



PolicyPerspective

Red Ink Rising in the Lone Star State

by James Quintero
Director

Texas cities, counties, school districts, and special districts have amassed an alarming amount of debt.

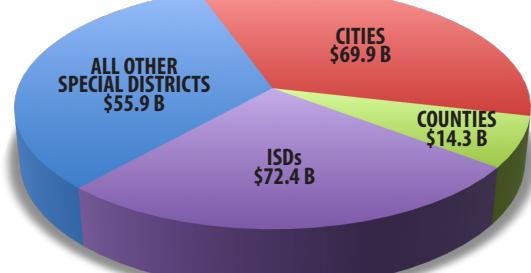
In fiscal 2015, the most recent year for which data is available, local debt outstanding, or the amount of unpaid principal on debt owed by Texas' political subdivisions, grew to an estimated \$212.4 billion, "an increase of \$20.09 billion (10.4 percent) over the past five fiscal years" ([Texas Bond Review Board, 2](#)). On a per capita basis, that much local government debt translates into an obligation of nearly \$7,750 owed per Texan.

Key Points

- Cities, counties, school districts, and special districts in Texas are awash in debt.
- Local government debt in Texas is fast-outpacing population growth and inflation.
- To help rein in the growth of local government debt, state legislators should require political subdivisions to provide voters with more information at the ballot box for each new debt proposition.

Of the more than \$212 billion owed, approximately one-third of the total, or \$72.4 billion, is on account of school districts. Another one-third, or \$69.9 billion, has been accumulated by municipal governments. Special district debt—which includes obligations incurred by water districts (\$31.5 billion); community and junior colleges (\$5 billion); health districts (\$3.5 billion); and all other special district types (\$15.9 billion)—amounts to almost \$56 billion. The remaining portion consists of county government debt, which totals \$14.3 billion ([Texas Bond Review Board, 2](#)).

WHERE THE MONEY'S OWED: Local Debt by Type



Source: [Texas Bond Review Board](#)
(Totals may not sum due to rounding)

By far, local debt makes up the majority of all Texas government debt. Whereas local governments have accumulated a combined \$212.4 billion in outstanding debts, Texas state government debt is a much more manageable size, totaling \$47.09 billion in fiscal 2015 ([Texas Bond Review Board, iv](#)). Thus, local debt comprises 82 percent of all outstanding Texas debt.

HOW TEXAS COMPARES

To put Texas' local debt problem in perspective nationally, consider how the Lone Star State stacks up against its large-state peers. The most recent U.S. Census Bureau data for census year 2012-13 shows 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) soared higher. The average among the megastates was \$6,083 owed per person ([Texas Bond Review Board, Chapter 1, 9](#)).

Texas not only ranks poorly on local debt per capita, but also in terms of holding the most aggregate debt on the local level. According to the Census Bureau's *State and Local Government Finance*, the principal amount owed by Texas' local governments in the 2012-13 census year was \$225.1 billion. That amount rated as the second highest total, behind only California's debt outstanding of \$268.1 billion. The average among the group of large states was \$115 billion owed ([Texas Bond Review Board, Chapter 1, 9](#)).

continued

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
Texas	\$225,098	85.0%	\$8,350	2
California	\$268,098	63.8%	\$6,909	3
Illinois	\$85,028	57.2%	\$6,601	4
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
AVERAGE	\$115,034	66.4%	\$6,083	

