



Red Ink Rising in the Lone Star State: FY 2016

by James Quintero
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Key Points

- Cities, counties, school districts, and special districts in Texas are drowning in debt. In FY 2016, total local debt topped \$342 billion or \$12,278 owed for every man, woman, and child in the Lone Star State.
- Local debt is outgrowing population and inflation by more than 2-to-1.
- Among the 10 most populous states, Texas' local debt per capita (\$8,350) ranks as the second greatest, behind only New York.
- State legislators should properly educate Texans in the voting booth. Voters should have basic financial information—like total cost and tax impact—when deciding on the merits of a bond proposition.
- Better educated voters will make more informed decisions about the direction of their communities.

Cities, counties, school districts, and special districts in Texas have accumulated an alarming amount of public debt.

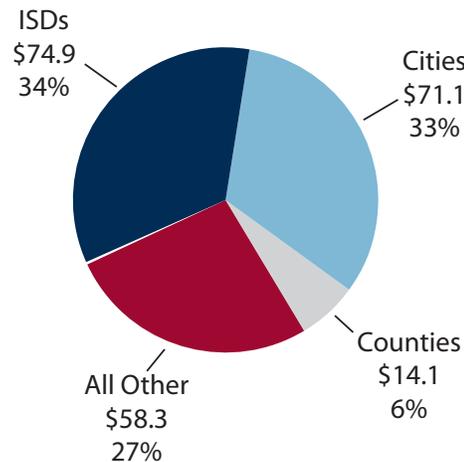
In fiscal 2016, the most recent year for which data is available, local debt outstanding, or the amount of unpaid principal on debt owed by Texas' political subdivisions, grew to an estimated \$218.5 billion, "an increase of \$22.99 billion (11.8 percent) over the past five fiscal years" ([Bond Review Board 2016a, 2](#)). On a per capita basis, that much local government debt translates into an obligation of approximately \$8,000 owed by every man, woman, and child in Texas or more than \$30,000 owed by a family of four.¹

Of the \$218.5 billion owed, about one-third of the total, or \$74.9 billion, come on account of independent school districts. Another one-third, or \$71.1 billion, is

attributable to municipalities. Special district debt combined—which includes obligations incurred by water districts (\$33.2 billion); community and junior colleges (\$5 billion); health and hospital districts (\$3.5 billion); and all other special district types (\$16.5 billion)—totals \$58.3 billion and represents 27 percent of the overall burden. The remaining portion consists of county government debt, which totals \$14.1 billion or 6 percent of the total ([Bond Review Board 2016a, 2](#)).

By far, local debt represents the lion's share of obligations owed by Texas governments. Whereas local debt outstanding totals \$218.5 billion, state debt outstanding stands at a much more manageable \$49.8 billion ([Bond Review Board 2016, iv](#)). As a share of the overall total, local debt represents 81 percent of all outstanding Texas debt.

Where the Money's Owed: Local Debt by Type



Note: Figures may not add due to rounding
 Source: [Bond Review Board](#)

¹ Per capita calculation determined by dividing the amount of local debt outstanding in FY 2016 by the U.S. Census Bureau's population [estimate](#) for Texas as of July 1, 2016 (27,862,596).

Local Debt Outstanding: Ten Most Populous States

	Principal Owed (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank
New York	\$210,224	60.7%	\$10,646	1
Illinois	\$85,028	57.2%	\$6,601	4
California	\$268,098	63.8%	\$6,909	3
Texas	\$225,098	85.0%	\$8,350	2
Pennsylvania	\$83,217	63.9%	\$6,508	5
Michigan	\$45,938	60.2%	\$4,636	7
Florida	\$108,535	74.1%	\$5,456	6
Ohio	\$49,350	59.8%	\$4,257	8
Georgia	\$42,386	76.1%	\$4,198	9
North Carolina	\$32,469	63.0%	\$3,265	10
Avg.	\$115,034	66.4%	\$6,083	-

Note: Figures based on data from the U.S. Census Bureau, State & Local Government Finances by Level of Government and by State: 2012-2013
Source: [Bond Review Board](#)

How Texas Compares

To put the size of Texas' local debt in perspective, consider how it stacks up nationally. The Bond Review Board reports that Texas' local debt per capita (\$8,350) ranked as the second highest total among the top ten most populous states. Only New York's local debt per capita (\$10,646) was greater. The average among the megastates was \$6,083 owed per person ([Bond Review Board 2016, 9](#)).

In addition to its troubled per capita ranking, Texas' aggregate debt levels also rate comparatively high. Based on the U.S. Census Bureau's data for the 2012-13 census year, the principal amount owed by Texas' local governments was \$225.1 billion. That ranked as the second largest amount owed, behind only California's debt, at \$268.1 billion. The average amount owed among the group of large states was \$115 billion ([Bond Review Board 2016, 9](#)).

