

STATE OF TEXAS

CAPITAL EXPENDITURE PLAN

For Fiscal Years 2010-2011

Including Supplemental Information through Fiscal Year 2013

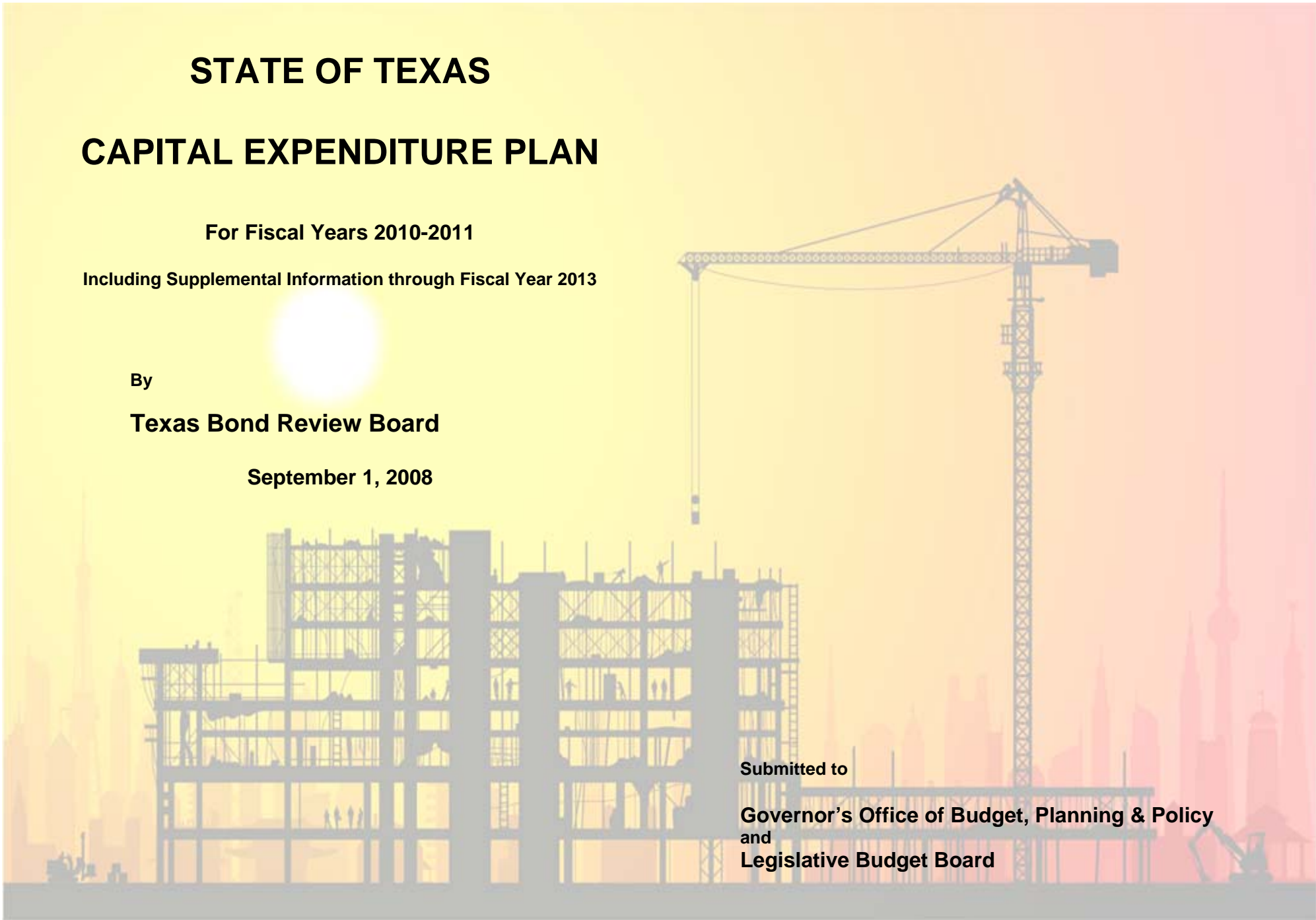
By

Texas Bond Review Board

September 1, 2008

Submitted to

**Governor's Office of Budget, Planning & Policy
and
Legislative Budget Board**



TEXAS BOND REVIEW BOARD
FY 2008-2012
CAPITAL PLANNING ANALYSIS AND OVERVIEW

Capital Planning Review and Approval Process

The 80th Legislature, with the passage of House Bill 1, Article IX, Section 11.02, directed the Bond Review Board to produce the state's Capital Expenditure Plan (CEP) for the 2010-2011 fiscal biennium.

The legislation specifies that all state agencies and higher educational institutions appropriated funds by the General Appropriations Act are required to report capital planning information for projects that fall within four specific project areas. Those categories are: (1) acquisition of land and other real property; (2) construction of buildings and facilities; (3) renovations of buildings and other facilities estimated to exceed \$1 million for a single state agency or institution of higher education; and (4) major information resources projects estimated to exceed \$1 million. With this year's report, we requested that all reporting agencies and institutions of higher education report any planned expenditures that would exceed the \$1 million reporting threshold for all categories.

The Texas Bond Review Board (BRB) developed a formal process for submission of capital projects from all state agencies. Various state agencies were involved in the development process including the Governor's Office of Budget, Planning & Policy (GOBPP), Legislative Budget Board (LBB), Texas Higher Education Coordinating Board (THECB), Texas Facilities Commission (TFC) formerly known as the Texas Building and Procurement Commission, and agency input from staff of the BRB. Through this input, the BRB developed program guidelines, instructions and a formal application process for submitting capital project requests based on the legislative mandate.

From a budgetary and capital planning standpoint, there are a number of state agencies that work together in varying degrees in coordinating the budgetary and capital reporting and approval process of state agencies. They include the GOBPP, LBB, THECB, Comptroller of Public Accounts (CPA), House Committee on Appropriations, Senate Finance Committee and the TFC.

Through the legislative process, the legislature defines the types of projects and cost thresholds to be reported in the CEP. The BRB coordinates the submission of capital projects through the CEP, develops the report and determines the effect of the additional capital requests on the state's budget and debt capacity. The completed plan is then forwarded to the GOBPP and the LBB for use in their development of recommended appropriations to the Legislature. The Legislature, through the processes of the House Committee on Appropriations and the Senate Finance Committee, makes the final decision on which projects will be funded.

The Legislature determines priority needs through consideration of recommendations from the two budget offices. The two budget offices, with input from the requesting agencies or universities, also assess short-term and long-term needs.

Approved capital and operating budgets are integrated into the General Appropriations Act that authorizes specific debt issuance for capital projects. The statewide capital planning process and the Legislative Appropriations Request require identification of capital and operating costs on a multi-year basis.

Through the capital budgeting process as previously defined, capital projects are approved for the two-year biennial period (2010-2011). However, the CEP reports on the preceding year (2009) and the remaining two out years (2012-2013) for identifying long-term needs of the state and for future planning purposes.

Inventory Control of Capital Assets

Individual state agencies and institutions of higher education maintain capital inventory listings on an annual basis. In addition to this CEP, TFC produces [*The Facilities Master Plan*](#) on a biennial basis. This document addresses the office inventory and space needs of state agencies and takes into account current and projected needs, as well as methods for meeting those needs in a cost-effective manner. This report is also used to aid in the development of appropriation requests in the state's budget cycle. Decisions on whether facilities should be purchased, constructed, sold, renovated or leased are supported in this document. Also, capacity and best use of existing facilities determinations are rendered through this process.