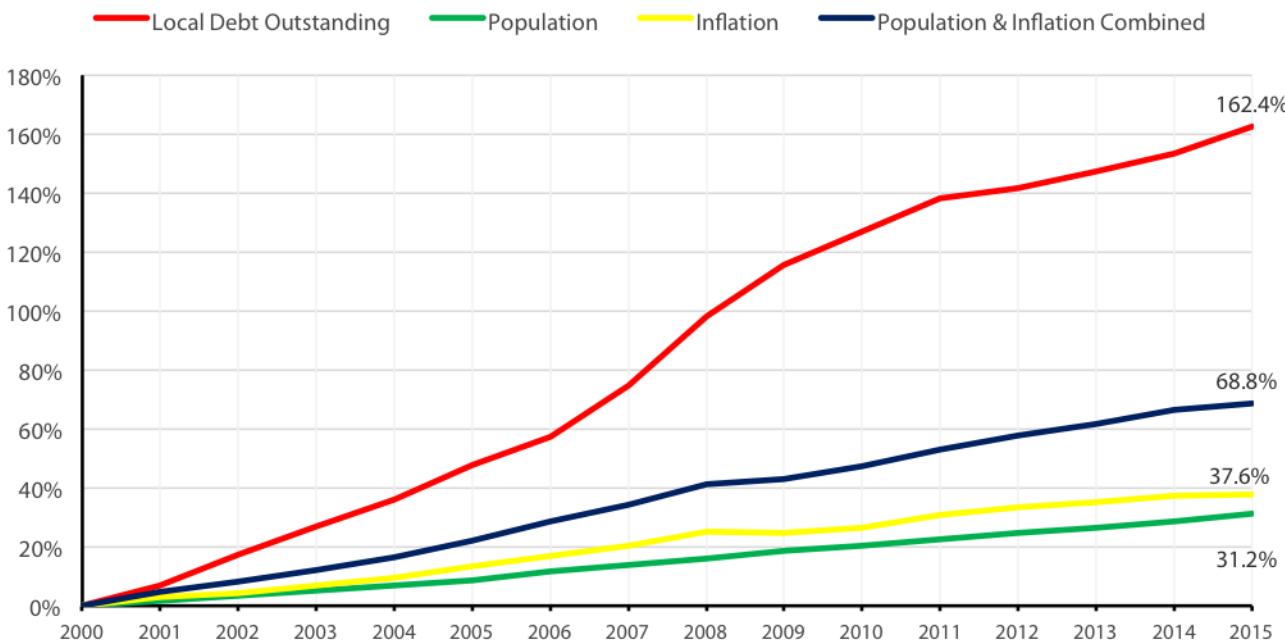
Source: [Texas Bond Review Board](#)

RED INK RISING

Local government debt in the Lone Star State is not only great, but it is also growing rapidly compared to standard economic measures like population and inflation.

From 2000 to 2015, Texas' population grew from an estimated 20.9 million to 27.5 million, an increase of 31.2 percent ([U.S. Census Bureau, Population Estimates](#)). Concurrently, inflation, as measured by the Consumer Price Index, rose by 37.6 percent ([U.S. Bureau of Labor Statistics, U.S. All items, 1982-84=100](#)). Hence, population and inflation increased by a combined 68.8 percent over the period.

Red Ink Rising: Local Debt Growth in the Lone Star State



Source: [Texas Bond Review Board](#)

While the uptick in population and inflation has been moderate over the past fifteen years, the same cannot be said of the growth in local debt. From fiscal years 2000 to 2015, local debt outstanding soared by more than 162 percent, or almost 2.5 times faster than the rate of population and inflation growth. The average annual increase over the period was 6.7 percent.

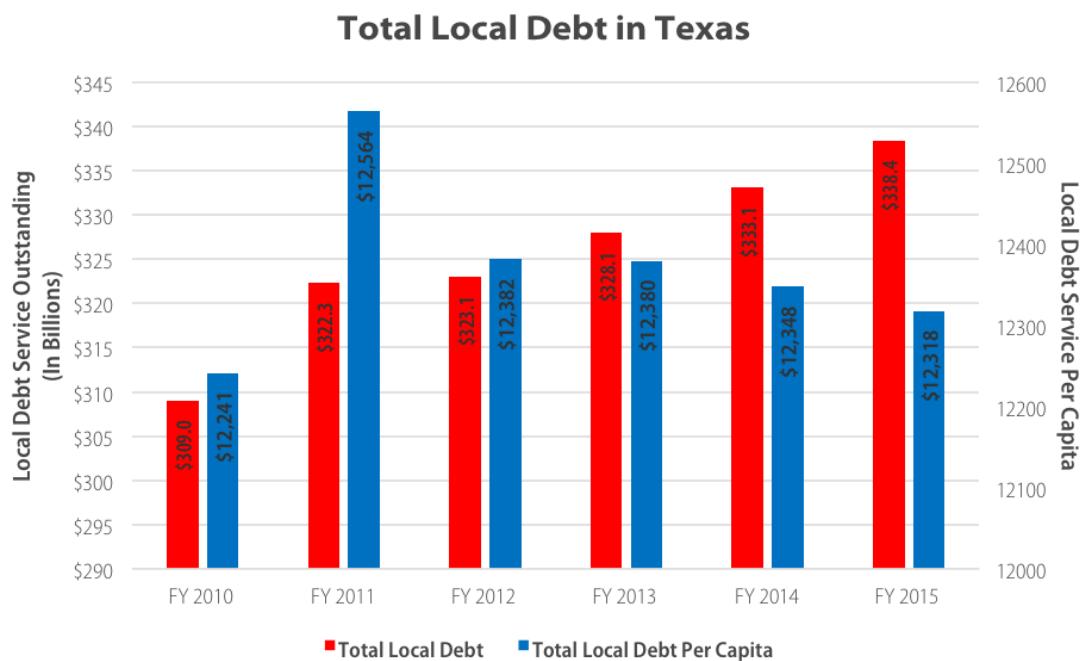
The fact that local debt is far outstripping the growth of population and inflation is not without consequence.