Red Ink Rising

Texans should be concerned not only with the size of local government debt, but also with the rate at which it is accumulating, especially when compared to standard economic measures like population and inflation.

From 2000 to 2016, Texas' population grew from an estimated 20.9 million to 27.9 million, an increase of 33

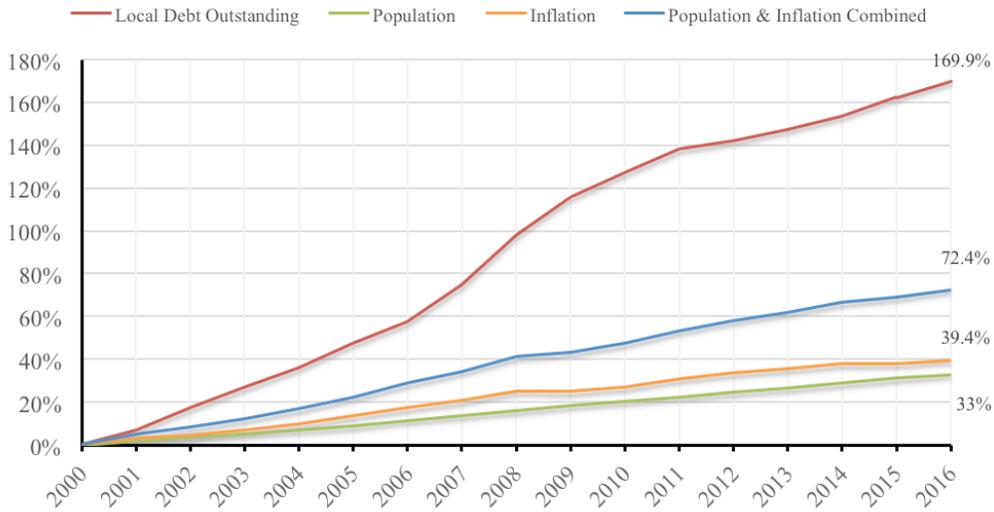
percent ([U.S. Census Bureau](#)). Concurrently, inflation, as measured by the Consumer Price Index, rose by 39.4 percent ([U.S. Bureau of Labor Statistics](#)). Combined, population and inflation rose by 72.4 percent over the period.

By comparison, local debt outstanding increased by 169.9 percent over the same period. At that level of growth, political subdivisions accumulated debt at roughly 2.5 times the rate of population growth and inflation.

There are, of course, consequences to this surge in local government debt. First and foremost, the swell of red ink is a major contributor to Texas' property tax problem.² Since government has no wealth of its own to pay for debt issuances, it generally must rely on new or higher taxes to service that extra load. Second, increased debt service payments can deprive other areas of the budget of available resources. This crowd-out effect can be especially detrimental if core government functions are involved. Finally, high and fast-growing fixed costs, like debt and pension obligations, can invite negative attention from credit rating agencies. If a downgrade occurs, then a community faces the prospect of higher future borrowing costs.

² The Tax Foundation's latest national ranking rates Texas' local property tax system as the 14th most burdensome in the U.S.

Red Ink Rising: Local Debt Growth in Texas



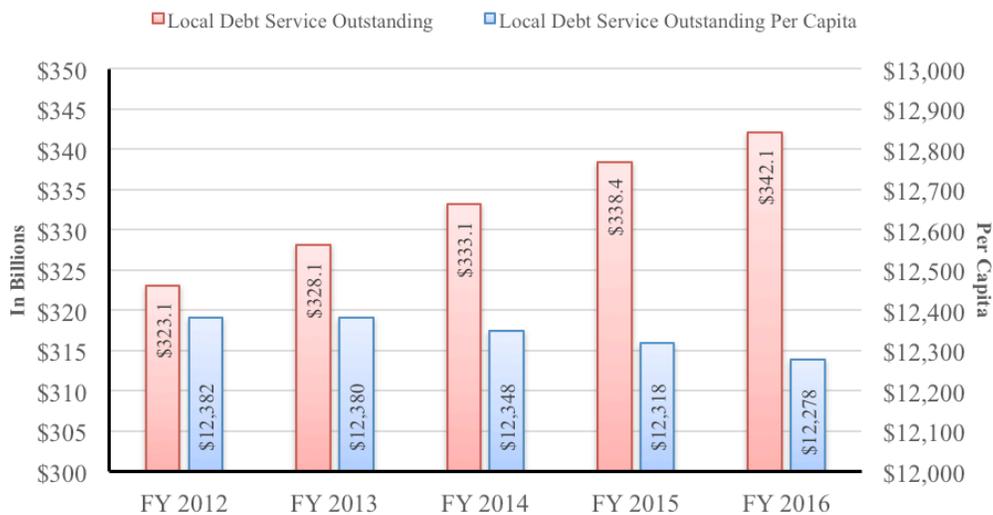
Source: Bond Review Board, U.S. Census Bureau, U.S. Bureau of Labor Statistics

But Wait, There's More...

