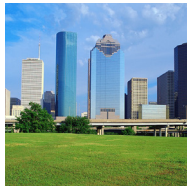




Local Government Debt



The Issue

Local government debt in Texas has reached alarming levels. According to the Texas Bond Review Board (BRB), Texas' local governments—including cities, counties, school districts, and special districts—had accumulated outstanding debts totaling \$200.2 billion as of FY 2013. That marks an increase of \$4.4 billion since FY 2012 and a surge of \$39.9 billion since FY 2008.

On a per person basis, the rate of local debt growth is equally concerning. In fiscal 2013, Texas' local debt per capita—ranked as the 2nd highest among the top 10 most populous states in a September 2012 Texas Comptroller report—totaled more than \$7,500 per Texan. That marks a local debt increase of nearly \$1,000 per person since fiscal 2008, coming in spite of the state's significant population growth in recent years.

Now for the bad news: Texas taxpayers are actually on the hook for much more than the figures above would suggest. That's because those figures only refer to the principal amount owed, and don't account for the interest owed.

While the BRB has not yet published the total debt service outstanding (principal plus interest) owed for FY 2013, estimates for FY 2012 project that the total amount needed to fully service Texas' local debt totals \$323.1 billion. On a per person basis, Texas' total local debt burden equates to more than \$12,500 per Texan.

Without major changes to the *status quo*, Texans can be sure that local property taxes will remain necessarily high to help service the debt. Thus, the Lone Star State could be headed down the same profligate path of places like Detroit and Stockton. So the key question is: How can we begin reversing course?

First, the Legislature should require a minimum level of local debt transparency at the ballot box so that voters can make informed decisions about the direction of their community. Providing basic financial information—such as the projected total cost of a proposition; the amount of existing debt; and the tax increase or decrease that might result from the proposal's passage—at the voting booth is a no-brainer.

Second, any governing body that has the power to tax and borrow should be required to create and maintain a website that features its budget, financial statements, and a check register. It's surprising, and somewhat disheartening, that in today's day-and-age there are still local governments who operate without some or all of this, but it's a relatively straightforward fix in the next legislative session.

Next, Texans should demand an end to the use of exotic public financing instruments that enable local governments, and particularly school districts, to get around existing debt limits. One particularly devious device that merits a ban, or at least severe curtailment, are capital appreciation bonds (CABs).

CABs permit local governments to borrow now and defer principal and interest payments until the bond matures, which is oftentimes decades later. According to the Legislative Budget Board, this buy-now, pay-later approach can result in "crippling repayment obligations," with as much as \$10 being owed for every \$1 borrowed. Clearly, this kind of borrowing, of which Texas leads the nation, is exacerbating an already difficult debt situation.

Finally, Texans in “home-rule” cities should begin looking at ways to amend their city’s charter to include new or stronger debt limitations. Seeing as one-third of all local debt is incurred by cities, this is a direct and effective way for certain local taxpayers to address the issue of local debt head-on.

The Facts

- As of FY 2012, local government debt service outstanding (principal plus interest) totaled \$323.1 billion. No estimate for FY 2013 has yet been provided.
- Texas’ local debt per capita ranked as the 2nd highest among the top 10 most populous states.
- Of the debt owed, approximately one-third can be attributed to cities, one-third to school districts, and the remaining one-third to counties and special districts.
- From FY 2000 to FY 2009, local debt outstanding increased by 144.4% while population and inflation increased by just 44.9%.

Recommendations

- Provide Texas voters with basic financial information at the ballot box, such as the projected total cost of a bond proposition; the amount of existing debt owed by the asking entity; and the possible resulting tax increase or decrease in the event of a proposition’s passage.
- Require local governments to submit to basic standards of financial transparency, including the creation and regular maintenance of an official website featuring the entity’s operating budget, financial statements, and check register.
- Ban the issuance of capital appreciation bonds.

Resources

A Profile in Runaway Debt: Frisco ISD’s \$775 Million Bond Proposal by Jess Fields, Texas Public Policy Foundation (Mar. 2014).

Shining a Light on Local Spending and Debt: Testimony to the House Appropriations Sub-Committee on Budget Transparency and Reform by James Quintero, Texas Public Policy Foundation (Mar. 2013).

Red Ink Rising: Local Debt in the Lone Star State by James Quintero, Texas Public Policy Foundation (Aug. 2013).

