurance* * Inactive



II. Debt Instruments

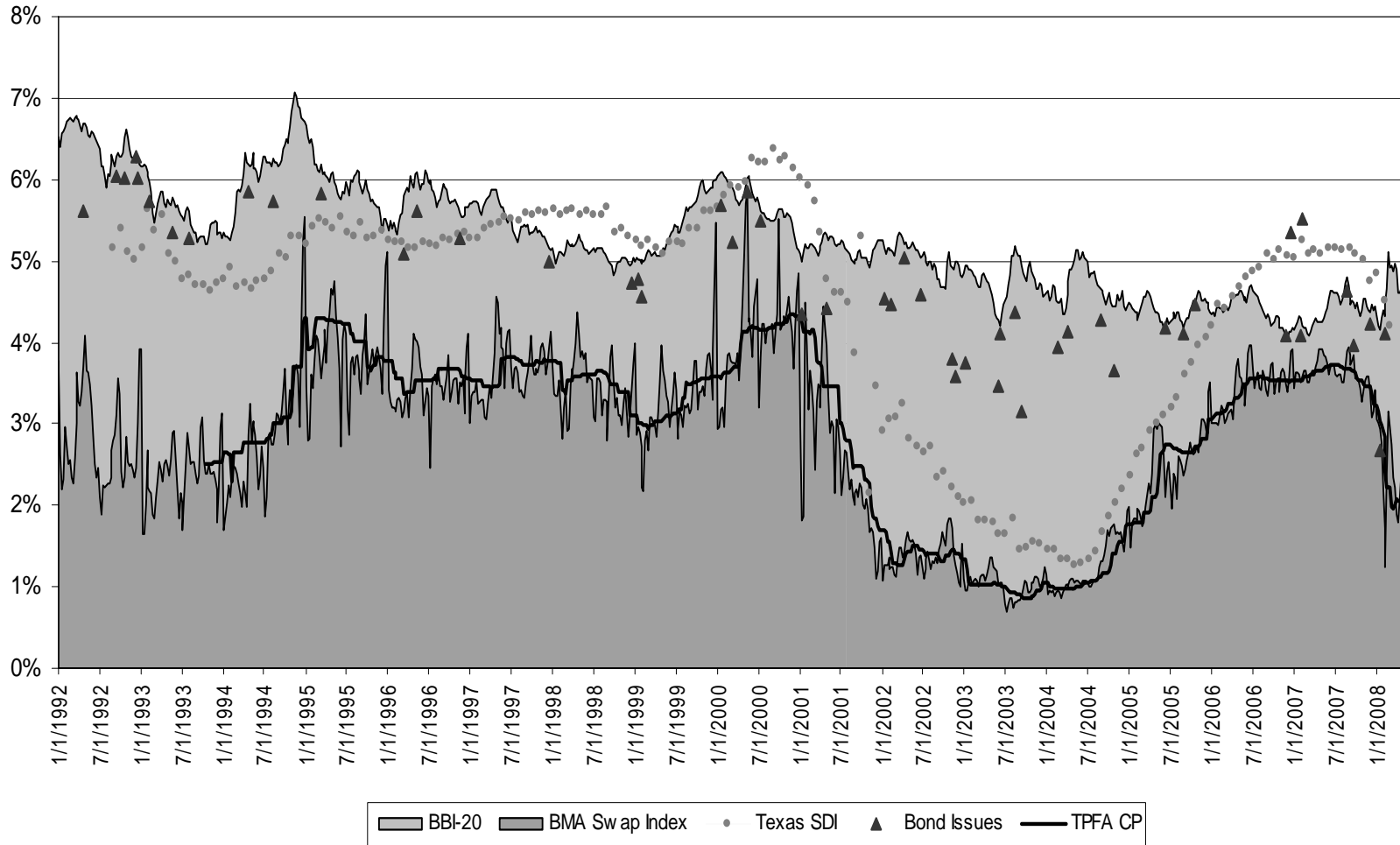
TPFA Debt Instruments

- ◆ Bonds: Long term (5+ years), fixed or variable interest rate
- ◆ Notes: Intermediate Term (1-5 years), fixed or variable interest rate
- ◆ Commercial Paper: Short Term (1-270 days), variable interest rate

Short vs. Long-term Interest Rates

History of TPFA Debt Programs

1992 - 2008



Commercial Paper

- ◆ Functions like a bank line of credit; funds are borrowed as agency needs them to pay invoices
- ◆ Maturity ranges from 1 to 270 days
- ◆ At each maturity the CP can be paid off or reissued ("rolled over") at a new interest rate
- ◆ Issued in tranches as small as \$1,000,000 and in \$100,000 increments

Advantages of CP

- ◆ Lower debt service
 - ◆ We only borrow amount needed to pay invoices for a few months at a time
 - ◆ Short term variable interest rates are usually much lower than long term fixed interest rates
- ◆ **Flexible:** debt can be issued or paid off with very short notice and cost
- ◆ **Helps comply with arbitrage rebate requirements;** less arbitrage rebate means more interest earnings for the project fund.

Commercial Paper Issuance

- ◆ Size and timing of issue determined by TPFA staff
- ◆ Based on user agency expenditure schedule
 - ◆ Updates required before each issuance of commercial paper
- ◆ Other Factors
 - ◆ Federal tax law (arbitrage rebate compliance)
 - ◆ Market Conditions
 - ◆ Net Funding (interest earnings on project fund)

TPFA Debt Management Policy

- ◆ TPFA uses a combination of fixed and variable rate debt
- ◆ Commercial Paper also used to provide exposure to variable interest rates
- ◆ Long term fixed rate bonds issued to “fix out” commercial paper, provide additional CP capacity or lock in low long term interest rates
- ◆ Currently: \$2 billion fixed, \$314 million variable



III. TPFA Debt Programs



TPFA Debt Programs

1. General Obligation
2. Lease Revenue
3. University Revenue Financing Systems
4. Master Lease Purchase Program

TPFA Debt Outstanding

As of 4/30/08

	Fixed Rate	Variable	Total
General Obligation	\$1,637,294,398	\$182,950,000	\$1,820,244,398
Lease Revenue	\$398,294,943	\$0	\$ 398,294,943
Master Lease	\$0	\$130,800,000	\$ 130,800,000
Subtotal: General Revenue	\$2,035,589,341	\$313,750,000	\$2,349,339,341
University	\$281,530,000	\$0	\$ 281,530,000
Total	\$2,317,119,341	\$313,750,000	\$2,630,869,341



1. General Obligation Bonds

What are GO 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:** Must initially be approved by a 2/3 vote of both houses of the legislature and by a majority of the voters; after this approval debt may be issued in installments as determined by the issuing agency or institution
- ◆ Used to finance **general government functions:** prisons, veterans' housing and land programs, parks, roads, grants and loans

