



LEGISLATIVE BUDGET BOARD

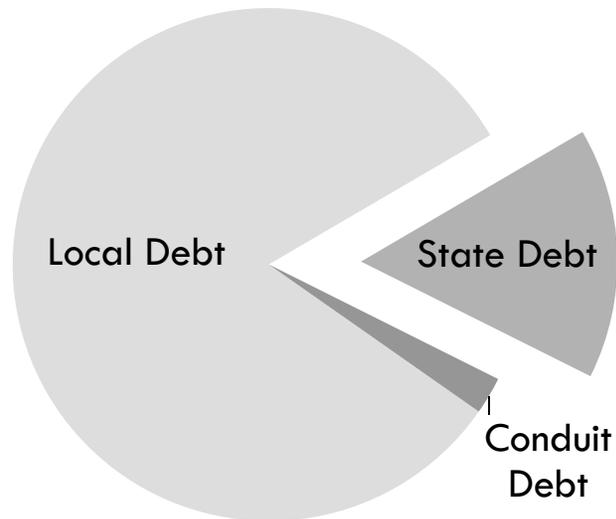
OVERVIEW OF STATE DEBT AND OTHER LIABILITIES

PRESENTED TO SENATE FINANCE COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

MARCH 30, 2016

Texas State and Local Debt Obligations



Total Debt Outstanding = \$259.5 billion

State debt is **\$41.0 billion**, or 15.8 percent, of total debt outstanding.

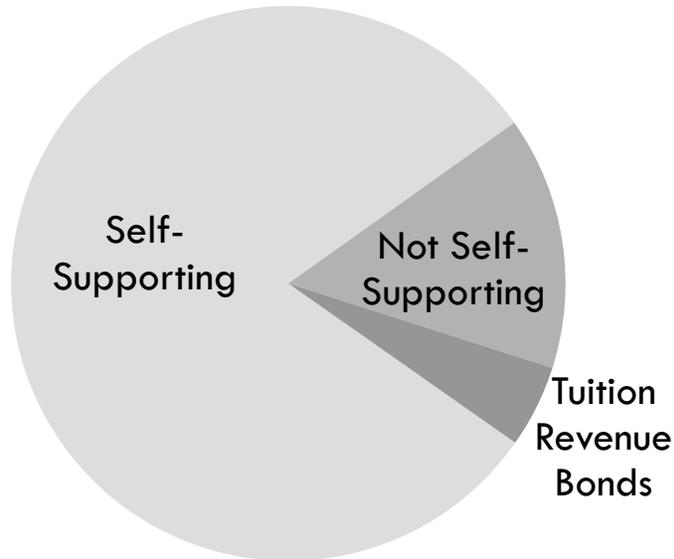
- **State debt** is issued by state agencies and universities and is an obligation of the state.
- **Local debt** is issued by local governments and is not an obligation of the state. Examples of local debt include construction and renovation of schools, city halls, and county courthouses.
- **Conduit debt** is debt issued on behalf of third parties and is not a legal liability of the state, such as the Texas Public Finance Authority's Charter School Finance Corporation, which issues bonds on behalf of charter schools.

General Obligation and Revenue Bonds

State debt includes General Obligation bonds and Revenue bonds:

- **General Obligation (GO) bonds** are backed by the full faith and credit of the state. GO bond authority must be approved by two-thirds of both chambers to be placed on a ballot, then approved by a majority of voters.
 - GO bonds are used for repair and construction projects, veterans' housing, parks, prisons, transportation projects, grants, and loans.
- **Revenue bonds** are authorized by the Legislature, secured by a specific revenue and do not require voter approval.
 - Revenue bonds are used for enterprise activities, such as utilities, airports, toll roads, and colleges and universities.

Self-Supporting and Not Self-Supporting



Total State Debt = \$41.0 billion
(not including conduit debt)