The THECB maintains a [*Facilities Inventory*](#) for institutions of higher education and identifies available square footage as well as the replacement value for that space. State institutions of higher education are also required to report annually to the Coordinating Board information on planned construction projects and deferred maintenance. The Coordinating Board uses this information to produce a five-year *Campus Master Plan* document which guides the agency in its evaluation and approval of campus construction and land acquisition projects.

Additionally, the state maintains a complete inventory of capital assets for all state agencies, which is updated annually. The CPA collects information provided by each reporting entity through the [State Property Accounting System](#). The State Auditor's Office monitors agencies' inventory and asset control systems as part of its [management control and performance audits](#).

Capital Expenditure Plan for 2010-2011

In developing the CEP for the fiscal biennium 2010-2011 with supplemental information through 2013, the BRB received information from 78 state entities reporting 945 capital project request submissions totaling \$20.51 billion through 2013. Of this total, the CEP reports an estimated \$2.49 billion in expenditures through 8/31/2009, \$3.73 billion through 8/31/2010, \$4.17 billion through 8/31/2011 and \$10.12 billion through fiscal year 2012 and beyond.

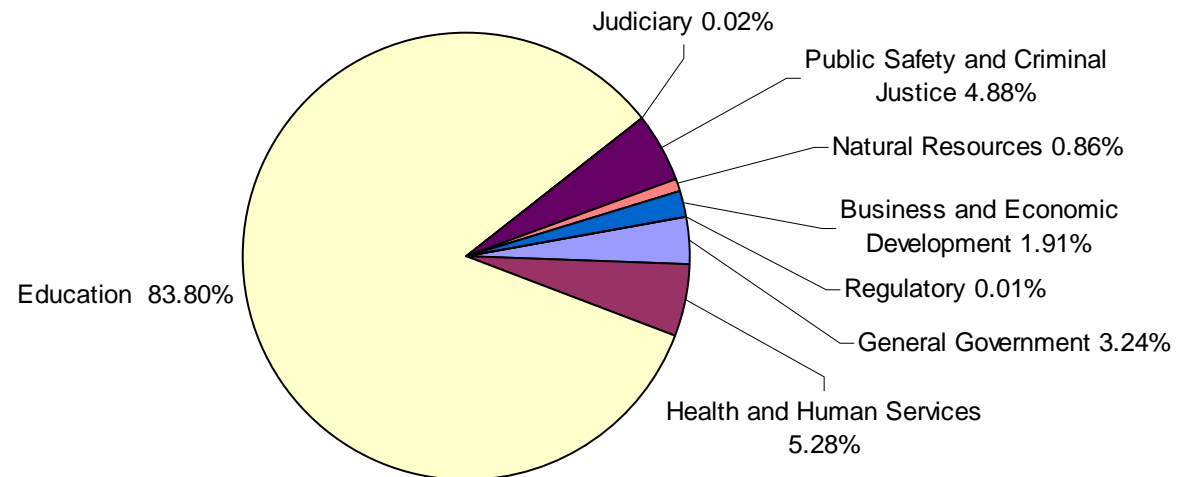
This report is meant to serve as a general overview of the data received from the reporting agencies. A searchable database that offers detail on specific projects is available online on the BRB's website at <http://www.brb.state.tx.us/capital/capital.aspx>.

Functional Areas of Government

The state's General Appropriations Act separates Texas state agencies and institutions of higher education into eight different "Articles" that group government agencies into functional units. The following chart and table groups the planned capital expenditures by functional area.

State of Texas Capital Expenditures by Article of Government

Total Anticipated Expenditures \$20.5 Billion



The three government functions that reported the most planned capital expenditures for the 2009-2013 period were education, health and human services, and public safety and criminal justice, with education making up 83.8 percent of all planned capital expenditures.

Functional Areas	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures	% of Total
Business & Economic Development	\$79,474,551	\$103,762,709	\$117,174,980	\$45,043,575	\$47,155,362	\$392,611,177	1.91%
Education	1,759,060,992	2,900,717,642	3,441,858,081	3,117,538,048	5,971,062,546	17,190,237,309	83.80%
General Government	92,662,002	146,147,182	182,206,592	96,550,000	147,000,000	664,565,776	3.24%
Health & Human Services	299,252,075	163,011,030	199,926,105	119,365,154	301,447,256	1,083,001,620	5.28%
Judiciary	2,316,200	1,488,023	0	0	0	3,804,223	0.02%
Natural Resources	61,871,689	48,455,777	34,830,368	20,364,388	11,245,068	176,767,290	0.86%
Public Safety & Criminal Justice	194,780,064	368,211,879	193,031,970	77,903,796	166,940,411	1,000,868,120	4.88%
Regulatory	1,205,316	0	0	0	0	1,205,316	0.01%
Total	\$2,490,622,889	\$3,731,794,242	\$4,169,028,096	\$3,476,764,961	\$6,644,850,643	\$20,513,060,831	100.00%

It should be noted that new construction will require additional maintenance and operation costs after the completion of the project. This report does not attempt to calculate those costs. The report is intended to estimate the amount of funds needed to complete each anticipated project.

Also,

1. Texas Department of Public Safety reported fourteen projects costing one dollar. The agency is waiting for the Texas Facilities Commission to provide them with their cost analysis for these projects. This information should be available in late December or early January. Listed below are the fourteen projects:

Project Name	Category
San Antonio Northwest - New Area Office	Land Acquisition
Pearsall	Land Acquisition
Williamson County	Land Acquisition
Austin - Expansion/Renovations Emergency Mgmt. Div	New Construction
EL Paso - New Facility Driver License Office	New Construction
New Training Academy - New Construction	New Construction
New Training Academy - Fleet Operations Relocation	New Construction
Pearsall - New Facility Area Office	New Construction
Williamson County - New Facility Area Office	New Construction

Project Name (cont.)	Category
San Antonio Northwest - New Area Office	New Construction
Alice - Expansion/Renovation Area Office	Addition
San Antonio Babcock - Additions and Renovations	Addition
Weatherford - Mineral Wells Communication Center	Addition
Laredo - Expansion/Renovation District Office	Addition

2. Texas Department of Transportation did not include new road projects or maintenance on older roads in this report because they reported only items which impacted their capital legislative appropriation request.

3. Texas Commission on Environmental Quality reported zero dollar amounts for four information resources projects. These are ongoing projects from FY 2008 that will end 8/31/09 (FY 2009) and will not receive any additional funds for completion.