To this point, this analysis has focused on the principal amount owed by cities, counties, school districts, and special districts. But of course, repaying debt requires more than just paying down the principal owed. Interest must also be paid and when it's accounted for, the local debt picture gets even bleaker.

As of fiscal 2016, local debt service outstanding, or the amount required to fully repay the principal and interest owed on a debt, totaled \$342.1 billion. That's an increase of \$3.7 billion from the prior year and a jump of \$19 billion since fiscal year 2012. On a per capita basis, that much local debt translates into an obligation of \$12,278 owed by every person in Texas or a tab of almost \$50,000 for a family of four.³

Total Local Debt in Texas



Source: Bond Review Board, U.S. Census Bureau

³ Author's calculation.

Summary of Total Texas Debt: FY 2016

	Principal	Interest*	Total Debt Service
Public School Districts	\$74,912,661,061	\$44,958,899,758	\$119,871,560,820
Cities, Towns, Villages	\$69,951,554,518	\$36,222,853,252	\$106,174,407,770
Water Districts and Authorities	\$33,051,705,501	\$16,747,663,319	\$49,799,368,820
Other Special Districts and Authorities	\$16,170,939,605	\$15,449,999,461	\$31,620,939,066
Counties	\$14,095,520,260	\$6,852,056,870	\$20,947,577,130
Community and Junior Colleges	\$5,010,089,402	\$2,500,658,213	\$7,510,747,615
Health / Hospital Districts	\$3,491,547,795	\$2,679,905,194	\$6,171,452,989
Total	\$216,684,018,143	\$125,412,036,067	\$342,096,054,210
*Excludes Build America Bond subsidy Current as of 8/31/2015			

Source: Bond Review Board

Of Texas' \$342.1 billion tab, school district debt accounts for the largest portion at \$119.9 billion or approximately 35 percent of the total. At that level and with approximately 5.3 million children enrolled in K-12 public schools, the amount of debt owed per student comes to \$22,618.⁴

Municipalities owe the second greatest amount at \$106.2 billion or 31 percent of the overall burden. This is followed by special district debt, which totals \$95.1 billion or 28 percent, and county government debt, at \$20.9 billion or 6 percent.

Recommendation

James Madison, a Founding Father and the fourth president of the United States, once said: "Knowledge will forever govern ignorance: And a people who mean to be their own Governors must arm themselves with the power which knowledge gives" ([The Founder's Constitution](#)).

A major reason why the problem of local government debt continues to spiral out of control has to do with uninformed voters.

Unless a voter has done his or her homework prior to entering the voting booth, that person is likely to be at

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a significant disadvantage when weighing the merits of any new bond proposition. Current state law requires political subdivisions to provide only two items of information on the ballot for any given proposition—"the amount their local government entity proposes to borrow and a general description of the purpose" ([Texas Comptroller of Public Accounts, 18](#)). The former is inadequate because it does not properly convey the total cost of the bond issuance, while the latter often lacks specificity and is written in legalese that can be open to interpretation.

Missing from the ballot is any mention of the bond's total repayment cost (principal and interest) or how the passage of the bond might affect the average area resident's pocketbook. This is basic information that every voter should know before deciding Yea or Nay.

⁴ The Texas Education Agency's report [Enrollment in Texas Public Schools 2015-16](#) estimates the state's student population at 5,299,728.

To help voters bridge this knowledge gap and improve the chances that Texans are making informed debt decisions, the Texas Legislature should require every new bond proposition to include, at a minimum, the following information on the ballot:

- The estimated combined principal and interest required to pay the proposed bonds on time and in full; and
- If any, the estimated tax impact on the average area homeowner that is expected from the passage of the bond.

Arming each and every Texan with this sort of basic financial information at the voting booth—of the same variety that individuals and families rely on to make household spending decisions—is a critical first step in making sure that sound public investment decisions are being made. Only by getting this first part right—informed decision-making—can other structural reforms have a chance at long-term success. ★

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About the Author



James Quintero is Director of the Center for Local Governance at the Texas Public Policy Foundation. He's been featured in *The New York Times*, *Forbes*, *The Huffington Post*, *Fox News*, and *Breitbart*.

Since joining the Foundation in 2008, Quintero has focused his research efforts on: state & local government spending, debt, taxes, financial transparency, annexation, and pension reform.

Prior to joining the Foundation, Quintero was a Graduate Research Assistant at Texas State University, where he worked to educate high school students on financial aid and scholarship opportunities. Quintero received a bachelor's degree from the University of Texas at Austin and an M.P.A. with an emphasis in public finance from Texas State University.

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