AP Texas News

Nov. 10, 2007, 8:24AM

Approved propositions allow state to up debt

By APRIL CASTRO Associated Press Writer

AUSTIN — Now that Texas voters have given the state permission to borrow almost $10 billion, budget writers — and ultimately taxpayers — will have to dig into their pockets to cover the inevitable costs of one of the largest bond packages the state has ever approved.

Texas already owes about $390 for each of the 24 million people in Texas, not including debt that is automatically paid back, such as student loans. If all the bonds approved Tuesday are sold, the debt will nearly double, not counting interest.

The money will help to build roads, bring running water into colonias and find a cure for cancer, among other things. But it also would guarantee budget writers will have to use taxpayer dollars to pay the bills back in every state budget for the foreseeable future — whether they can afford it or not.

"Over the long term, the increased use of bonds ... could put us in a bind in the future where the only solution would be to raise taxes," said David Guenthner, spokesman for the Texas Public Policy Foundation.

Even though voters approved the bonds, they don't all have to be sold and spent. Lawmakers can use other funds to pay for the projects, but historically, approved bonds have been sold.

Texas law prohibits debt from exceeding 5 percent of the state budget. In 2006, the state's debt payment was 1.3 percent of the budget. Analysts say the new debt will be within that limit.

"That sounds like a lot of debt, but our sense is that the state will be able to manage it within its general fund," said Alex Fraser, Texas analyst for Standard & Poor's.

Lawmakers use tax revenue — mostly sales and business taxes — to pay the state budget.

A growing population, which is expected to almost double over the next few decades, means that Texas' tax revenue will continue to grow, enabling the state to pay back the debt, Fraser said.

S&P has given Texas an AA credit rating — average, but not top tier. That's because Texas is historically a tax-averse state and the revenue stream and cash reserves are not as robust as states with an income tax, Fraser said.

Analysts expect more states, like Texas, to look to bonds in the next couple of years as a constant source of revenue for infrastructure, education and transportation needs to suit growing populations. State budget projections are increasingly gloomy and uncertain while selling bonds is the legislative equivalent of using a credit card.

"Bonds are a relatively efficient way to pay for infrastructure when there's confidence that the population will be sustained or increase over time," Fraser said. "There's confidence at the issuer level and at our level that pledged revenues will grow along in parallel with the obligations."

Going into debt for projects that will benefit many people for many years can be a justified expense said, Sherri Greenberg, a professor in financial management and state government at the LBJ School of Public Affairs at the University of Texas.

"However, you have to keep that in check," she said.

"Not having to pay the so-to-speak full freight right now, amortizing that cost ... does cost you more in the long run. There's no way around that because you're paying principle plus interest for 20-25 years, over the length of the bond."

Texas has traditionally been a low-debt state, but has taken on more in recent years. Outstanding debt in Texas has more than doubled since 1996. In the last year, the state's annual debt payment increased by 38 percent, according to the state comptroller's office.

"If we had a catastrophic situation, a recession with the budget, that's the reason we have that 5 percent limit, to guard against debt," Greenberg said.

While the Texas Legislature has a history of axing state programs and costs in lean budget years, that won't be an option with bond payments.

"That's a contractual commitment not subject to annual appropriations," Greenberg said. "It is a commitment and if you don't pay the principle and interest, you're in default."

While voters approved $3 billion in bonds to dedicated to cancer research and prevention in Texas, the state can only sell $300 million a year. Another $500 million in bonds for student loans will be paid back by the students.

Fraser said income from the gas tax is enough to support the $5 billion in bonds that voters approved to build new roads. But some fiscal conservatives in the state, like Guenthner, question whether the revenue stream will be able to support the debt, as well as the new projects that will be increasingly necessary to adapt to a growing population and maintenance on the roads as they are finished.

"One of the concerns with having a road bonds of this magnitude pass through is that when you sell those bonds, you end up having to pay them back from a gas tax that is already being stretched to its limit," Guenthner said. "You run the risk of ... having to pay for maintenance on one of these new roads while you're still paying off the original bond and you don't have money left in the gas tax to repair that road or any other roads in the state.

"At that point you're setting the stage for a substantial gas tax increase."