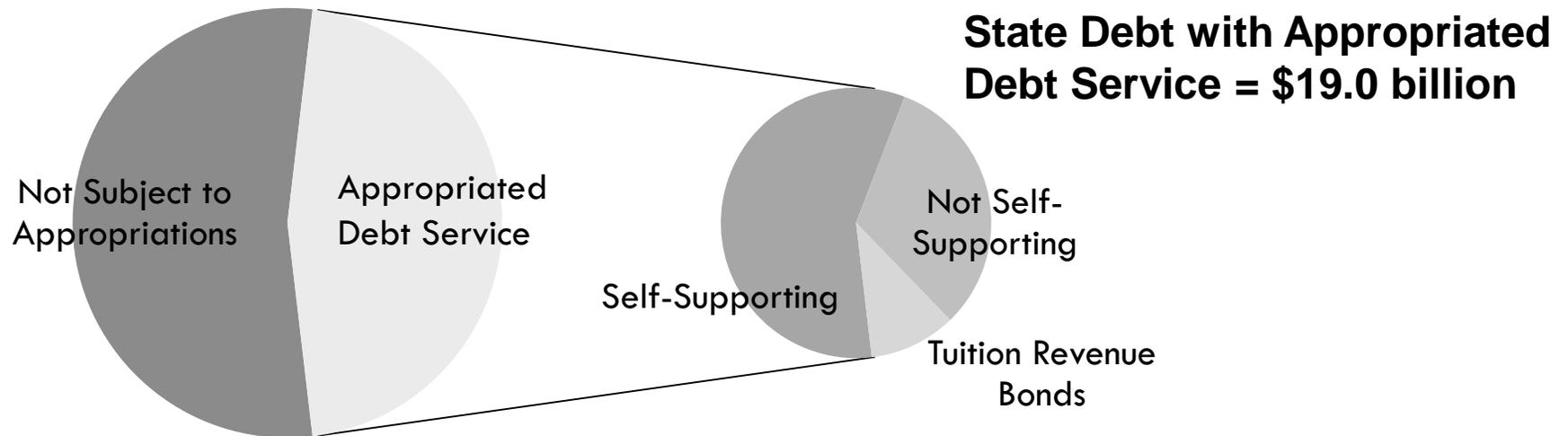
Not self-supporting debt is **\$6.0 billion**, or 14.8 percent, of outstanding state debt.

Tuition Revenue Bond Debt is **\$2.0 billion**, or 4.9 percent.

State debt repayment for GO and Revenue bonds can have self-supporting or not self supporting debt service:

- **Self-Supporting debt** is expected to be repaid with revenues other than General Revenue, for example loan repayments.
- **Not Self-Supporting debt** is expected to be repaid with General Revenue.

Directly and Not Appropriated Debt Service



- **\$4.0 billion** in debt service is **directly appropriated** by the Legislature in the 2016-17 General Appropriations Act for **\$19.0 billion** in outstanding state debt.
 - \$10.9 billion is self-supporting; \$6.0 million is not self-supporting; and \$2.0 billion is Tuition Revenue Bonds.
- **\$22.0 billion** in outstanding state debt **does not receive a direct appropriation** for debt service by the Legislature in the General Appropriations Act and is self-supporting.
 - Programs include College and University revenue bonds, Texas Workforce Commission Unemployment Compensation Revenue Bonds, Veterans' Land and Housing Bonds, and certain Water Development bonds.

State Debt Outstanding and 2016-17 Debt Service

ISSUER AND PROGRAM (in millions)	OUTSTANDING DEBT AS OF AUGUST 31, 2015	2016-17 DEBT SERVICE IN GAA
Self Supporting – General Obligation		
Governor’s Office – Economic Growth and Tourism	\$45.0	\$0.5
TxDOT – Mobility Fund	\$6,400.5	\$833.2
TPFA – Military Value Revolving Loan Bonds	\$35.2	\$6.1
Self-Supporting – Revenue		
TxDOT – State Highway Fund	\$4,461.1	\$849.8
Self -Supporting Subtotal	\$10,941.8	\$1,689.6
Not Self Supporting – General Obligation (included in CDL)		
Higher Education Constitutional Bonds (HEF)	\$6.5	*
TPFA – Proposition 4 and 8 GO Bonds	\$1,518.1	\$467.0
TPFA – CPRIT Bonds	\$716.4	\$189.3
Water Development Board – WIF and EDAP	\$685.0	\$207.6
TxDOT – Proposition 12 GO Bonds	\$2,991.4	\$525.0
Not Self-Supporting – Revenue (included in CDL)		
TPFA – Revenue Bonds	\$88.0	\$108.1
TPFA – MLPP	\$43.0	\$11.5
Not Self -Supporting Subtotal (included in CDL)	\$6,048.5	\$1,508.5
Tuition Revenue Bonds	\$1,963.9	\$811.8
Total	\$18,954.2	\$4,009.9

* Debt service for HEF bonds is paid from annual constitutional appropriations to qualified institutions.

SOURCE: Bond Review Board.

Appropriations for Debt Service Payments

2016-17 DEBT SERVICE APPROPRIATIONS BY METHOD OF FINANCE

METHOD OF FINANCE	AMOUNT (in millions)
General Revenue	\$1,982.6
General Revenue- Dedicated	\$196.1
Federal Funds	\$137.3
Other Funds	\$1,694.1
Total	\$4,009.9

Note: Totals may not sum due to rounding.

