



# Debt Reduction Report

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Rider 35, TxDOT Bill Pattern, General Appropriations  
Act, 85<sup>th</sup> Legislature, 2017

August 31, 2018

## **Introduction**

Through several debt financing programs provided by the Texas Legislature, the Texas Transportation Commission (Commission) has been able to deliver additional transportation projects throughout the State of Texas. The Texas Department of Transportation (TxDOT) continually monitors its financing programs for opportunities to reduce debt service costs through refunding, restructuring, refinancing and defeasing existing debt.

In accordance with Rider 35 of TxDOT's bill pattern (General Appropriations Act, SB 1, 85<sup>th</sup> Legislature, 2017) TxDOT hereby submits its "Debt Reduction Report" outlining the results of its efforts to capture savings on bond indebtedness and reduce debt during fiscal year 2018. Rider 35 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 with the report due on or before August 31 of each year."

## **Debt Savings Efforts**

During fiscal year 2018, the Commission issued no bonds to refund, restructure, refinance or defease existing debt and therefore no savings were achieved.

On December 22, 2017, Congress enacted the Tax Cuts and Jobs Act which included a provision prohibiting the advance refunding of tax-exempt bonds. This was a mechanism that TxDOT used previously to refinance outstanding debt at lower interest rates in advance of the "call date" (the date after which the bonds can be paid off and thus retired).

In recent years, TxDOT had taken advantage of market conditions by advance refunding all bonds with call dates through 2018, resulting in debt service savings. This, along with the prohibition of advanced refundings described above, resulted in no realized additional debt service savings in fiscal year 2018.

The table below presents cumulative debt service savings for the two past biennia.

Cumulative Debt Service Savings for the Past Biennia <sup>1</sup>						
Program	FY 2014 -2015		FY 2016 -2017		Total	
	Gross Savings	PV Savings <sup>2</sup>	Gross Savings	PV Savings <sup>2</sup>	Gross Savings	PV Savings <sup>2</sup>
Texas Mobility Fund Bonds	\$323 million	\$236 million	\$363 million	\$213 million	\$686 million	\$449 million
State Highway Fund/ Prop 14 Bonds	\$226 million	\$180 million	-	-	\$226 million	\$180 million
Central Texas Turnpike System Bonds	\$948 million	\$383 million	-	-	\$948 million	\$384 million
<b>Total</b>	<b>\$1.497 billion</b>	<b>\$800 million</b>	<b>\$363 million</b>	<b>\$213 million</b>	<b>\$1.860 billion</b>	<b>\$1.013 billion</b>
1 - Activity since inception of the Debt Reduction Report requirement under a TxDOT Rider which includes FY 2014 -FY 2017 2 - PV Savings as of the date of the refinancing						

## Conclusion

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