# Strategic Budgeting for Capital Expenditures

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**TEXAS PUBLIC FINANCE AUTHORITY**

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# Welcome!

**Today's Goal:** To provide an overview of capital planning for infrastructure and equipment, including debt financing options for state government.

Scan the QR code for a couple quick polls and audience Q&A.

# Agenda

- Understanding Capital Projects
- Capital Project Planning
- Bond-funded Capital Projects
- Understanding Municipal Debt
- TPFA Agency Overview
- Master Lease Purchase Program (MLPP)
- Concluding Remarks

# Understanding Capital Projects

# What is a Capital Project?

Capital Projects have a useful life beyond the current appropriation period, such as:

- Buildings
- Roads
- Infrastructure
- Parks
- Equipment
- Other (e.g., project grants, operating capital)

# Capital Project Examples

- Capitol Complex Facilities
- State Health Laboratory
- State History Museum
- Higher Education Facilities (Dormitories, Libraries and Laboratories)
- Highways and Toll Roads
- Vehicle Fleets
- IT Hardware and Other Equipment

# Funding Capital Projects

Capital Projects may be funded by:

- Cash
- Debt (bond or other debt financing)
- Lease Purchase
- Public Private Partnerships

# Funding Capital Projects

The type of financing for a capital project is a legislative prerogative.

- In times of budget surplus, appropriating available cash for "one-time" expenditures may be attractive to policy makers.
- Alternatively, debt financing may help balance budgets and keep projects on the desired schedule during tighter budgets.
- Self-supporting projects may require debt financing to spread the cost over future revenue streams.

# Capital Project Planning

# Capital Planning Process

| Planning/LAR | Legislative Process | Project Funding |
| --- | --- | --- |
| Agency Identifies Project(s) Capital Expenditure Plan | Legislature authorizes debt | Submit Request for Financing to TPFA |
| Prepare Cost and Timeline Estimates | Legislature appropriates debt proceeds | TPFA develops debt financing plan and obtains Bond Review Board approval |
| LAR: Request funding cash, or debt proceeds and debt service | Legislature appropriates funds biennially to pay debt service | TPFA issues debt and transfers proceeds to agency |

# Capital Project Requirements

Capital Projects require both **Authorization** and **Appropriation**:

- Projects must be authorized by the Legislature in General Law or in the General Appropriations Act (GAA). Certain bond-funded projects may also be authorized by Constitutional Amendment.
- Project funding must be appropriated. This includes amounts needed to fund the project costs and pay debt service.

# Capital Project Planning

Capital project planning involves multiple agency roles including Governing Board, Finance Staff (Budget and Accounting), Project Management, and General Counsel.

Statewide Capital Expenditure Plan

- Bond Review Board and Texas Higher Education Coordinating Board
- Required by GAA, Art. IX, Sec. 11.03
- Mid-April to July 1, 2026

# Capital Project Funding

- What does your agency need the money for? (Project description)
- How much money will your agency require?
- What is your estimated expenditure schedule? (Timing of funding)
- What is your proposed **type of financing**? (cash, debt, or other)
- Other special considerations

# Appropriation

State Agencies pursuing a capital project under new or existing authorization must have Capital Budget authority. Appropriations for a capital project will be required and are typically identified in the Legislative Appropriations Request (LAR).

General Appropriations Act (GAA)

- Article IX, Sec. 14.03. Transfers – Capital Budget
- Agency Specific Capital Budget Riders
- Other Statutory Authorizations and GAA Riders

# Legislative Appropriations Request

LAR Instructions are issued by LBB and OOG. Request should include:

- Capital Budget Schedules
- Type of Financing (cash or debt financing)
- Method of Financing (fund source)

# Bond-funded Capital Projects

# Requesting Bond Authority

Agency, LBB, or member of the Legislature provides TPFA with:

- Draft of proposed authorizing language.
- Amount to be requested
- Description of the project
- Estimated Expenditure schedule

TPFA will prepare debt service estimates, assist with debt authorization drafting process, and identification of available financing options.

# Types of Debt Authorizations

- Constitutional Authorization

  Article III, Section 50-g (2007) authorized the issuance of $1 Billion of General Obligation Bonds for maintenance, improvement, repair and construction for various state agencies.

- Statutory Authorization

  Texas Government Code, Chapter 1232 makes specific authorizations for debt financed capital projects such as office buildings and military facilities.

- Lease Revenue Bond Authorization in the GAA

  Appropriations Rider authorizations include the Texas Facilities Commission Capitol Complex, Texas Department of Transportation campus consolidation, and Texas Department of Motor Vehicle Headquarters.

