The constitutional debt limit (CDL) restricts the authorization of additional state debt that is repaid with unrestricted General Revenue Funds to an amount that ensures annual debt service payments do not exceed five percent of the three-year average of unrestricted General Revenue Funds.

**KEY LEGISLATIVE CHANGES**

A statutory debt limit was passed during the 72nd Legislature, First Called Session, 1991, effective January 1992. This debt limit was calculated almost identically to the current CDL, which was approved by voters as a constitutional amendment in November 1997. The statutory limit was removed in 1999 during a re-codification process since it was substantially the same as the constitutional limit.

**DEBT AUTHORIZATIONS INCLUDED IN THE LIMIT**

The debt limit applies to debt repaid with unrestricted General Revenue Funds. As of the end of fiscal year 2012, three state issuers had debt programs with outstanding, or issued, debt calculated into the CDL debt service ratio. These programs include general building repair and renovation issued by the Texas Public Finance Authority (TPFA); cancer research and prevention bonds, also issued by TPFA; highway improvement bonds (Proposition 12), issued by the Texas Transportation Commission; and water development bonds for Economically Distressed Areas (EDAP), State Participation, and Water Infrastructure Fund (WIF), issued by the Texas Water Development Board (TWDB).

**HISTORICAL DEBT LIMIT**

Since 1997, the CDL debt service ratio, including issued debt and authorized but unissued debt, has ranged from a low of 1.82 percent (fiscal year 2007) to a high of 4.10 percent (fiscal year 2010). From fiscal years 1998 to 2007, the CDL debt service ratio was mainly composed of issued debt. In November 2007, voters approved the authorization of $9.3 billion in not self-supporting debt that is repaid with unrestricted General Revenue Funds. These authorizations included general state facility repair (Proposition 4); cancer research and prevention bonds; transportation bonds (Proposition 12); and EDAP. Since the 2007 ballot election, the CDL debt service ratio for fiscal years 2008 to 2012 has been mostly composed of unissued debt, reversing the prior trend. Fig. 1 shows the historical CDL debt service ratio from fiscal years 2003 to 2012, including a break out of issued and unissued debt.

**FACTORS IMPACTING THE DEBT LIMIT**

Several factors can impact the state’s CDL debt service ratio. These factors include:

- A change in the three-year average of unrestricted General Revenue Funds;
- A change in debt outstanding and associated debt service;
- A change in unissued debt authorizations, including repeal, and associated estimated debt service; and
- A change in interest rates.
DEBT SERVICE REQUIREMENTS

The Texas Bond Review Board (BRB) is the agency responsible for calculating the CDL debt service ratio and monitoring where the state stands in relation to the limit. For the portion of the CDL ratio based on issued debt, the agency uses actual debt service schedules from each debt issuance. For the fiscal year 2012 CDL debt service ratio, approximately $510.6 million in debt service, or 1.34 percent of the three-year average of unrestricted General Revenue Funds, is associated with outstanding, or issued, debt.

For the portion of the CDL ratio based on authorized but unissued debt, the agency has historically estimated debt service based on assumptions of a 20-year term, a level debt service payment structure, and a 6.0 percent interest rate. For the fiscal year 2012 CDL debt service ratio, these assumptions result in approximately $819.5 million, or 2.14 percent of the three-year average of unrestricted General Revenue Funds, in estimated debt service that is factored into the CDL debt service ratio. Based on the most recent CDL debt service ratio of 3.48 percent, LBB estimates approximately $6.6 billion in remaining debt authorization capacity for debt that is included in this ratio.

POTENTIAL POLICY IMPROVEMENTS

A 2011 Government Effectiveness and Efficiency Report (GEER), listed in the reference section, identified potential changes to improve the debt limit. One recommended change was amending statute to permit the BRB to modify the assumptions it uses to calculate the estimated debt service for unissued debt to better reflect actual issuing practices. Another recommended change involved repealing unused authority, particularly the $287.2 million in unused debt authority that was ten years or older. For future debt authorizations, it was recommended that the Legislature include expiration dates for debt authority. These changes could be implemented by statutory or constitutional amendments.

USEFUL REFERENCES


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