Current TPFA GO Programs

As of 4/30/08

Program	Purpose	Approved or Appropriated	Issued	Unissued/ Unappropriated
General Government \$850,000,000 Art. III, Sec 50-f (2001)	Repair, Construction, and Equipment for specified State Agencies	\$864,558,639 * Appropriated through FY 09;	\$595,701,702	\$235,142,551 Unissued; \$19,155,747 Unappropriated
General Government \$1,000,000,000 Art III, Sec. 50-g (2007)	Repair, Construction, and Equipment for specified State Agencies	\$1,000,000,000	\$0	\$1,000,000,000
Colonias Roadway Grants \$175,000,000 Art. III, Sec 49-I (2001)	Grants to specified Border Counties for County Roads	\$175,000,000	\$80,000,000	\$95,000,000
Texas Military Value Revolving Loan Fund \$250,000,000 Art. III, Sec 49-n (2005)	Loans to Defense Communities affected by BRAC	\$50,000,000	\$49,595,000	\$200,405,000
Cancer Research \$3,000,000,000 Art III, Sec. 67 (2007)	Fund the Cancer Prevention and Research Institute of Texas	\$3,000,000,000	\$0	\$3,000,000,000

General Government Agencies

Texas Constitution Art. III, Section 50-f (2001) and 50-g (2007)

- ◆ Texas Facilities Commission
- ◆ State Preservation Board
(Art. III, Sect.50-f only)
- ◆ Texas Historical Commission
- ◆ Dept. of State Health Services
- ◆ Dept. of Aging and Disability Services
- ◆ Texas School for the Deaf
- ◆ Texas School for the Blind and Visually Impaired
- ◆ Adjutant General's Dept.
- ◆ Texas Dept. of Criminal Justice
- ◆ Dept. of Public Safety
- ◆ Texas Youth Commission
- ◆ Dept. of Agriculture
(Art. III, Sect.50-f only)
- ◆ Parks and Wildlife Dept.



General Obligation Bonds Appropriated by 80th Legislature

- ◆ GAA, Art. IX-19.70 and 19.71
- ◆ Handout: Agency, project, amount appropriated



2. Revenue Bonds



What are Revenue Bonds?

- ◆ Legally secured by a specific revenue source
- ◆ Do not require voter approval
- ◆ Enterprise Activities: utilities, airports, toll roads, colleges and universities
- ◆ Lease Revenue or Annual Appropriation Bonds



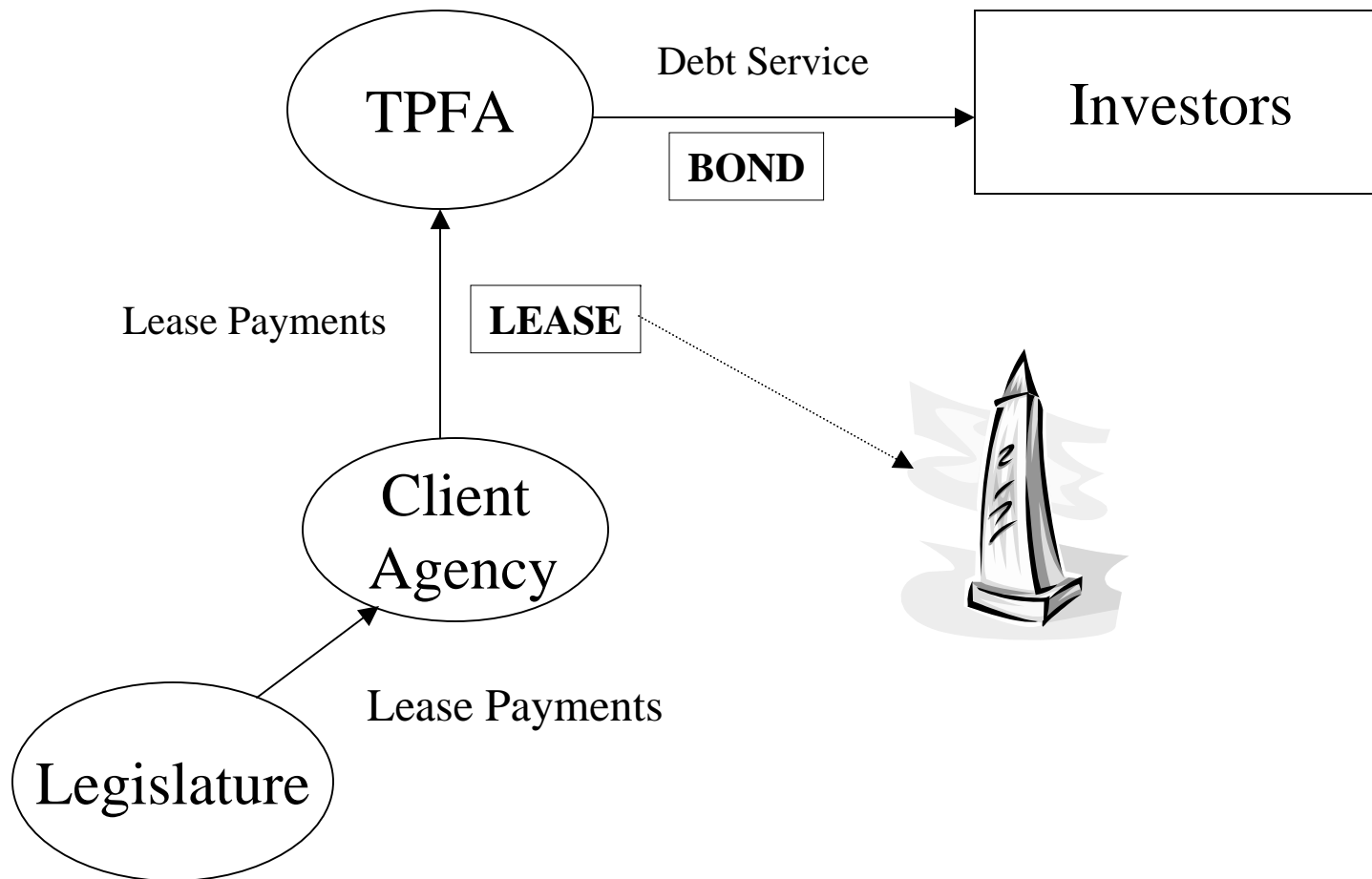
Examples of TPFA Revenue Bonds

1. Lease Revenue Bonds
2. University Revenue Financing Systems
3. Master Lease Program
4. Other programs – Example: Texas Workforce Commission

TPFA Lease Revenue Bonds

- ◆ TFC – Since 1985 for State Office Buildings
- ◆ TPWD – 1998 \$60m Repair and Rehabilitation
- ◆ SPB – 1997 \$80m Texas State History Museum
- ◆ TDCJ – 1998 lease refunding
- ◆ TMFC – Armory Construction/Improvements (now Adjutant General)
- ◆ THC - \$9m Admiral Nimitz Museum (TPWD transfer)
- ◆ DSHS – 1996 and 1998 \$40m for Health Laboratory

TPFA Lease Revenue Bonds



TPFA Lease Revenue Bonds

1. TPFA issues bonds
2. TPFA provides bond proceeds to client agency to construct or acquire the facility
3. TPFA takes title to the facility
4. TPFA leases the facility to another state agency
5. Legislature appropriates lease payments to the other state agency each biennium (no legal obligation to do so)
6. State agency makes lease payments to TPFA
7. TPFA uses lease payments to pay debt service on the bonds.