Project Name	Category
State of Texas Air Reporting System Web-Based Electronic Submission, Phase II	Information Resources
Occupational Licensing Program Enhancements	Information Resources
HR Retooling	Information Resources
Data Repository, Enhancement for the Water Utility Database (WUD)	Information Resources

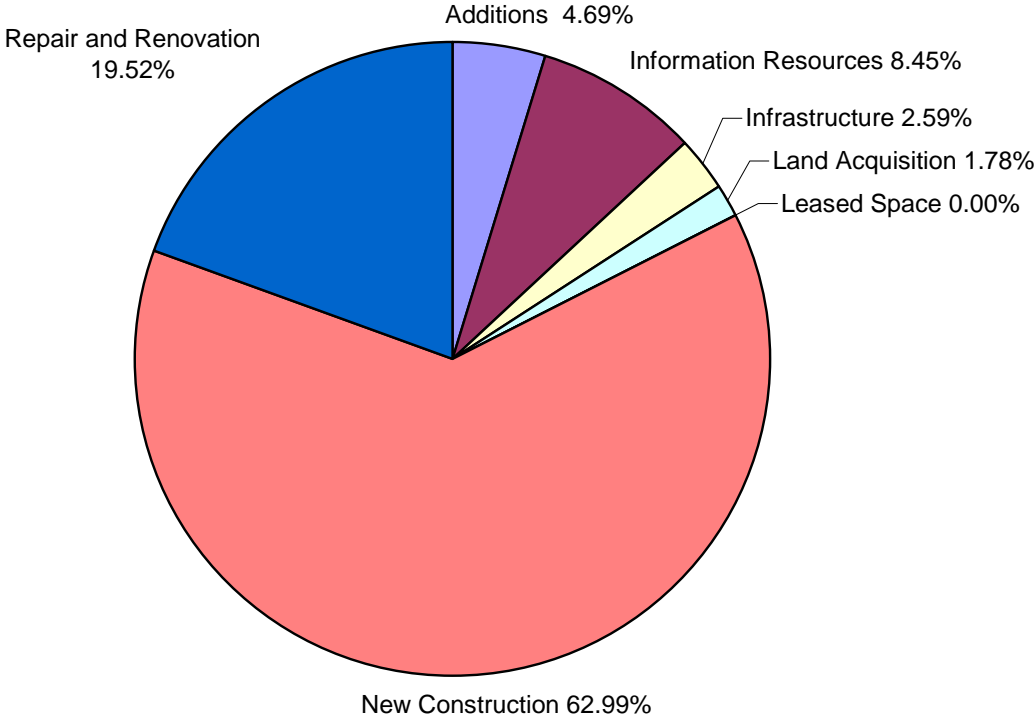
Categories of Expenditures

State agencies are required to report planned capital expenditures by categories. As can be seen from the table below, New Construction is the largest planned capital expenditure for the FY 2009-2013 reporting period, accounting for 62.9 percent of the total planned expenditures. Repair and Renovations account for the second largest planned expenditure at 19.5 percent followed by Information Resources at 8.5 percent.

<i>Category</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>	<i>FY 2012</i>	<i>FY 2013 & Beyond</i>	<i>Total Category Expenditures</i>	<i>% of Total</i>
Additions	\$84,121,203	\$134,911,825	\$178,173,964	\$185,565,000	\$378,509,242	\$961,281,234	4.69%
Information Res.	394,698,453	386,983,525	329,605,357	235,431,339	385,796,585	1,732,515,259	8.45%
Infrastructure	85,945,833	108,230,097	103,621,700	81,420,331	151,266,526	530,484,487	2.59%
Land Acquisition	79,410,537	93,858,963	35,203,907	23,116,187	132,974,946	364,564,540	1.78%
Leased Space	0	0	0	0	0	0	0.00%
New Construction	1,331,481,328	2,308,270,084	2,723,220,635	2,334,952,069	4,222,523,801	12,920,447,917	62.99%
Repair and Renovations	514,965,535	699,539,748	799,202,533	616,280,035	1,373,779,543	4,003,767,394	19.52%
Total	\$2,490,622,889	\$3,731,794,242	\$4,169,028,096	\$3,476,764,961	\$6,644,850,643	\$20,513,060,831	100.00%

State of Texas Capital Expenditures by Category of Expenditure

Total Anticipated \$20,513,060,831



Sources of Funding

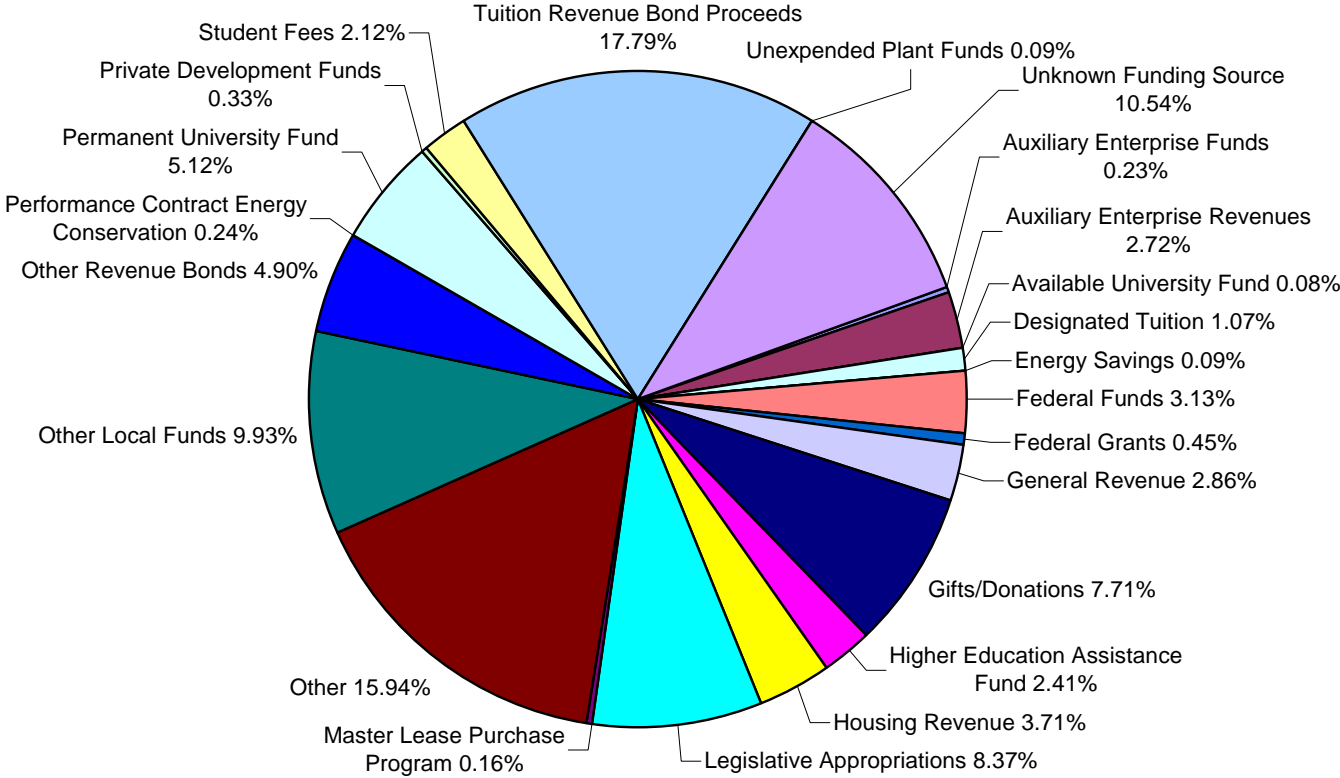
State agencies reported a wide variety of funding sources anticipated to be used to pay for their capital improvements. The source fund designated as Tuition Revenue Bonds made up the largest portion of capital planning source funds at 17.8 percent, decreasing by 0.12 percent, compared to 17.7 percent reported in FY 2008-2009. The "Other" category at 15.9 percent is made up of sources such as student fees, indirect cost recoveries, institutional funds and hospital funds. Unknown Funding Sources was the third largest at 10.5 percent.

Legislative Appropriations doubled to 8.4 percent compared to 4.2 percent reported in the 2008-2009 CEP. This increase is primarily due to projects involving new construction, repairs and renovations.