# Understanding Municipal Debt

# What is Municipal Debt?

A debt instrument is a contract for a loan between a lender and a borrower specifying:

- Term or maturity for debt security is the due date for the loan (e.g., years, months, days);
- Interest rate on the bond (e.g., 5%);
- Debt service or repayment schedule (e.g., monthly, semi-annually or annually); and,
- Revenue source pledged to repay the loan.

# Why Issue Debt?

Because:

- Capital projects may be needed today but deliver benefits over a longer period.
- Beneficiaries grow with population growth.
- Revenues available for capital costs grow in future periods.

Debt Issuance is a discretionary financing tool that may be used to:

- Conserve current revenue.
- Match capital project costs to the project useful life.
- Allocate the project cost to current and future beneficiaries.
- Manage budget and cash flow.

# Types of Debt Instruments

Bonds: Long Term (5+ years)
Fixed or Variable Interest Rate

Notes: Short Term (<5 years)
Fixed or Variable Interest Rate

Commercial Paper: Days (max. maturity of 270 days)
Variable Interest Rate

# General Obligation Bonds

- Legally secured by a **constitutional pledge** of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose.
- Require **voter approval**. Must initially be approved by a 2/3 vote of both houses of the legislature and by a majority of the voters; after this approval, debt may be issued in installments as determined by the issuing agency or institution
- Debt proceeds are appropriated to the beneficiary agency while debt service is appropriated to TPFA.
- Used to finance general government functions: prisons, veterans' housing and land programs, parks, roads, grants and loans, and other initiatives.

# Revenue Bonds

- Do not require voter approval and may be authorized in statute or GAA.
- These bonds are secured by a specific revenue source and not backed by the full faith and credit of the issuer (State of Texas).
- Both debt proceeds (for project costs) and debt service (to make lease payments to TPFA) are appropriated to the beneficiary agency.

**Example Projects**

- State Capitol Complex
- University Capital Construction and Dormitories
- State Park Repair and Rehabilitation
- Texas State History Museum
- Armory Construction/ Improvements
- State Health Laboratory
- TxDOT Campus Consolidation
- Tx Dept of Motor Vehicles HQ

# TPFA Agency Overview

# Role of TPFA

- It has been the practice of the Legislature to designate TPFA as the central state issuer for state agencies, certain universities, and other special purpose entities (Charter School Finance Corporation and Texas Natural Gas Securitization Finance Corporation).
- TPFA will assist with developing statutory appropriations and/or constitutional provisions when debt (bond) financing is a funding choice or option.
- TPFA has issued and/or is currently managing debt for many "client" agencies to finance capital projects as authorized by the legislature.
- TPFA administers the Master Lease Purchase Program (MLPP) for equipment and other capital projects.

# TPFA Debt Issuance History

| | |
|---|---|
| Manage | Managing $4.119 billion of bonds as of 2/28/2026 |
| Issued | $27.86 billion issued as of 2/28/2026 |
| Savings | Ongoing debt management has provided savings of over $277.2 million to general revenue supported debt |

# TPFA Client Agencies

1. Cancer Prevention and Research Institute of Texas
2. Texas Agriculture Finance Authority
3. Texas Commission on Environmental Quality
4. Texas Comptroller of Public Accounts
5. Texas Department of Agriculture
6. Texas Department of Criminal Justice
7. Texas Department of Insurance
8. Texas Department of Motor Vehicles
9. Texas Department of Public Safety
10. Texas Department of State Health Services
11. Texas Department of Transportation
    *(Governor's Office – Colonia Roadway Grant Program)*
12. Texas Facilities Commission
13. Texas Health and Human Services Commission
14. Texas Historical Commission
15. Texas Juvenile Justice Department
16. Texas Military Department
17. Texas Military Preparedness Commission
18. Texas Parks and Wildlife Department
19. Texas School for the Blind and Visually Impaired
20. Texas School for the Deaf
21. Texas Southern University
22. Texas State Preservation Board
23. Texas Windstorm Insurance Association
24. Texas Workforce Commission

<u>Optional Use of TPFA as an Issuer</u>

25. Texas State Technical College System
26. General Academic Teaching Institutions as defined by Section 61.003 of the Texas Education Code

# TPFA Financing Programs

**General Obligation Bonds**

- Legacy Constitutional Authorizations for Construction, Repair and Renovation Projects
- Economic Development Loan Programs
- CPRIT Project Grants