3. University Bonds

University Debt

- ◆ Midwestern State University
- ◆ Stephen F. Austin University
- ◆ Texas Southern University

Revenue Financing System, which includes Tuition Revenue Bonds

University Debt

- ◆ **Revenue Bonds:** Under Chapter 55 of the Education Code, universities may issue revenue bonds or notes to finance permanent improvements for their institution(s). Most universities have established system-wide revenue financing programs which pledge all system-wide revenue, except legislative appropriations to the repayment of the revenue bonds and notes (“**Revenue Financing System**”).
- ◆ **Tuition Revenue Bonds (TRB):** The Legislature may also authorize “tuition revenue bonds”, usually for specific purposes or projects and appropriate general revenue to offset the institution’s debt service; legislative appropriations made directly for debt service would be unconstitutional. Universities issue TRBs under their revenue financing systems.
- ◆ **PUF/HEAF:** The University of Texas and Texas A&M Systems may issue obligations backed by income from the Permanent University Fund (PUF), in accordance with Texas Constitution, Art. VII, §18. Texas’ other institutions may issue Higher Education Assistance Fund (HEAF) bonds, in accordance with Texas Constitution, Art. VII, §17. TPFA does not issue HEAF bonds.

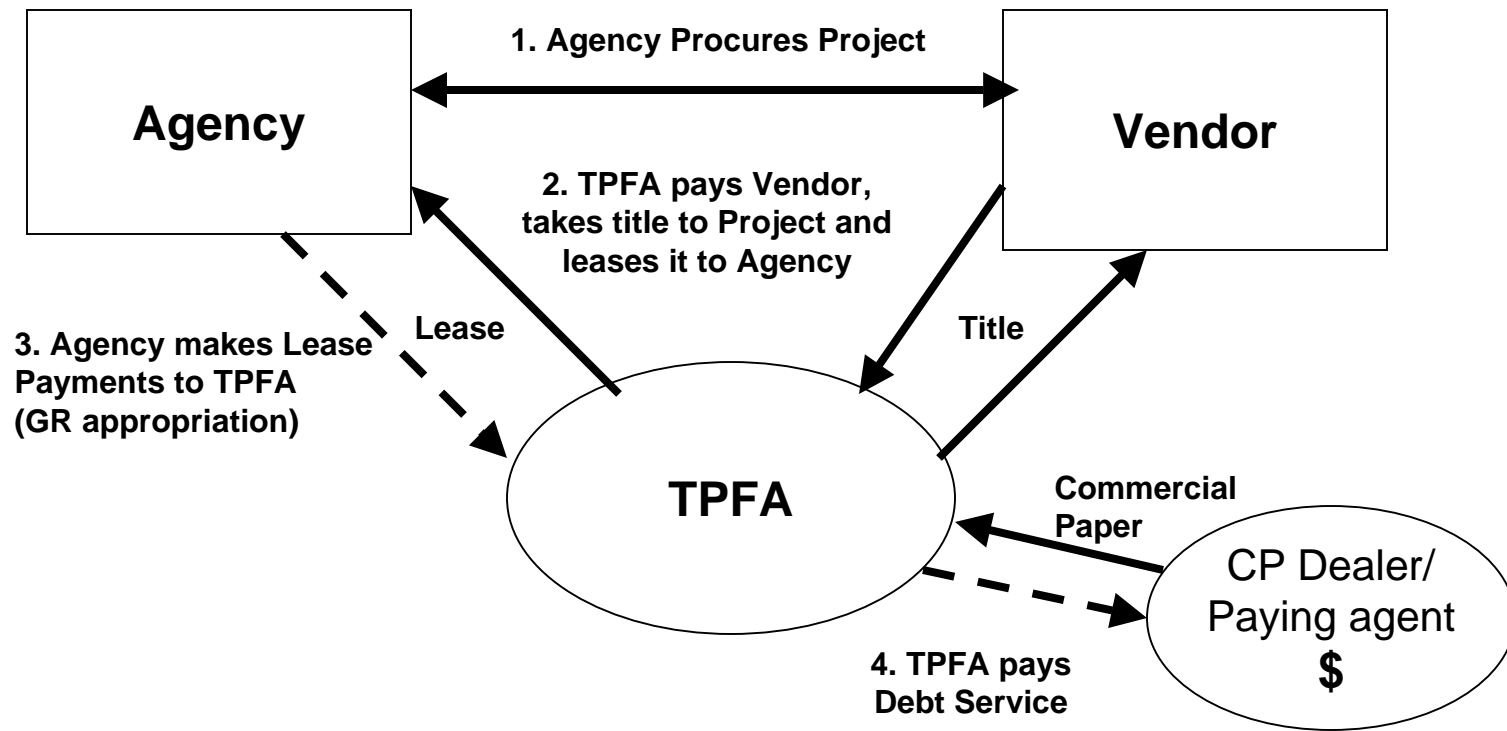


4. Master Lease Program

Master Lease Purchase Program

- ◆ Lease revenue financing program established in 1992, primarily to finance capital equipment acquisitions by state agencies.
- ◆ Telecommunications, software, hardware, vehicles, medical equipment, energy performance contracts.
- ◆ May be used to finance other types of projects that have been specifically authorized by the Legislature and approved by the TPFA Board.
- ◆ Financing vehicle is a tax-exempt revenue commercial paper program (Currently \$130,800,000 outstanding).

The Master Lease Process





IV. TPFA Debt Issuance Process

TPFA Debt Issuance Process

1. Legislature authorizes the project or program and the issuance of debt
2. Agency governing body adopts a resolution authorizing request for financing*
3. Agency submits request for financing to TPFA
4. TPFA Board approves request, determines type of debt instrument and sale process
5. TPFA structures the debt issue
6. Bond Review Board approves issuance of debt
7. Bond sale/closing

**GO Bonds appropriated by Art. IX, Sections 19.70 and 19.71 GAA, 80th R.S., also need LBB approval of projects before bonds are issued.*

Sample Bond Timeline

1. May 31, 2007 - Legislature authorizes project and debt*
2. July 13, 2007 - Agency governing body adopts a resolution
3. July 20, 2007 - Agency submits request for financing to TPFA
4. August 2, 2007 - TPFA Board approves request, determines type of debt instrument and sale process
5. August - TPFA structures the debt issue
6. September 4 – TPFA submits BRB application
7. September 11 – BRB planning session
8. September 20 - BRB approves issuance of debt
9. October 2 - Bond sale
10. October 24 – Closing/proceeds deposited in project fund

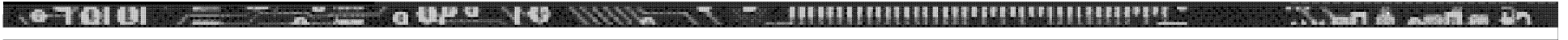
**GO Bonds appropriated by Art. IX, Sections 19.70 and 19.71 GAA, 80th R.S., also need LBB approval of projects before bonds are issued.*