<i>Source Funds</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>	<i>FY 2012</i>	<i>FY 2013 & Beyond</i>	<i>Total</i>	<i>% of Total</i>
Auxiliary Enterprise Revenues	\$49,820,000	\$168,120,000	\$147,675,000	\$150,215,000	\$41,425,000	\$557,225,328	2.72%
Auxiliary Enterprise Funds	7,000,000	27,950,000	4,000,000	3,000,000	6,000,000	47,950,000	0.23%
Available University Fund	15,000,000	0	1,000,000	0	0	16,000,000	0.08%
Designated Tuition	50,721,170	62,534,086	64,526,744	11,881,000	29,800,000	219,463,000	1.07%
Energy Savings	1,000,000	9,000,000	8,000,000	0	0	18,000,000	0.09%
Federal Funds	169,701,900	284,247,451	116,145,749	42,187,053	29,511,553	641,793,706	3.13%
Federal Grants	6,750,000	9,975,000	2,925,000	750,000	72,100,000	92,500,000	0.45%
General Revenue	118,358,226	132,773,582	148,915,298	141,427,379	45,296,623	586,771,108	2.86%
Gifts/Donations	150,792,173	240,003,710	363,831,589	223,740,648	603,557,451	1,581,925,571	7.71%
Higher Education Assistance Fund	97,537,261	68,758,807	66,988,865	45,195,116	216,435,075	494,915,124	2.41%
Housing Revenue	52,525,000	113,739,920	150,337,475	129,856,741	314,007,298	760,466,434	3.71%
Legislative Appropriations	255,043,529	405,124,786	449,010,564	227,167,544	380,942,400	1,717,288,823	8.37%
Master Lease Purchase Program	33,699,466	0	0	0	0	33,699,466	0.16%
Other	369,858,611	398,761,265	477,133,301	571,485,398	1,453,325,442	3,270,564,017	15.94%
Other Local Funds	209,251,174	290,770,038	308,778,435	386,504,360	840,908,144	2,036,212,151	9.93%
Other Revenue Bonds	59,517,500	137,467,500	303,667,181	373,976,363	130,355,456	1,004,984,000	4.90%
Performance Contract Energy Conservation	600,000	29,800,000	19,600,000	0	0	50,000,000	0.24%
Permanent University Fund	238,554,817	349,871,682	201,630,360	146,623,026	112,608,000	1,049,287,885	5.12%
Private Development Funds	19,400,000	7,900,000	10,200,000	21,800,000	9,000,000	68,300,000	0.33%
Student Fees	23,315,198	67,600,000	73,737,000	75,715,000	195,273,000	435,640,198	2.12%
Tuition Revenue Bonds	520,666,975	729,389,745	945,774,434	703,387,264	749,448,753	3,648,667,171	17.79%
Unexpended Plant Funds	8,838,888	5,500,000	2,883,520	2,000,000	0	19,222,408	0.09%
Unknown Funding Sources	32,671,001	192,506,670	302,267,581	219,852,741	1,414,856,448	2,162,154,441	10.54%
Total	\$2,490,622,889	\$3,731,794,242	\$4,169,028,096	\$3,476,764,961	\$6,644,850,643	\$20,513,060,831	100.00%

State of Texas Sources of Funding for Capital Expenditures

Total Anticipated \$ 20,513,060,831



The increase in total expenditures from \$16.95 billion in the 2008-2009 CEP to \$20.51 billion for the 2010-2011 CEP is due to an increase of planned capital expenditure projects and pre-existing planned projects which were postponed due to lack of funds. For the latter CEP a total of 945 capital project requests were submitted by 78 participating state agencies compared to the prior CEP when 901 capital project requests were submitted by 695 state agencies. In addition, agencies and institutions are relying more heavily on funds from Legislative Appropriations, the Permanent University Fund, Federal Funds, Auxiliary Enterprise Revenues and Private Development Funds for the current CEP than in the prior CEP.

Source Funds	FY 2008-2009	FY 2010-2011	% Change
Legislative Appropriations	\$710,617,718	\$1,717,288,823	141.66%
Permanent University Fund	563,446,703	1,049,287,885	86.23%
Federal Funds	331,608,568	641,793,706	93.54%
Auxiliary Enterprise Revenues	272,272,064	557,255,328	104.67%
Private Development Funds	11,500,000	68,300,000	493.91%
Total	\$1,889,445,053	\$4,033,925,742	113.50%

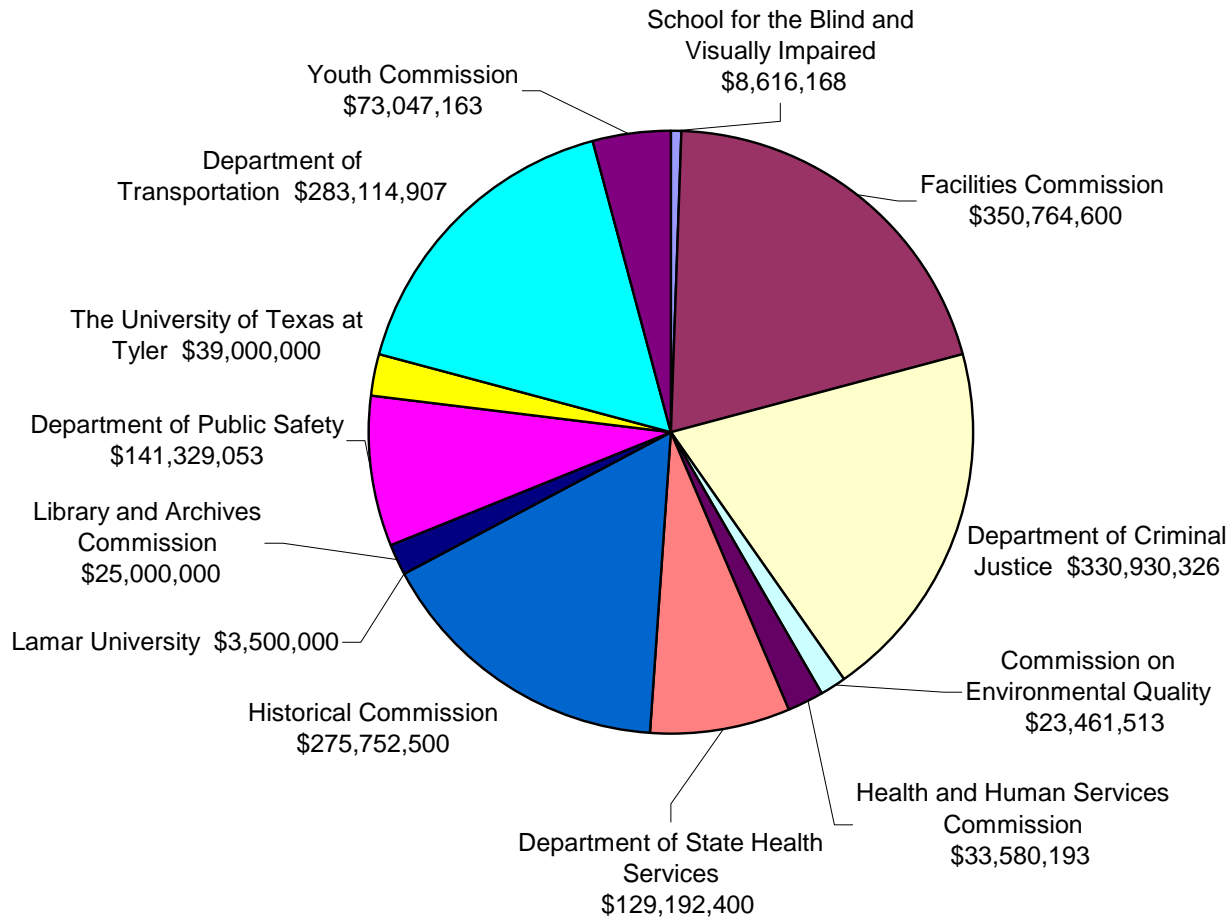
Anticipated expenditures from Legislative Appropriations more than doubled from \$710.6 million in the 2008-2009 CEP to \$1.72 billion, up 141.7 percent for the current CEP. Of the \$1.72 billion, state agencies reported they would need \$1.67 billion in appropriations while education reported a need for \$51.1 million. The Texas Facilities Commission reported the largest increase in funds needed since the 2008-2009 CEP. The agency reported \$31.1 million in the prior CEP compared to \$350.8 million reported for the current CEP. This increase is due to large expenditures associated with repair, renovations and replacement of projects for critical systems such as building structure, roof, elevator, power, plumbing, heating, ventilation and air conditioning. The increase also includes projects associated with compliance with federal and state laws such as the Americans with Disabilities Act (ADA), chlorofluorocarbon (CFC) elimination and disposal, asbestos abatement, indoor air quality (IAQ) initiatives and other life-safety mandated initiatives. The list also includes other preventive maintenance, building system repairs and upgrades and deferred maintenance activities that have been postponed due to funding priorities.

