Texas uses long-term debt to finance a variety of projects and program areas. State debt is issued by state agencies and universities. It does not include local debt. As of 2016, Texas had approximately $43.5 billion in state bonds outstanding (excluding $6.3 billion in revenue conduit issuances not a legal liability of the state). Appropriations include $4.3 billion for debt service for the 2018-19 biennium. As of September 2016 Texas’ General Obligation debt was rated at Aaa/AAA/AAA by the three major credit rating agencies.

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 exceeds 5.0 percent of the average annual unrestricted GR for the previous three years. As of fiscal year 2016, the ratio of debt service on outstanding or issued debt was 1.36 percent; including debt service for authorized but unissued debt increases the ratio to 2.37 percent. The increase in authorized debt from fiscal year 2007 to 2008 occurred due to the passage of three ballot propositions: Proposition 4 (TPFA), Proposition 12 (TxDOT), and Proposition 15 (Cancer Prevention & Research Institute of Texas).

The Texas Public Finance Authority (TPFA) issues debt on behalf of multiple state agencies and certain universities. Other state issuers include the Water Development Board, the Texas Veterans Land Board, all state university debt not issued by TPFA, and the Texas Department of Transportation (TxDOT). Note that TxDOT is included in the Business and Economic Development government function.
Local debt issues are recorded by the Texas Bond Review Board (BRB) to fulfill Chapter 1231 of the Texas Government Code that requires the BRB to prepare statistical reports on local government debt. The BRB has no direct oversight of local debt issuance. This information is primarily collected by the Office of the Attorney General in its review and approval of public securities under Chapter 1202 of the Government Code and then forwarded to the BRB. These data allow the BRB to track the growth of outstanding local debt over time, as shown in the adjacent chart, distributed across the BRB-defined government types.

Local governments in Texas issue debt to finance construction and renovation of government facilities, public infrastructure, and various other projects authorized by law. Local governments issue two main types of debt – tax-supported General Obligation (GO) and Revenue Debt. GO debt is secured by the full faith and credit of the issuer’s ad valorem tax revenue while Revenue Debt is secured by a specified revenue source. Total outstanding local debt as of 2016 was $218.5 billion, including approximately $8.0 billion of conduit debt.

Since 2004, as the overall level of local indebtedness grew from $109.0 billion to $218.5 billion, the distribution of debt changed. Cities, towns, and villages owed proportionally less debt, while school districts and other special districts (largely driven by the North Texas Tollway Authority) owed proportionally more.

Issued debt is categorized by the BRB as Refunding Debt or New Money Debt. Refunding debt is issued to refinance all or a portion of outstanding debt. New money debt is issued to finance construction and renovation of government facilities, public infrastructure, and various other projects authorized by law. A majority of bond issuances in 2016 were for the purpose of refunding debt.

Since 2004, the proportion of tax-supported local GO debt has increased, from 57.0 percent to 61.8 percent. This is largely due to the increase in tax-supported debt represented by public school borrowing followed by cities.