Sample CP Timeline

1. May 31, 2007 - Legislature authorizes project and debt*
2. July 13, 2007 - Agency governing body adopts a resolution
3. July 20, 2007 - Agency submits request for financing to TPFA
4. August 2, 2007 - TPFA Board approves request, determines type of debt instrument and sale process
5. August - TPFA determines size of CP issuance
6. September 4 – TPFA submits BRB application**
7. September 11 – BRB planning session**
8. September 20 - BRB approves issuance of debt**
9. September 25 - Issue CP/Deposit proceeds in project fund

**GO Bonds appropriated by Art. IX, Sections 19.70 and 19.71 GAA, 80th R.S., also need LBB approval of projects before bonds are issued.*

**** *First CP tranche only***



1. Legislative Authorization

Four Components of Legislative Authorization

The Legislature must authorize the specific project for which bonds are to be issued and either the estimated cost of the project or the maximum amount of debt that can be issued for a project or program

- ◆ Approve the project*
- ◆ Approve the use of bond financing*
- ◆ Appropriate bond proceeds
- ◆ Appropriate debt service

**In Statute or Appropriations Bill*

Legislative Authorization

Legislature must approve the project and use of bond financing; appropriate debt service and bond proceeds.

	GO Bonds	Lease Revenue Bonds	Tuition Revenue Bonds
Project Authorization	Agency	Agency	University
Proceeds Appropriated	Agency	Agency	University
Debt Service Appropriated	TPFA	Lease Payment appropriated to Agency	Reimbursement appropriated to University



Appropriations

- ◆ Refer to handouts for examples of appropriation of bond proceeds and debt service.

Pre-planning for new bond authority

- ◆ Project description
 - ◆ What do you need the money for?
- ◆ Timing of funding
 - ◆ How much money will the agency need, when is it needed?
- ◆ Special information
 - ◆ Ex: use of facility by entities other than state or local governments; management contracts; repayment sources other than General Revenue
- ◆ Agency Contacts
 - ◆ Finance/Budget and Accounting, Project Manager, and General Counsel

Requesting New Bond Authority

- ◆ Agency should provide TPFA staff with:
 1. a draft of proposed authorizing language (Statute or Appropriations Act),
 2. the amount requested,
 3. a short description of the project,
 4. a projected quarterly expenditure schedule, and
 5. an estimate of when the bond proceeds will be spent

- ◆ TPFA will prepare an issuance schedule and corresponding debt service estimates.
- ◆ Note possible non-general revenue funds that might be used for debt service
- ◆ The earlier we can be involved in the process, the more likely we will be able to help the state obtain an efficient, cost effective financing.

Existing Bonds

◆ Debt Service

- ◆ GO Bonds: TPFA will estimate debt service on outstanding GO bonds and CP and include in TPFA's LAR.
- ◆ Revenue Bonds: On or before April 1 preceding each regular Legislative session, TPFA will notify agency of the rent payment due in the next biennium. Agency must request this lease payment in its LAR.
- ◆ If the agency has not issued or encumbered all bond proceeds prior to the end of the biennium, the agency needs to make sure its ability to issue and expend those proceeds for the project in a subsequent biennium is continued. Usually done by "U.B." rider in agency's bill pattern.
- ◆ If the full amount authorized has not been approved by TPFA and BRB prior to the end of the biennium, agency will need to ensure the authorization is continued. This is also usually done in the agency's bill pattern.

LBB Topics

- ◆ LAR Instructions:
 - ◆ What's New? (page 3)
 - ◆ UB Riders (page 29)
 - ◆ Exceptional Items (page 32)
 - ◆ Capital Budget (page 33)
- ◆ Capital Budget Authority



2. Agency Resolution

Agency Resolution

- ◆ Governing Body of the Agency adopts a resolution
- ◆ Authorizes the agency to submit the request for financing and delegates authority to sign required documents and take other required action to accomplish the financing
- ◆ Specifies the amount of the request and the legal authority for project and financing
- ◆ May also need to adopt a Reimbursement Resolution
- ◆ See Examples (Handouts and www.tpfa.state.tx.us/sampledocs.aspx)



3. Request for Financing

Request for Financing

- ◆ The Request for Financing is required by TPFA Board Rules, 34 Texas Administrative Code, Section 221.3, (www.tpfa.state.tx.us)
- ◆ Submit at least 12 weeks before funds are required
- ◆ TPFA Board meets 1st Thursday of each month; agenda posted and materials sent to Board 7 days in advance.
- ◆ TPFA staff will review request in draft form if received at least 10 days before the board meeting

Request for Financing

The package should include:

- ◆ Signed Agency Resolution delegating authority
- ◆ Legal Authority for Project
- ◆ Project Analysis (i.e., Project Description and Project Budget)
- ◆ Disbursement (also referred to as "Expenditure" or "Draw") Schedule
- ◆ See Example in handouts



4. TPFA Board Approval

4. TPFA Board Approval

- ◆ TPFA Board meets 1st Thursday of each month
- ◆ Client agency staff should attend the TPFA meeting and make a short presentation of the project
- ◆ Recommended Staff, as applicable
 - ◆ Finance, budget or accounting
 - ◆ Construction or Project Manager,
 - ◆ Legal

4. TPFA Board Approval

- ◆ Approve Request for Financing
- ◆ Determine debt instrument: Commercial Paper or Bonds
- ◆ Select Method of Sale: Competitive or Negotiated
- ◆ Select Financing Team
 - ◆ Financial Advisor, Bond Counsel, Underwriter

TPFA Debt Issuance Process

(Recap)

1. Legislature authorizes the project or program and the issuance of debt
2. Agency governing body adopts a resolution authorizing request for financing*
3. Agency submits request for financing to TPFA
4. TPFA Board approves request, determines type of debt instrument and sale process
5. TPFA structures the debt issue
6. Bond Review Board approves issuance of debt
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**GO Bonds appropriated by Art. IX, Sections 19.70 and 19.71 GAA, 80th R.S., also need LBB approval of projects before bonds are issued.*



5. Bond Review Board Approval

6. Bond Review Board Approval

- ◆ **Application** due the first Tuesday of the month in which the applicant requests board consideration
TPFA staff prepares and submits the application
- ◆ **Planning Session** - Usually the second Tuesday of odd numbered months: January, March, May, July, September, November. No vote is taken at this meeting.
TPFA staff and client agency staff attend the planning session to present the financing and the project.
- ◆ **Board Meeting** - Usually the Thursday of the week following the Planning Session. Boards votes on the application. Usually, if all questions have been answered, **attendance at voting meeting not required.**



