Debt Reduction Report

Rider 43, TxDOT Bill Pattern, General Appropriations Act, 83rd Legislature

August 29, 2014

Introduction

Through several debt financing programs provided by the Texas Legislature, the Texas Transportation Commission (the "Commission") has been able to deliver much needed additional transportation projects throughout the State of Texas. The Texas Department of Transportation (department) continually monitors its financing programs for opportunities to reduce debt service costs through refunding, restructuring, refinancing, or defeasing existing debt. In 2014 the Commission achieved debt service savings in excess of $500 million that would have been paid through 2037 by refunding some bonds at a lower interest rate and by reducing the amount of outstanding debt by approximately $315 million.

In accordance with Rider 43 of the department's bill pattern (General Appropriations Act, SB 1, 83rd Legislature) the department hereby submits its "Debt Reduction Report" outlining the results of its efforts to capture savings on bond indebtedness and/or reduce debt during fiscal year 2014. Rider 43 states:

> "It is the intent of the Legislature that the Texas Transportation Commission and the Department of Transportation look for any and all opportunities for savings that may be accomplished for the department and the state from efforts to refinance, restructure, defease, or refund the outstanding bond indebtedness issued for its transportation programs under terms and conditions that the commission finds to be in the best interest of the state. The department shall report to the Governor, Lieutenant Governor, Speaker of the House, and the Legislature annually on the outcomes of these efforts."

Debt Savings Efforts

In fiscal year 2014, the department generated debt service savings and/or reduced outstanding debt through three separate transactions comprised of issuing State Highway Fund refunding bonds, the defeasance of Texas Mobility Fund bonds, and issuing Texas Mobility Fund refunding bonds.

State Highway Fund First Tier Revenue and Refunding Bonds, Series 2014-A

In March 2014, the department refinanced $865 million in existing State Highway Fund (Prop 14) debt in order to obtain savings and lower debt service. The refunding resulted in total savings of $102 million from 2015 to 2026 (or approximately $83 million on a present value basis). The savings represents 9.5% of the bonds refunded, a savings level well in excess of the Texas Transportation Commission's guideline of 3%.

State of Texas General Obligation Mobility Fund Defeasance

In May 2014, the department reduced its bond indebtedness by defeasing $150 million of State of Texas General Obligation Mobility Fund bonds with excess Texas Mobility Fund revenues generated from higher-than-projected revenue receipts. The department defeased and redeemed debt that resulted in total debt service avoidance of approximately $262 million (or $156 million on a present value basis) which would have been paid through 2037.

State of Texas General Obligation Mobility Fund Refunding Bonds, Series 2014

In June 2014, the department refinanced approximately $1.1 billion in existing Texas Mobility Fund debt in order to obtain savings and lower debt service. The refunding resulted in total savings of approximately $154 million (or approximately $120 million on a present value basis) which would have been paid from 2015 to 2035. The savings represents 11.2% of the bonds refunded, a savings level well in excess of the Texas Transportation Commission's guideline of 3%.

Conclusion

It is the policy of the Commission to ensure that all debt programs and transactions are undertaken in the most efficient manner and with the expectation of achieving the lowest cost of capital. The Commission continuously monitors its debt programs to look for opportunities to capture savings.