Anticipated expenditures from Federal Funds increased by 93.5 percent from \$331.6 million to \$641.8 million. Ten agencies and institutions submitted project requests totaling \$641.8 million involving Federal Funds for planned new construction of which \$389.6 million came from the Adjutant General's Department.

No specific agencies or institutions contributed disproportionately to the overall increase in Permanent University Fund, Auxiliary Enterprise Revenues and Private Development Funds; however the number of project requests increased in each source fund.

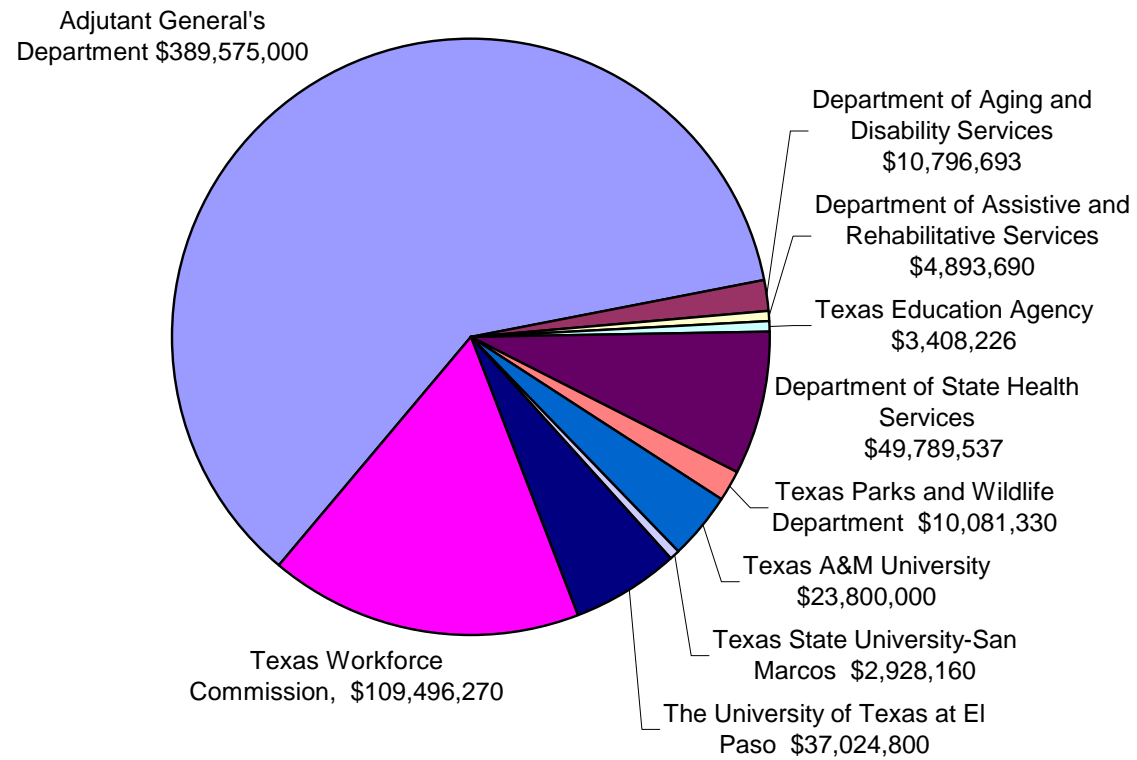
Legislative Appropriations

Total Anticipated \$ 1,717,288,823



Federal Funds

Total Anticipated \$ 641,793,706



Debt Financing of Capital Projects

The state historically has had low levels of bonded indebtedness with most of its debt issued to finance loan programs that generally are self-supporting. The majority of the state's capital projects including prisons, buildings and similar projects are financed through the general revenues of the state. Since 1986, this type of indebtedness has steadily increased as the various types of projects financed through this mechanism have increased.

Not self-supporting debt repaid with the state's general revenue has significantly increased in recent years from just under \$400 million in 1986 to over \$2.75 billion in 2007. Compared to other states Texas still ranks low in terms of outstanding state tax-supported debt per capita at \$415. However, recent growth in both state population and debt authorizations requires additional review and analysis provided by the state's Debt Affordability Study that will help determine how the additional debt will impact total debt outstanding, future debt-service requirements and the constitutional debt limit.

Many of the projects submitted in the 2010-2011 CEP will be financed through the issuance of debt. The expected principal and interest payments (P&I) on projects reported for the fiscal 2010-2011 biennium total \$723.3 million and \$895.3 million, respectively. Total debt financing costs for the capital projects reported to the Bond Review Board are expected to total \$18 billion over the life of the projects.

<i>Functional Area</i>	<i>FY 2009 P&I</i>	<i>FY 2010 P&I</i>	<i>FY 2011 P&I</i>	<i>FY 2012 P&I</i>	<i>FY 2013 & Beyond P&I</i>	<i>Total Expected P&I</i>	<i>% of Total</i>
General Government	\$ 0	\$39,681,048	\$58,271,571	\$58,271,571	\$245,586,286	\$401,810,476	2.23%
Health & Human Services	22,273,877	9,969,358	10,790,628	13,922,521	265,919,159	322,875,543	1.79%
Education	291,936,966	592,521,055	792,700,272	906,216,590	14,301,798,518	16,885,173,401	93.80%
Judiciary	0	0	0	0	0	0	0.00%
Public Safety & Criminal Justice	18,207,992	76,845,110	28,128,290	23,982,259	161,300,979	308,464,630	1.71%
Natural Resources	6,707,499	4,256,886	5,431,952	6,531,925	60,487,889	83,416,151	0.46%
Business & Economic Development	0	0	0	0	0	0	0.00%
Regulatory	0	0	0	0	0	0	0.00%
Total	\$339,126,334	\$723,273,457	\$895,322,713	\$1,008,924,866	\$15,035,092,831	\$18,001,740,201	100.00%