6. Structure the Bond Issue

Structure the Bond Issue

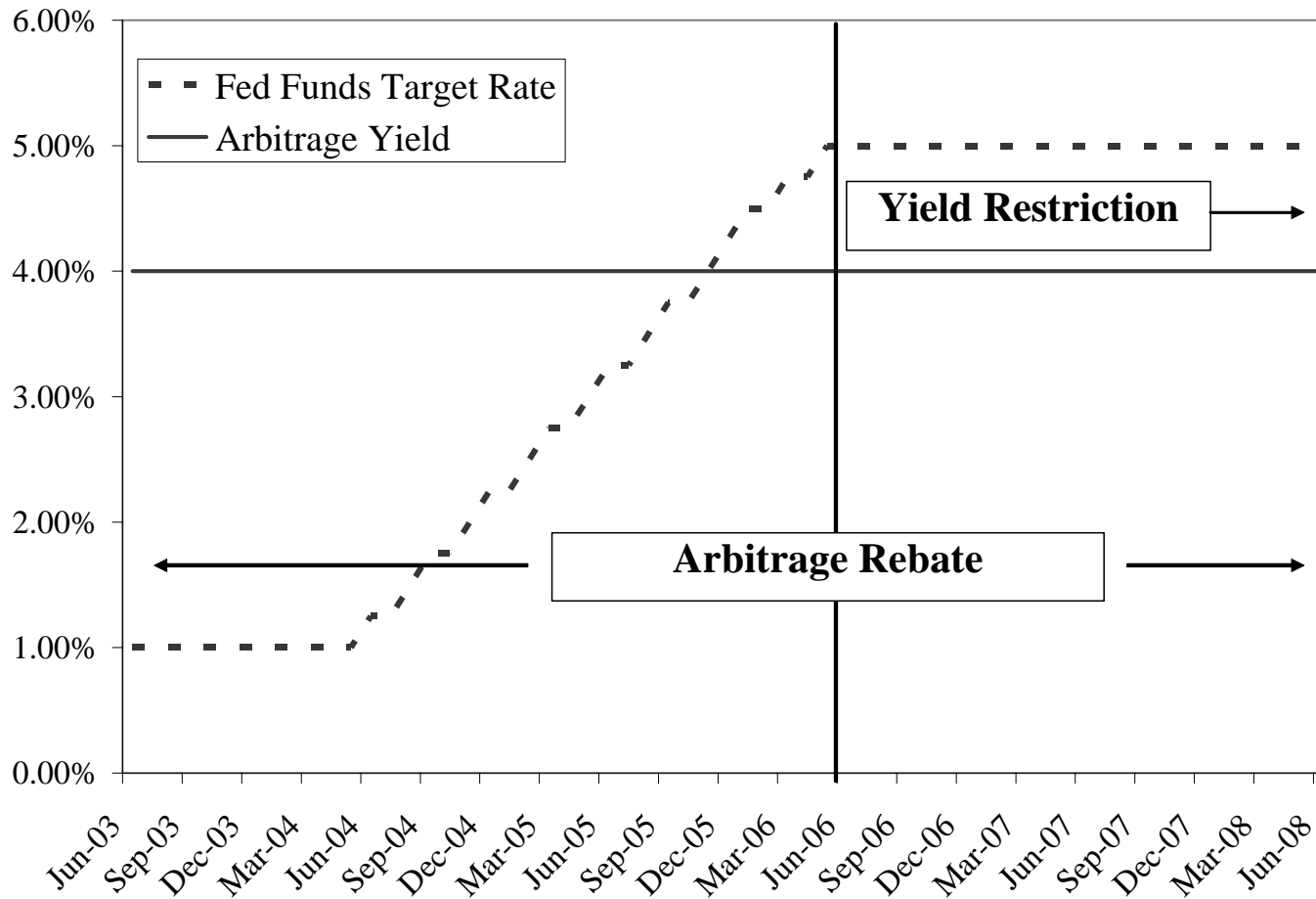
- ◆ Bonds vs. Commercial Paper (See handouts)
 - Expenditure Schedule
 - Arbitrage Rebate
- ◆ Debt Service Appropriation
- ◆ Legal requirements or constraints (Federal tax law as well as state law)

Arbitrage

Arbitrage is the ability to invest low-yielding tax-exempt bond proceeds in higher yielding taxable securities, resulting in a profit (loss).

Arbitrage rebate is the amount of profit earned from arbitrage that must be rebated to the federal government.

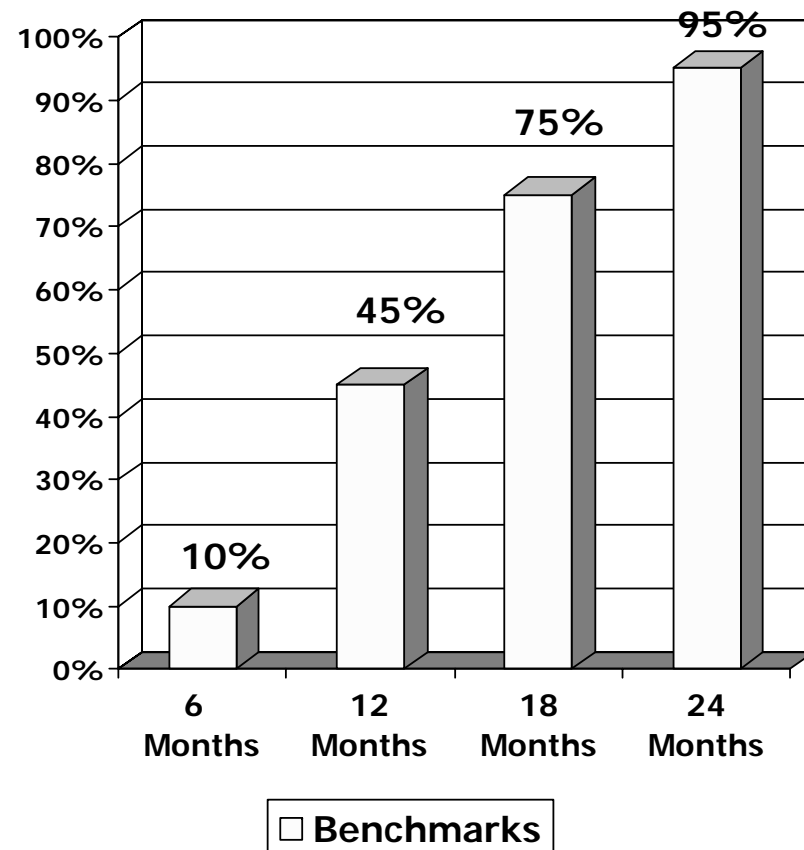
Arbitrage for Tax Exempt Bonds



Source: Public Financial Management

24 Month Spending Exception for Construction Projects

- ◆ The interest earnings from an issue can be exempted from rebate if the gross proceeds are spent as illustrated
- ◆ The first three benchmarks include reasonably expected interest earnings based on the original expenditure schedule and the fourth is based on actual interest earnings.