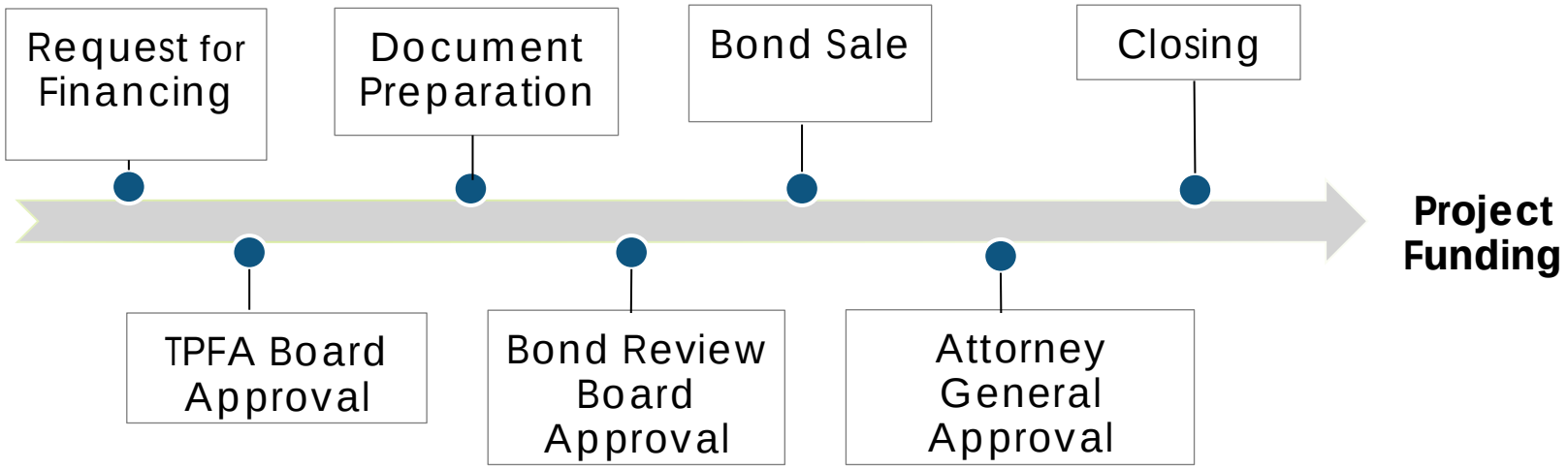
**Revenue Bonds**

- Lease Revenue Bonds (Building Construction, Repairs and Rehabilitation)
- University Revenue Financing Systems (Instructional facilities and dormitories)

**Master Lease Purchase Program**

- Equipment and certain construction projects

# Bond Project Approval




The issuance process from beginning to end generally takes 120-150 days but can be longer depending on the scope and complexity of the project, revenue source, or other factors.