State Debt Overview

Except as specifically authorized, the constitution generally prohibits the creation of debt by or on behalf of the state with two exceptions: (1) debt created to supply casual deficiencies in revenues which do not total more than \$200,000 at any time, and (2) debt to repel invasion, suppress insurrection, defend the state in war or pay existing debt. In addition, the Texas Constitution prohibits the Legislature from lending the credit of the state to any person, including municipalities, or pledging the credit of the state in any manner for the payment of the liabilities of any individual, association of individuals, corporation or municipality. The limitations of the constitution do not prohibit the issuance of revenue bonds, since the Texas courts, like most states, have held that certain obligations do not create a "debt" within the meaning of the constitution. The state and various state agencies have issued revenue bonds payable from the revenues produced by various facilities or from lease payments appropriated by the Legislature. Furthermore, obligations that are payable from funds expected to be available during the current budget period, do not constitute "debt" within the meaning of the constitution. Short-term obligations, like the Tax and Revenue Anticipation Notes issued by the Comptroller, mature within the biennial budget period in which they were issued, and are not deemed to be debt within the meaning of the state constitutional prohibition.

At times, the voters of the state, by constitutional amendment, have authorized the issuance of general obligation indebtedness for which the full faith, credit and taxing power of the state are pledged. In some cases, the authorized indebtedness may not be issued without the approval of the Legislature, but in other cases the constitutional amendments are self-operating and the debt may be issued without specific legislative action.

Much of the outstanding general obligation bonded indebtedness of the state is designed to be self-supporting even though the full faith and credit of the state is pledged for its payment.

Developments Affecting State Debt

The state's credit ratings are an important determinant of interest rates on the state's bond offerings and therefore directly affect the cost-effectiveness of the state's debt issuance. Credit rating agencies consider the following four primary factors when rating state debt:

Economic - the state's income, employment, economic diversity and demographics;

Financial - the state's revenues, cost structure, balance sheet health and liquidity;

Debt - debt ratios and debt security and structure;

Management - budget development and management practices; constitutional constraints, initiatives and referenda; executive branch controls; mandates to maintain a balanced budget; rainy day funds and political polarization.

Texas' general obligation (G.O.) debt is split-rated at Aa1/AA/AA+ by the three major credit rating agencies, Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch), respectively. (The Moody's and Fitch ratings put the state's G.O. debt at one step below AAA while the S&P's rating puts the debt at two steps below AAA.)

In June 1999, Moody's upgraded the state's G.O. debt from Aa2 to Aa1. The core factors that led to the higher rating were: (1) the state's economic expansion, (2) reduced dependence on oil and gas, (3) low debt ratios, (4) balanced state finances, (5) increasing cash balances and (6) tobacco settlement funds targeted for health and higher education. Moody's assessed the risks associated with its credit rating of Texas' general obligation debt to include: (1) the future of internet taxation, (2) the state's modest fiscal reserves and (3) population growth.

Although Moody's elected to upgrade the state's debt rating, S&P's downgraded the state's rating outlook from "positive" to "stable." S&P's cited a modest level of financial reserves ("Rainy Day Fund") as the primary reason for the downgrade and concluded that "the state's financial flexibility could become impaired without adequate financial reserves supported by a financially sound budget."

Tax and Revenue Anticipation Notes (TRANs) Ratings

Since 1986, TRANs have been sold every year between the start of the fiscal year on September 1 and the arrival of tax revenues later in the year. TRANs are issued to help meet financial goals – particularly the distribution of state funds to school districts.

S&P's, Moody's and Fitch rated Texas' 2008 Series TRANs SP-1+, MIG 1 and F1+, respectively, These scores are the highest ratings issued by the three bond firms. Such high ratings were reported after a new survey of corporate executives ranked Texas as the best state for conducting business due to its attractive work force costs, pro-business atmosphere and favorable tax structure.

S&P's said, "Texas' economy continues to outperform the nation across most sectors...Moreover, over the past year, Texas added more jobs than the total added in states ranked second through eighth."

Fitch analysts noted Texas' excellent record of cash management and conservative revenue estimates.

Recent reports from the rating agencies

Moody's outlook for Texas' rating remains stable. Credit strengths cited by *Moody's* include the state's low debt ratios on a per capita and personal income basis, continued diversification, expansion of the state's economy and conservative revenue projections. Challenges cited by *Moody's* include concerns regarding public school finance, the state's growing population with relatively high poverty levels and a substantial need for increased public services and infrastructure.

S&P's outlook for the state's rating also remains stable. *S&P's* rationale for the state's outlook includes the low tax-supported debt burden, the state's growing and diversifying economy and adequate revenue growth and financial position. *S&P's* states that "the stable outlook reflects "the expectation that the Texas Legislature's recent fiscal priorities will continue and that the state's financial reserves will remain modest." Without the flexibility provided by a significant increase in financial reserve levels, supported by a structurally sound budget, an upgrade in not expected." *S&P's* also cites public school funding as a challenge.

In April 2006, a *Fitch* report assigned initial outlooks to state general obligation ratings. *Fitch's* outlook for Texas is stable and "reflects the state's strong economic and revenue growth and sizable balances." However, *Fitch* states that "credit improvement to the highest rating level is impeded by the increasing demands that rapid growth places on the state's consumption-based tax system and the lack of centralized debt issuance." Education funding reform and large transportation needs are cited as financial pressures. *Fitch* also states that in general "the specific state outlooks reflect economic and fiscal conditions that may have existed for some time and are not necessarily reactions to recent events such as proposed budgets under consideration. Nevertheless, future governmental decisions and economic events could determine rating directions."

Outlook for a AAA rating

The sometimes overlapping conclusions reached by all three rating agencies reflect their collective judgment that several long-term, structural issues preclude an easy improvement in the state's ratings. Among the most prominent and commonly cited of these problems are:

- 1) the state's heavy dependence on the sales tax without support from a state income tax;
- 2) unresolved issues related to public school funding;
- 3) continued rapid population growth that will necessitate budget increases for operating costs as well as increases in capital expenditures for growing infrastructure needs;
- 4) liquidity issues raised by the comparatively low balances in the state's reserve accounts, including the rainy day fund balances.

Authorized but Unissued Bonds Could Add Substantially to Texas' Debt Burden

Texas continues to have a moderate amount of authorized but unissued debt on the books. This is debt that has been authorized by the Legislature but has not been issued. As of August 31, 2007, approximately \$875 million in not self-supporting bonds had been authorized by the Legislature but remained unissued. Some of these authorized but unissued bonds may be issued at any time without further legislative action but would require Bond Review Board approval and others would require a legislative appropriation of debt service prior to issuance.

Texas' Constitutional Debt Limit

The 75th Legislature passed House Joint Resolution 59 which limits the amount of tax-supported debt that may be issued. The resolution called for a constitutional amendment that was placed on the ballot and approved by the voters in November 1997. This legislation states that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but unissued debt, exceeds 5 percent of the average annual unrestricted General Revenue for the previous three fiscal years. The debt limit ratio is 1.32 percent for outstanding debt as of August 31, 2007. With the inclusion of authorized but unissued debt after constitutional dedications approved by the voters at the November 2007 general election, the ratio increases to 4.23 percent as of the same date.