Sizing the Bond or CP issue

- ◆ TPFA determines the amount of debt to be issued based on:
 - ◆ Client agency expenditure schedule
 - ◆ Federal arbitrage guidelines
- ◆ Proceeds and interest earnings are appropriated to the agency on whose behalf they are issued.*
- ◆ Net Funding:
$$\text{Bond Proceeds} + \text{Interest Earnings} = \text{Total Expenditure}$$
- ◆ Accurate Expenditure Schedule is important

* (HB1, Art. IX, p.IX-59, Sec. 8.09, Acts, 78th Leg. R.S. (2003); SB1, Art. IX, p.IX-52, Sec. 8.09, Acts, 79th Leg. R.S. (2005); and HB1, Art. IX, p.IX-40, Sec. 8.09 Acts, 80th Leg. R.S. (2007)



V. Financing Documents

Major Documents in Bond Issue

- ◆ Request for Financing
- ◆ Memorandum of Understanding
- ◆ Agency's Reimbursement Resolution (if necessary)
- ◆ Financing Agreement (GOs) or Lease Agreement (appropriation-backed lease revenue bonds)
- ◆ Resolution of the TPFA Board authorizing the issuance and sale of the Bonds and the terms and conditions thereof.
- ◆ Official Statement
- ◆ Tax or "Arbitrage" Certificate

Memorandum of Understanding

- ◆ Required by Texas Government Code, Section 1232.102.
- ◆ Sets out the respective rights and responsibilities of the Agency (to construct and manage projects) and the Authority (to issue and administer the debt).
- ◆ Required for GO and Revenue Bond Issues that finance construction projects
- ◆ *Only one MOU adopted by each agency per Financing Program*

Financing Agreement (GO Bonds)

- ◆ Sets out the conditions of the financing
- ◆ Rights and Obligations of the Agency
 - Complete the Project and spend the money
 - Operate, maintain, use the Project for intended, specified governmental purposes;
 - Comply with tax covenants
- ◆ Helps the Authority comply with federal tax law requirements.

Financing Agreement (GO Bonds)

- ◆ Article III: Use of proceeds and Restrictions on the use of project
- ◆ Article IV, Sections 4.03 and 4.04 – maintaining the tax-exempt status of the bonds
- ◆ Article V: Records Retention
- ◆ Exhibits:
 - A. Description of the Project
 - B. Project Completion Schedule
 - C. Approvals
 - D. Disbursement Certificate
 - E. Status Report
 - F. Project Completion Certificate
 - G. Project Substitution Certificate

(See Sample Financing Agreement Handout)

Lease Agreement (Revenue Bonds)

- ◆ TPFA Leases the financed facility to the Agency
- ◆ Agency obligated to:
 - ◆ Make rent payments (for debt service and property insurance)
 - ◆ Operate, maintain, use the Project for intended, specified governmental purposes;
 - ◆ Comply with tax covenants



VI. Ongoing Debt Administration

Ongoing Debt Administration

1. Federal tax law compliance
 - ◆ Use of the facility, sale/disposition of assets
 - ◆ Arbitrage rebate compliance: monitor expenditure and investment of proceeds
2. Draw and Spend bond proceeds
3. Arbitrage Rebate
4. Pay debt service
5. Financial Reporting
6. Continuing Disclosure

1. Tax Law Compliance

Use of the Proceeds and Project

- ◆ Proceeds may be spent only for “governmental purposes” (i.e., the purpose authorized by the Legislature)
- ◆ General rule for Tax-exempt Bonds and CP: At least 90% of the proceeds must be used by State or Local Government
- ◆ Change in use (use or ownership of the facility by an entity other than state or local government) prior to maturity of the bonds must be approved by TPFA in advance

1. Tax Law Compliance

Use of the Proceeds and Project

- ◆ Tax exempt bond proceeds may be used only for tax-exempt purposes.
- ◆ "Use of Project" equals "use of proceeds."
- ◆ "Change of Use" may mean and include use of the project by non-governmental entity either on an on-going basis or by disposition of project.
- ◆ Rules and requirements for continued administration are the provisions in each Financing Agreement in Art. III, and each Lease Agreement, also Art. III.

1. Tax Law Compliance

Disposition of the Asset

- ◆ If an asset financed with bond proceeds is sold or disposed of prior to the retirement of the debt, federal tax law requires the proceeds of the sale to be used to acquire a substitute facility or retire the debt
- ◆ Requires Client Agency to maintain records showing how proceeds of bonds were spent; i.e., which facility or facilities were financed with each series of Bonds or CP tranche (i.e., fund number).
- ◆ Under the Financing Agreements and Lease Agreements "Disposition" is "Change of Use." Agency is required to obtain approval of TPFA.



2. Draw and Spend Bond Proceeds

Disbursement (Draw)

- ◆ Draw - transfer of bond proceeds from TPFA to client agency
- ◆ Initiated by client agency using the Disbursement Certificate in the Financing Agreement

GO Bonds: Financing Agreement, Exhibit D
Revenue Bonds: Lease Agreement, Exhibit C

Draw Contact

Loan Nguyen

463-8297

loan.nguyen@tpfa.state.tx.us

Sample Disbursement Certificate

The undersigned hereby certifies, on behalf of the _____ (the Qualified Agency”), as follows:

- a) The capitalized terms in this Certificate that are not herein defined shall have the meanings defined in the Financing Agreement, dated as of _____, between the Qualified Agency and the Texas Public Finance Authority.
- b) The Qualified Agency (Agency No. _____) requests disbursement from the Project Fund to Pay Project Costs in the aggregate amount of \$_____. The aggregate of all disbursements (including this disbursement) from the Project Fund requested by the Qualified Agency to date is \$_____.
- c) Except as previously disclosed in writing to the Executive Director, the Qualified Agency is not in breach of any representation, warranty, or agreement in the Financing Agreement.
- d) The Qualified Agency reasonably expects to submit payment vouchers, in the aggregate amount of the disbursement requested by this Certificate, for the payment of the Project Costs for which disbursement is requested.
- e) For each item of Project Costs for which a disbursement of funds is requested, state the following information [attach separate sheet if necessary]:

PCA | Appropriated Fund No. | Agency Fund No. | AY | Amount of Disbursement | Project Identification

IN WITNESS WHEREOF, the undersigned executes this Certificate on the date shown below:

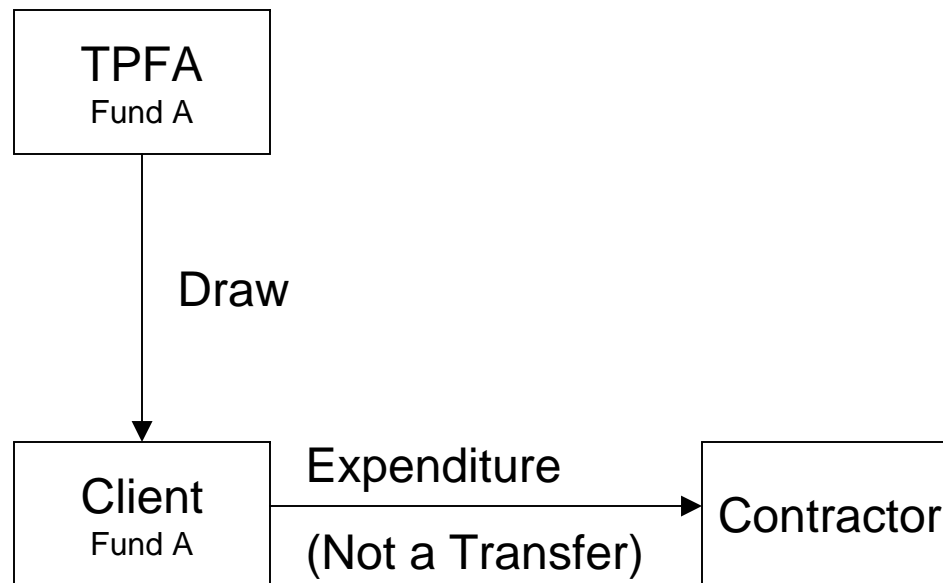
“Qualified Agency”