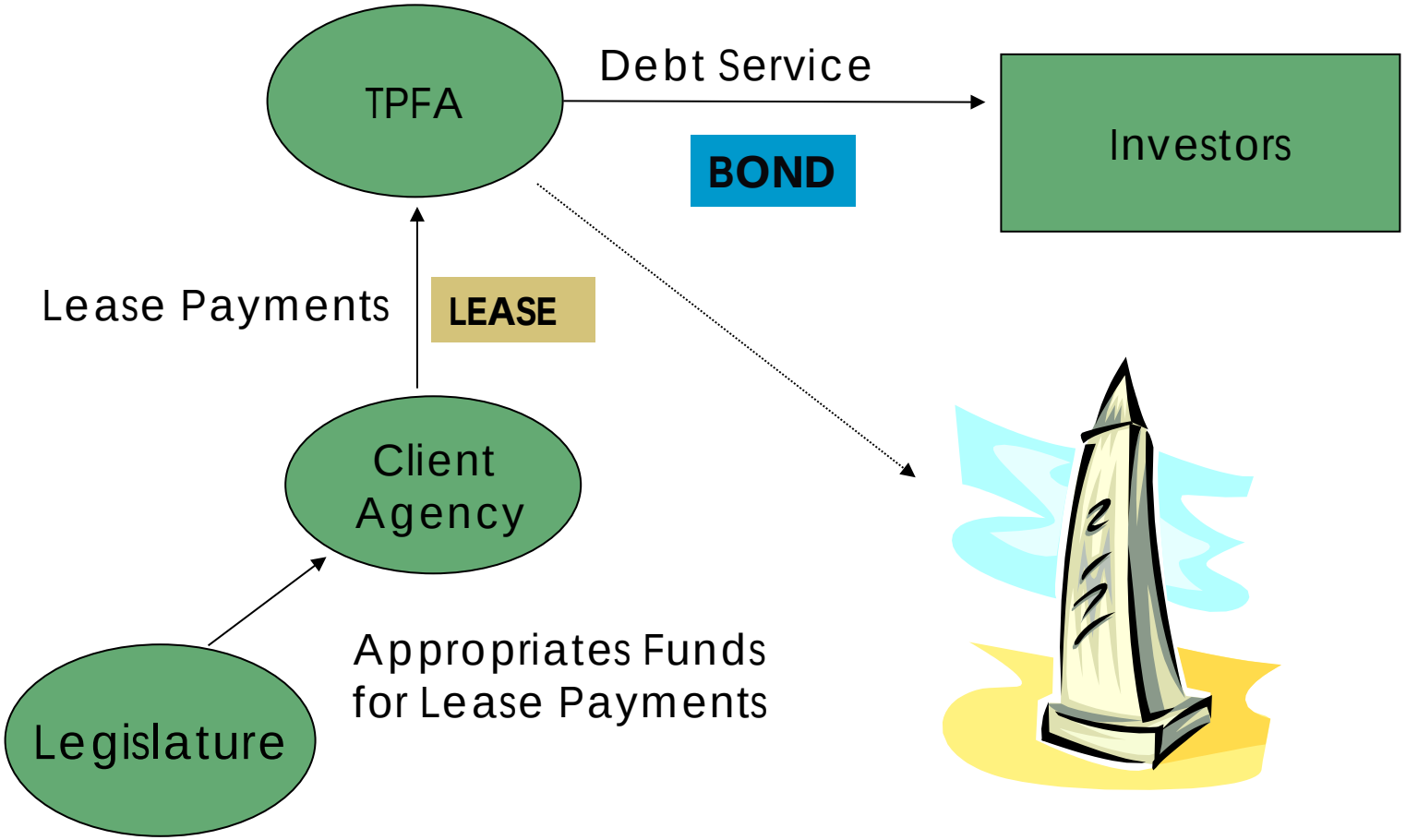
# TPFA Debt Issuance Process

1. Legislature authorizes the project or program and the issuance of debt.
2. Agency governing body adopts a resolution authorizing request for financing.
3. Agency submits request for financing to TPFA.
4. TPFA Board approves request, determines type of debt instrument and sale process.
5. TPFA structures the debt issue.
6. Bond Review Board approves issuance of debt.
7. Financing Documents (bond sale/closing).

# Revenue Bond Process

1. After bond-issuance, TPFA provides the bond proceeds to client agency to construct or acquire the facility.
2. TPFA takes title to the facility, then leases the financed facility to the agency.
3. Legislature appropriates lease payments to the client agency each biennium (no legal obligation to do so).
4. Client agency makes lease payments to TPFA and TPFA uses the lease payments to pay debt service on the bonds.

# Revenue Bond Process



# Post-Issuance Agency Obligations

After bonds have been issued, the beneficiary agency is obligated to:

- Make lease payments for debt service and property insurance (for Revenue Bonds).
- Operate, maintain, use the project for intended, specified governmental purposes.
- Comply with tax, reporting and other covenants.
- Request continued use of bond proceeds.
- Request debt service appropriation (for Revenue Bonds).

# Master Lease Purchase Program

# Overview

- The Master Lease Purchase Program (MLPP) is a lease revenue financing program established in 1992, primarily to finance capital equipment acquisitions by state agencies. (Texas Gov't. Code, §1232.103).
- MLPP also may be used to finance other types of projects that have been specifically authorized by the Legislature and approved by the TPFA Board.
- The financing vehicle for the MLPP program is a tax-exempt revenue commercial paper program.

# What May Be Financed?

MLPP may be used to purchase personal property, equipment, or buildings.

- **Equipment** - fixed asset, other than land or a building, used by a state agency to conduct state business. This may include airplanes or vehicles.
- **Computer equipment** - Telecommunications device or system, automated information system, hardware and software.
- **Energy Savings Performance Contracts** - as defined in statute.
- **Other projects** - such as real estate, construction, or renovation projects where issuing debt incrementally will provide cost savings.

# Eligibility

MLPP funding is available to State Agencies and Universities as authorized by the Legislature and approved by the TPFA Board. Projects must meet the following criteria:

- Project Cost - **$10,000** minimum
- Individual Item Cost - **$100** minimum
- Useful life - **3 years** minimum

# Conclusion

# Key Takeaways

- Capital Planning is key, the earlier the better.
- Capital projects can be funded with cash or debt.
- Bond financing is a tool to match project costs with future use and revenues.
- TPFA is available to assist before, during, and after requesting and receiving debt authority.

# Additional Resources

- TPFA Bonds 101 Case Study
- Bond Review Board Debt Primer
- Bonds 101 Texas Public Finance Seminar

# Thank You!

Scan the QR code to submit a question.

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