Conclusion

Texas' use of debt has always been conservative but has grown along with the state's population and demand for services. Increased capital expenditures add to the state's financing costs, as well as maintenance and operations expenditures. It is crucial that the state plan for future growth through prioritization of projects. Spending wisely will allow the state to maintain the level of services that citizens demand while not burdening future generations with the costs of these projects.

APPENDIX A

Proposed Capital Expenditures by Functional Area of Government

This appendix offers a breakout of proposed capital expenditures by Functional Area of Government along with the agency or institution of higher learning proposing the capital expenditure. A searchable database that offers further detail on specific projects submitted for the fiscal 2009-2013 CEP is available online at the Bond Review Board's website at <http://www.brb.state.tx.us/capital/capital.aspx>.

<i>General Government Detail</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>	<i>FY 2012</i>	<i>FY 2013 & Beyond</i>	<i>Total Project Expenditures</i>
Office of the Attorney General	\$3,897,402	\$5,644,682	\$3,506,592	\$0	\$0	\$13,048,676
Texas Facilities Commission	55,764,600	80,000,000	120,000,000	48,000,000	47,000,000	350,764,600
Texas Historical Commission	33,000,000	48,002,500	46,200,000	48,550,000	100,000,000	275,752,500
Texas State Library and Archives Commission	0	12,500,000	12,500,000	0	0	25,000,000
Total	\$92,662,002	\$146,147,182	\$182,206,592	\$96,550,000	\$147,000,000	\$664,565,776

<i>Health & Human Services Detail</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>	<i>FY 2012</i>	<i>FY 2013 & Beyond</i>	<i>Total Project Expenditures</i>
Dept. of Aging and Disability Services	\$39,691,964	\$31,486,807	\$70,430,919	\$17,500,000	\$52,500,000	\$211,609,690
Dept. of Assistive and Rehabilitative Services	1,536,306	839,346	839,346	839,346	839,346	4,893,690
Dept. of State Health Services	62,971,660	56,215,243	53,826,186	36,766,500	14,670,568	224,450,157
Texas Health and Human Services Commission	195,052,145	74,469,634	74,829,654	64,259,308	233,437,342	642,048,083
Total	\$299,252,075	\$163,011,030	\$199,926,105	\$119,365,154	\$301,447,256	\$1,083,001,620

Education Detail	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
Angelo State University	\$36,771,000	\$72,380,000	\$86,800,000	\$24,000,000	\$0	\$219,951,000
Lamar Institute of Technology	254,000	3,148,370	13,157,000	0	0	16,559,370
Lamar State College-Orange	200,000	2,000,000	2,000,000	6,000,000	5,500,000	15,700,000
Lamar State College-Port Arthur	0	2,880,000	1,400,000	5,625,000	1,750,000	11,655,000
Lamar University	28,579,500	46,400,000	40,500,000	33,500,000	33,500,000	182,479,500
Midwestern State University	5,000,000	5,000,000	29,000,000	38,000,000	69,000,000	146,000,000
Prairie View A&M University	15,000,000	0	1,380,000	9,010,000	90,610,000	116,000,000
Sam Houston State University	31,263,000	59,250,000	69,700,000	75,500,000	82,500,000	318,213,000
Stephen F. Austin State University	14,650,000	26,625,000	37,500,000	21,750,000	27,250,000	127,775,000
Sul Ross State University	57,000	6,910,000	11,119,000	15,064,000	8,895,000	42,045,000
Tarleton State University	9,232,380	15,388,580	27,837,240	32,512,520	275,091,280	360,062,000
Texas A&M International University	3,000,000	2,703,000	10,416,000	20,292,000	20,289,000	56,700,000
Texas A&M University	56,379,416	128,853,027	215,049,335	209,028,319	91,506,078	700,816,175
Texas A&M University Ag Experiment Station	23,394,579	49,866,000	49,866,000	0	0	123,126,579
Texas A&M University Engineer Experiment Station	5,000,000	0	1,950,000	10,400,000	52,650,000	70,000,000
Texas A&M University Engineer Extension Service	3,254,384	0	0	0	0	3,254,384
Texas A&M University System Health Science Center	3,450,000	18,400,000	46,575,000	48,975,000	77,600,000	195,000,000
Texas A&M University System Veterinary Medical Diagnostic Lab	60,319,925	128,544,780	89,886,400	126,652,000	131,948,000	537,351,105
Texas A&M University-Corpus Christi	625,000	625,000	0	0	0	1,250,000
Texas A&M University-Galveston	28,379,573	29,820,427	44,335,000	48,445,000	92,220,000	243,200,000
Texas A&M University-Kingsville	7,480,000	6,110,000	12,080,000	20,655,000	14,175,000	60,500,000
Texas A&M University-Texarkana	11,738,000	20,759,000	47,709,000	72,347,000	197,092,000	349,645,000
Texas Education Agency	36,000,000	38,500,000	8,906,000	9,492,000	71,702,000	164,600,000
Texas School for the Blind and Visually Impaired	1,122,000	11,253,131	10,033,717	0	0	22,408,848
Texas Southern University	0	2,500,000	3,500,000	2,616,168	0	8,616,168
	168,660,498	84,103,283	40,806,698	21,315,501	9,354,503	324,240,483

Education Detail (cont.)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
Texas State Technical College - Harlingen	0	9,210,000	12,405,000	1,700,000	200,000	23,515,000
Texas State Technical College - Marshall	0	5,250,000	1,250,000	0	0	6,500,000
Texas State Technical College - Waco	5,325,520	15,875,000	24,675,000	9,850,000	7,600,000	63,325,520
Texas State Technical College - West Texas	1,500,000	5,600,000	3,320,000	1,517,000	2,300,000	14,237,000
Texas State University-San Marcos	76,724,547	114,163,597	187,577,311	229,016,856	220,279,048	827,761,359
Texas Tech University	33,382,410	65,473,957	83,787,069	72,550,209	123,117,500	378,311,145
Texas Tech University Health Sciences Center	10,200,000	10,500,000	20,601,733	24,047,767	94,337,500	159,687,000
Texas Tech University System	908,155	2,091,845	0	0	0	3,000,000
Texas Woman's University	26,700,000	56,050,000	41,950,000	5,200,000	200,000	130,100,000
The University of Texas at Arlington	64,822,223	108,727,777	24,450,000	7,000,000	0	205,000,000
The University of Texas at Austin	112,343,770	135,593,686	144,762,544	76,200,000	1,143,405,000	1,612,305,000
The University of Texas at Brownsville	4,308,750	10,059,000	44,547,000	47,421,000	37,289,250	143,625,000
The University of Texas at Dallas	11,500,000	141,000,000	204,000,000	102,000,000	127,000,000	585,500,000
The University of Texas at El Paso	72,101,000	168,168,800	148,250,666	159,307,666	146,327,668	694,155,800
The University of Texas at San Antonio	57,000,000	200,700,000	244,000,000	197,900,000	51,781,108	751,381,108
The University of Texas at Tyler	27,727,839	34,208,242	20,263,919	6,000,000	39,000,000	127,200,000
The University of Texas Health Center at Tyler	23,214,165	22,784,167	15,936,668	665,000	75,000,000	137,600,000
The University of Texas Health Science Center at Houston	19,500,000	81,000,000	124,100,000	69,500,000	5,000,000	299,100,000
The University of Texas Health Science Center at San Antonio	41,417,001	73,500,000	39,990,000	13,900,000	0	168,807,001
The University of Texas MD Anderson Cancer Center	162,070,000	310,267,000	374,560,000	579,676,000	1,067,441,000	2,494,014,000
The University of Texas Medical Branch at Galveston	128,379,956	91,999,000	148,783,000	175,861,846	92,521,154	637,544,956