By: _____
Authorized Agency Representative

Date: _____

Each Financing Agreement is archived at:
<http://www.tpfa.state.tx.us/agreements.aspx>

Flow of Funds



Spending the Proceeds

- ◆ All project related expenditures shall be processed out of the Project Fund established by TPFA.
- ◆ Client agencies shall establish collected revenue budgets in their respective Project Funds.
- ◆ Benefit appropriations shall be established by the client agency, within the Project Fund, as collected revenue and funded with bond proceeds. (See: APS 019)

Project Related Salary Benefit Appropriation Allocations (Cash)

Revenue Transfer			
T-Code	Appropriation	COBJ	Appropriated Fund/Agency Fund/PCA
406	Appropriation where cash is deposited	3970 or specific revenue object	Determined by agency
405	Receiving agency benefit appropriation	3970 or specific revenue object	Determined by agency
Operating Cash Transfer			
T-Code	Appropriation	COBJ	Appropriated Fund/Agency Fund/PCA
403	Receiving agency benefit appropriation	3972	Determined by agency
404	Appropriation where cash is deposited	7972	Determined by agency

Project Related Salary Benefit Appropriation Allocations (Budget)

Collected Budget					
Transfer-Out of Benefit Appropriation					
Agy#	T-Code	Appn#	COBJ	PCA	Fund
327/902	012	Various	7000	Various	0999
327/902	015	Various	3000	Various	0999
Transfer-In to Agency Receiving Account					
Agy#	T-Code	Appn#	COBJ	PCA	Fund
XXX	018	Various	7000	XXXXXX	XXXX*
XXX	021	Various	3000	XXXXXX	XXXX*
* GR Dedicated or Other Special Fund(s) that will pay salaries.					

Status Report

The periodic status report prepared by the “Qualified Agency” pursuant to this Lease/Financing Agreement shall contain the following information with respect to the Project:

- (1) identity of the Project (name, ID no., etc.);
- (2) fund number(s);
- (3) the budget amount for the Project (including adjustments, if any);
- (4) description of work category;
- (5) amount expended for reporting month;
- (6) total amount expended to date;
- (7) amount encumbered;
- (8) available balance;
- (9) percent work complete; and
- (10) narrative identifying any problems (including, without limitation, delays and cost overruns) and indicating whether such problems will substantially alter work schedule or costs.

Reports are usually due by the 15th of each month

Report deviations from the original expenditure schedule (10% or \$1 million) directly to the Executive Director

GO Bonds: Financing Agreement, Exhibit E
Revenue Bonds: Lease Agreement, Exhibit D

Project Completion Certificate

- ◆ Submit a project completion certificate upon completion of the financed projects or when no further proceeds will be expended for project costs.
- ◆ Upon completion of the project, any unspent bond proceeds are transferred to the debt service fund and used to pay debt service.
- ◆ Goal: Close project funds within 3 to 5 years (for construction projects)

GO Bonds: Financing Agreement, Exhibit F
Revenue Bonds: Lease Agreement, Exhibit E

Form of Project Completion Certificate

The undersigned hereby certifies, on behalf of "Qualified Agency" , as follows:

- a. The capitalized terms in this Certificate that are not herein defined shall have the meanings defined in the Lease/Financing Agreement, dated as of _____, between the "Qualified Agency" and the Texas Public Finance Authority.
- b. The Project was completed on (or no further proceeds of the Bonds are to be expended for Project Costs as of) _____ *[insert date]*.
- c. Except for \$_____ (the "*Retainage*"), all Project Costs that have been incurred have been paid, and no further disbursements from the Project Fund for the payment of Project Costs will be necessary.
- d. The Retainage is sufficient to pay all claims (1) for the payment of any Project Costs that are not presently due, and (2) for the payment of any Project Costs the liability for which is being contested or disputed by the "Qualified Agency" .

IN WITNESS WHEREOF, the undersigned executes this Certificate on the date shown below.

"Qualified Agency"

By: _____
Authorized Commission Representative

Date: _____

Each Financing Agreement is archived

<http://www.tpfa.state.tx.us/agreements.aspx>

Use the Exhibits from the Financing Agreement appropriate to the Fund.

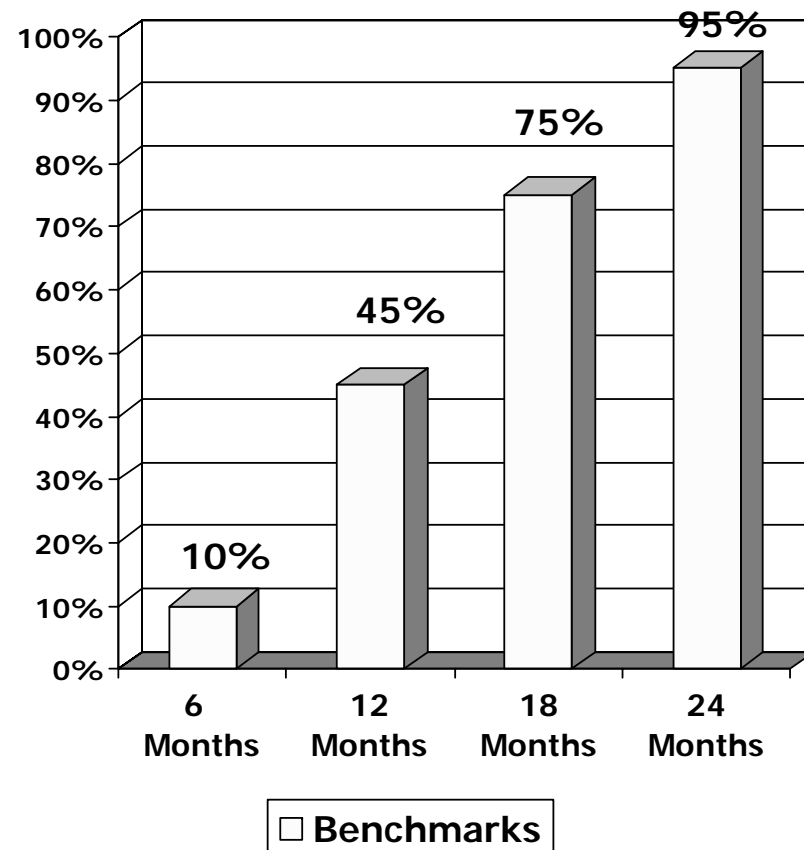


3. Arbitrage Rebate



24 Month Spending Exception for Construction Projects

- ◆ The interest earnings from an issue can be exempted from rebate if the gross proceeds are spent as illustrated
- ◆ The first three benchmarks include reasonably expected interest earnings based on the original expenditure schedule and the fourth is based on actual interest earnings.