SOURCE: Legislative Budget Board.

Constitutional Debt Limit

Article III, Section 49(j) of the Texas Constitution limits the authorization of additional state debt if in any fiscal year the resulting annual debt service payable from unrestricted General Revenue (GR) (not self-supporting debt), excluding constitutionally dedicated revenues, exceeds 5.0 percent of the average annual unrestricted GR for the previous three years.

	FISCAL YEAR 2014	FISCAL YEAR 2015
Outstanding Debt	1.20%	1.38%
Outstanding and Authorized but Unissued Debt	2.71%	2.65%

SOURCE: Bond Review Board.

To monitor where the state stands in relation to the constitutional debt limit, the Bond Review Board calculates two debt ratios. The first ratio is the debt service on outstanding or issued debt as a percentage of unrestricted General Revenue Funds. The second ratio is the debt service on outstanding debt plus estimated debt service for authorized but unissued bonds.

Pension Liability

ACTUARIAL VALUATION DATE: AUGUST 31, 2015

STATEWIDE RETIREMENT SYSTEMS	UNFUNDED ACTUARIAL ACCRUED LIABILITY (in millions)
Teacher Retirement System (TRS)	\$32,967.7
Employees Retirement System (ERS)	\$8,017.8
Law Enforcement Custodial Officers Supplemental (LECOS) Retirement Fund	\$353.1
Judicial Retirement System Plan Two (JRS II)	\$31.4
Texas Emergency Services Retirement System (TESRS)	\$26.1

SOURCE: TRS, ERS, TESRS.

Pension Liability, continued

STATE BENEFIT PLAN	FUNDED RATIO As of 8/31/15	FUNDING PERIOD As of 8/31/15	2016-17 STATE CONTRIBUTION	STATE CONTRIBUTION NEEDED FOR 31 YEAR FUNDING PERIOD ³
TRS	80.2%	33.3 years	6.8%	7.02%
ERS	76.3%	33 years	10.0% ¹	10.12%
LECOS	72.0%	Infinite	0.5%	1.31%
JRS II	92.2%	Infinite	15.663%	16.63%
TESRS ²	76.9%	30 years	\$1,583,825	N/A

SOURCE: TRS, ERS, TESRS

Notes:

¹ The ERS state contribution rate includes a 0.5 percent agency contribution rate.

² The TESRS's Funded Ratio and Funding Period are as of 8/31/14. The system is primarily funded by contributions from member departments. The state contributes an amount that "may not exceed one-third of the total of all contributions by governing bodies in a single year." In the 2016-17 biennium, the state appropriated \$1,583,825 in each fiscal year.

³ Assumes no other contribution or plan change.

Pension Liability, continued

Recent legislative action to address pension liabilities:

- **ERS – 84th Legislature**

- Increase to 9.5 percent state contribution (continuation of 0.5 percent agency contribution);
- Increase member contribution to 9.5 percent (salary increase to cover cost);
and
- Repeal 90-day waiting period for contributions.

- **TRS – 83rd Legislature**

- Increase state contribution rate to 6.8 percent in FY 2015;
- Increase member contribution rate to 6.4 percent in FY 2014, 6.7 percent in FY 2015, 7.2 percent in FY 2016, and 7.7 percent in FY 2017 and beyond;
and
- Institute school district contribution rate of 1.5 percent of the minimum salary schedule in FY 2015 for employers whose employees are not participating in Social Security.

Texas Guaranteed Tuition Plan

- As of August 31, 2015, the Texas Guaranteed Tuition Plan (Texas Tomorrow Fund) had an **unfunded liability of \$535.5 million**, a decrease of \$32.7 million in unfunded liability from the end of fiscal year 2014. Factors affecting the liability amount include:
 - Lower than projected tuition increases;
 - Change in the investment return assumptions for future years; and
 - Appropriation of \$87.7 million by the 84th Legislature.
- The plan opened for enrollment in 1997 and plan benefits are guaranteed by the full faith and credit of the State of Texas.
 - The plan closed for new enrollment in 2003 when tuition was deregulated; there were approximately 66,000 active contracts as of August 31, 2015.
 - The plan's actuary projects that the plan will have depleted all cash and investments available to pay contract benefits between years 2020 and 2021; final plan benefits are estimated to be paid in year 2036.

SOURCE: Comptroller of Public Accounts



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

www.lbb.state.tx.us

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