Education Detail (cont.)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
The University of Texas of the Permian Basin	134,203,333	15,203,333	203,333	203,333	5,286,668	155,100,000
The University of Texas Southwestern Medical Center at Dallas	52,467,500	135,817,500	234,568,181	208,136,363	121,545,456	752,535,000
The University of Texas System	500,000	1,500,000	14,000,000	0	0	16,000,000
The University of Texas-Pan American	8,350,000	54,900,000	47,745,000	41,850,000	22,600,000	175,445,000
University of Houston	19,940,000	25,765,000	39,790,000	43,790,000	846,515,000	975,800,000
University of Houston-Clear Lake	11,124,568	15,487,140	54,171,100	15,352,000	62,400,000	158,534,808
University of Houston-Downtown	2,500,000	24,824,000	35,813,667	34,951,000	12,955,333	111,044,000
University of Houston-Victoria	8,860,000	10,210,000	4,610,000	4,610,000	75,110,000	103,400,000
University of North Texas	42,200,000	101,090,000	108,340,000	59,631,000	147,609,000	458,870,000
University of North Texas Health Science Center at Fort Worth	21,515,000	24,515,000	7,000,000	4,500,000	2,500,000	60,030,000
University of North Texas System	11,710,000	54,050,000	62,600,000	42,700,000	32,500,000	203,560,000
West Texas A&M University	16,755,000	13,114,000	22,300,500	31,321,500	56,609,000	140,100,000
Total	\$1,759,060,992	\$2,900,717,642	\$3,441,858,081	\$3,117,538,048	\$5,971,062,546	\$17,190,237,309

Judicial Detail	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
State Office of Court Administration	\$2,316,200	\$1,488,023	\$0	\$0	\$0	\$3,804,223
Total	\$2,316,200	\$1,488,023	\$0	\$0	\$0	\$3,804,223

Public Safety & Criminal Justice Detail	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
Adjutant General's Department	\$124,011,500	\$226,145,800	\$59,167,500	\$4,017,600	\$1,958,400	\$415,300,800
Dept. of Criminal Justice	49,727,326	51,879,029	52,489,651	54,013,147	142,040,713	350,149,866
Dept. of Public Safety	21,041,238	74,497,617	24,017,089	19,873,049	22,941,298	162,370,291
Texas Youth Commission	0	15,689,433	57,357,730	0	0	73,047,163
Total	\$194,780,064	\$368,211,879	\$193,031,970	\$77,903,796	\$166,940,411	\$1,000,868,120

Natural Resources Detail	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
Texas Commission on Environmental Quality	\$2,979,117	\$6,655,659	\$6,175,657	\$4,260,200	\$3,890,880	\$145,797,240
Texas Parks and Wildlife Department	56,937,035	40,383,118	27,442,711	14,892,188	6,142,188	7,008,537
Texas Water Development Board	1,955,537	1,417,000	1,212,000	1,212,000	1,212,000	23,961,513
Total	\$61,871,689	\$48,455,777	\$34,830,368	\$20,364,388	\$11,245,068	\$176,767,290

Business & Economic Development Detail	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
Texas Department of Transportation	\$59,021,477	\$80,223,688	\$95,283,529	\$25,187,213	\$23,399,000	\$283,114,907
Texas Workforce Commission	20,453,074	23,539,021	21,891,451	19,856,362	23,756,362	109,496,270
Total	\$79,474,551	\$103,762,709	\$117,174,980	\$45,043,575	\$47,155,362	\$392,611,177

Regulatory Detail	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 & Beyond	Total Project Expenditures
Department of Insurance	\$1,205,316	\$0	\$0	\$0	\$0	\$1,205,316
Total	\$1,205,316	\$0	\$0	\$0	\$0	\$1,205,316

<i>Total Expenditures</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>	<i>FY 2012</i>	<i>FY 2013 & Beyond</i>	<i>Total Project Expenditures</i>
	\$2,490,622,889	\$3,731,794,242	\$4,169,028,096	\$3,476,764,961	\$6,644,850,643	\$20,513,060,831

APPENDIX B

Enabling Legislation – Capital Expenditure Plan

House Bill 1, Article IX, Section 11.02 80th Legislature, Regular Session - 2007 Sec. 11.02. Statewide Capital Planning

(a) An agency or institution of higher education appropriated funds by this Act shall supply to the Bond Review Board capital planning information relating to projects subject to this section and financing options for the 2010-11 fiscal biennium in a format and according to guidelines developed by the Bond Review Board. Such information shall include:

- (1) a description of the project or acquisition;
- (2) the cost of the project;
- (3) the anticipated useful life of the project;
- (4) the timing of the capital need;
- (5) a proposed source of funds (method of financing);
- (6) a proposed type of financing; and
- (7) any additional related information requested by the Bond Review Board.

(b) The Bond Review Board shall compile a statewide capital expenditure plan for the 2010-11 fiscal biennium from the information submitted by agencies and institutions in accordance with the capital planning guidelines. Copies of the guidelines shall be filed with the Governor and the Legislative Budget Board no later than December 31, 2007. The Bond Review Board shall file copies of the capital expenditure plan for the period beginning September 1, 2009 with the Governor and the Legislative Budget Board no later than September 1, 2008.

(c) The statewide capital plan required by this section shall identify the state's capital needs and alternatives to finance these needs. The Bond Review Board shall review input from all state agencies and institutions regarding the agencies' and institutions' current and future capital needs as part of the strategic planning process. The Bond Review Board shall inform the Legislature on the possible budget impact of the capital plan on the state's debt capacity.

(d) This section applies to each anticipated state project requiring capital expenditures for:

- (1) land acquisition;
- (2) construction of building and other facilities;
- (3) renovations of buildings and other facilities estimated to exceed \$1 million in the aggregate for a single state agency or

institution of higher education; or

(4) major information resources projects estimated to exceed \$1 million.

(e) The [Higher Education Coordinating Board](#) and the Bond Review Board shall eliminate redundant reporting by consolidating this report and the Higher Education Coordinating Board's Master Plan report, to the greatest extent possible.

APPENDIX C

Notes on the Fiscal 2010-2011 – Capital Expenditure Plan

Data collection was handled by using an online reporting system developed and managed by the Texas Higher Education Coordinating Board. The staff of the Bond Review Board sincerely appreciates the hard work and professionalism of the staff of the THECB.

In an effort to improve reporting by state agencies and institutions of higher education, the reporting threshold for all categories of expenditures was raised to \$1 million beginning with the 2008-2009 Capital Expenditure Plan report. The prior reporting threshold was \$250,000.

Texas Department of Transportation did not include new road projects or maintenance on older roads in this report because they reported only items which impacted their capital legislative appropriation request.

Texas Department of Public Safety reported fourteen projects costing one dollar. The agency is waiting for the Texas Facilities Commission to provide them with their costs analyses for these projects. This information should be available in late December or early January.

Texas Commission on Environmental Quality reported zero dollar amounts for the following projects that are ongoing and will be completed by 8/31/09 without the need for additional funds for FY 2009:

- State of Texas Air Reporting System Web-Based Electronic Submission, Phase II,
- Occupational Licensing Program Enhancements,
- HR Retooling, and
- Data Repository, Enhancement for the Water Utility Database (WUD).