Arbitrage Rebate Calculations

- ◆ Calculations are performed as of August 31st of each year.
- ◆ An amount sufficient to cover the rebate liability is transferred from the project fund to the rebate fund when the liability is recognized.
- ◆ Installments must be paid to the IRS at least every 5th bond year.



4. Paying Debt Service

Debt Service Appropriation

	GO Bonds	Revenue Bonds
Debt Service	TPFA	Agency

Debt Service Appropriation

	GO Bonds	Lease Revenue Bonds	Tuition Revenue Bonds
Project Authorization	Agency	Agency	University
Proceeds Appropriated	Agency	Agency	University
Debt Service Appropriated	TPFA	Lease Payment appropriated to Agency	Reimbursement appropriated to University

Debt Service Dates

- ◆ General Obligation Debt

 - ◆ October 1st & April 1st

- ◆ Revenue Debt*

 - ◆ February 1st and August 1st

 - ◆ TPFA notifies agency of the amount of the rent payments by April 1 prior to each Legislative Session so agency can request rent in its LAR.

- ◆ Master Lease Purchase Program

 - ◆ August 1st

TPFA initiates debt service transfers 2 to 50 days prior to the debt service due date. Texas Military Preparedness Commission, Texas Department of State Health Services (DSHS), and TSTC are exceptions.

Debt Service Contacts

- ◆ Debt Service/Proceeds Contact
Pamela Scivicque, Business Manager
463-3141
pamela.scivicque@tpfa.state.tx.us

- ◆ MLPP Debt Service Contact
Chris Gilliland, MLPP Coordinator
463-5695
chris.gilliland@tpfa.state.tx.us



5. Financial Reporting

Shared Funds

Highlights of AFR requirements



Introduction - Shared Funds

"A number of state funds are appropriated for use by more than one agency. These funds are called *shared funds*. These procedures ensure Cash in State Treasury is not double-counted and all shared fund activity is reported by the appropriate agency. "

Reporting Requirements for Annual Financial Reports of State Agencies and Universities. – Texas Comptroller of Public Accounts ("CPA")

Agency Responsibilities

◆ Controlling Agency = TPFA*

The controlling agency is the agency required to reconcile the entire cash activity for the fund and report the Cash in State Treasury balance on the Annual Financial Report. The amount reported should also be reconciled to the Texas Annual Cash Report.

◆ Non-Controlling Agency = Client Agency

A Non-Controlling Agency is any other state agency authorized to spend money from a shared fund but is not the controlling agency. The agency should not report the shared Cash in State Treasury balance on the Annual Financial Report.

Source: Reporting Requirements for Annual Financial Reports of State Agencies and Universities. – Texas Comptroller of Public Accounts (Pages 3.27-3.28 – July 2007)

* Universities, and Texas Parks & Wildlife Department are exceptions.

Non-Controlling Agencies

- ◆ "Any cash balance should be reclassified with a shared cash adjustment."
 - ◆ (T-Code 654/655; GL 0047)
- ◆ ...Non-controlling agencies...are subject to the Inter-fund Activities deadline.

Source: Reporting Requirements for Annual Financial Reports of State Agencies and Universities. – Texas Comptroller of Public Accounts (Page 3.28 – July 2007)

Agency Coordination

"The recording of transfers and Due-To/From are required to be coordinated between the controlling agency and each of the non-controlling agencies and are subject to the Interfund Activities deadline so that Transfers-In are equal to Transfers-Out and Due-To /Due-From accounts are equal. This includes the accrual for expenditures. The coordination for recording purposes may be done on a regular basis as determined by the controlling agency but must be coordinated at least annually during the preparation of the Annual Financial Report."

Source: Reporting Requirements for Annual Financial Reports of State Agencies and Universities. – Texas Comptroller of Public Accounts (Page 3.29 – July 2007)

Fixed Asset Reporting

Agency Responsibility	General Obligation Bonds	Revenue Bonds	University Revenue Bonds
Enter Fixed Assets in SPA	Client	Client	Client
Report Fixed Assets in AFR	Client	Client	Client

Bond Schedules

Agency Responsibility	General Obligation Bonds	Revenue Bonds	University Revenue Bonds
Prepare Bond Schedules*	TPFA**	TPFA**	Client

* “The scope of the statewide audit includes tests for compliance with the covenants of general obligation and revenue bond issues of the State. Therefore, it is essential for each agency that issues bonds to include their bond schedules in their *Annual Financial Report*.”

** Exceptions include the Texas Workforce Commission and the Texas Military Commission.

Source: Reporting Requirements for Annual Financial Reports of State Agencies and Universities. – Texas Comptroller of Public Accounts (July 2007)– p8.31

Pledged Revenues

- ◆ The following agencies/universities will provide TPFA with information regarding pledged revenues and related expenditures at fiscal year end:
 - ◆ Department of State Health Services
 - ◆ Texas Parks & Wildlife
 - ◆ Texas State Technical College

Deadlines

- ◆ 08/31/CY Prior to August 31, review USAS balances and record corrections.
- ◆ 09/20/CY Inter-fund Activities confirmed & entered into USAS
- ◆ 10/03/CY Deadline for early submission / simplified reporting agencies
- ◆ 10/30/CY Binding Encumbrance Report Due. (Last day for TPFA to enter interagency transactions)
- ◆ 11/20/CY AFR Due

Source: Reporting Requirements for Annual Financial Reports of State Agencies and Universities. – Texas Comptroller of Public Accounts (July 2007)



AFR Contact

TPFA Annual Financial Report

Ophelia Guerrero, Chief Accountant

305-9469

ophelia.guerrero@tpfa.state.tx.us



6. Continuing Disclosure

Continuing Disclosure

SEC Rule 15(c) 2-12

- ◆ Required by Securities and Exchange Commission Rule
- ◆ Unless exempt, issuers must file annual operating and financial information
- ◆ For most TPFA Bonds, Comptroller makes annual and quarterly filings
- ◆ In addition, TPFA files supplemental annual financial information for: Adjutant General Armory Improvement Revenue Bonds and DSHS (Health Lab Revenue Bonds) and certain "Material Events" such as rating changes, bond redemptions, etc.
- ◆ Universities (SFA, MSU, TSU) are required to file separately

File on-line at DisclosureUSA.org

Housekeeping

- ◆ CPE Credit – Texas State Board of Public
 - ◆ Sponsor ID: 009293
 - ◆ email John.hernandez@tpfa.state.tx.us
- ◆ We like your feedback
 - ◆ Customer Satisfaction Survey
 - ◆ Training Survey
- ◆ TPFA Complaint Handling Process:
 - ◆ Contact Executive Director or Board Chairman