The swell of red ink locally is a major contributor to Texas' high and fast-growing property tax.¹ As local debt has grown, so too has the need to service it with additional monies which are often provided by local governments' main revenue source: property taxes. There are other challenges too. As debt swells and debt service payments increase, available revenue shrinks sometimes leaving other budget priorities with fewer resources needed to achieve core functions. Fast-growing debts and other fixed costs can also invite negative attention from credit rating agencies which may lead to higher future borrowing costs. Major cities in Texas are already faced with this potentially difficult scenario.

BUT WAIT, THERE'S MORE...

Until this point, this analysis has focused on the principal amount owed by local governments. But of course, paying off debt takes more than just principal repayment. Interest must also be accounted for, and its impact on local governments' overall level of indebtedness is significant.

As of fiscal 2015, local debt service outstanding, or the amount required to fully repay the principal and interest owed, totaled \$338.4 billion. That represents an increase of \$29.4 billion since fiscal year 2010. On a per capita, each Texan owes approximately \$12,318 for his or her share of the total debt.



Source: [Texas Bond Review Board](#)

Of the \$338.4 billion owed by Texas' local governments, school district debt accounts for largest portion at \$117.7 billion. With approximately 5.2 million children enrolled in k-12 public schools, the total debt service amount owed per student comes to \$22,577.² The next most indebted unit of local government are municipalities with \$105.8 billion owed, followed by special districts with a combined \$93.3 billion in total debt and county governments with \$21.5 billion owed.

SUMMARY OF TOTAL TEXAS DEBT

	Principal	Interest*	Total Debt Service
<i>Public School Districts</i>	\$72,322,671,024	\$45,422,886,675	\$117,745,557,699
<i>Cities, Towns, Villages</i>	\$68,747,240,053	\$37,073,187,296	\$105,820,427,349
<i>Water Districts and Authorities</i>	\$31,227,922,993	\$16,713,297,410	\$47,941,220,403
<i>Other Special Districts and Authorities</i>	\$15,473,229,922	\$15,997,089,812	\$31,470,319,734
<i>Counties</i>	\$14,275,914,149	\$7,253,847,573	\$21,529,761,722
<i>Community and Junior Colleges</i>	\$5,008,867,170	\$2,609,488,068	\$7,618,355,238
<i>Health / Hospital Districts</i>	\$3,468,066,588	\$2,767,737,771	\$6,235,804,359
TOTAL	\$210,523,911,899	\$127,837,534,605	\$338,361,446,504

*Excludes Build America Bond subsidy; Current as of 8/31/2015

Source: [Texas Bond Review Board](#)

RECOMMENDATION

Soaring local government debt represents one of the state's most pressing public policy problems. Substantive reforms are needed so as to slow or prevent the rapid accumulation of debt from causing higher property taxes, lower credit ratings, and slower economic growth.

To that end, a leading reform that should be enacted by the next legislature is ballot box transparency, or the requirement that political subdivisions provide basic financial information on the ballot for each new debt proposition to ensure that Texas voters are making informed decisions.

Unless a voter has done his or her homework prior to entering the voting booth, Texas voters right now have little information at their fingertips as they decide on new debt proposals, which can sometimes cost \$1 billion or more. Current state law requires only that two bits of information be provided on the ballot—"the amount their local government entity proposes to borrow and a general description of the purpose" ([Texas Comptroller of Public Accounts, 18](#)). Missing is any detail regarding the total cost of the proposed bond, the effect on the average taxpayer, or existing bonded indebtedness.



Did you know?

Although none succeeded, conservatives proposed a number of different bills last session to require greater government transparency at the ballot box, including [Senate Bills 102, 399, 619, 1041](#) & [House Bills 134, 1182, 2961, 2962, and 2963](#). The bill to advance the furthest through the process was SB 1041, which cleared the Senate but did not make it through the House.

To remedy this problem and ensure that voters are better prepared to make an informed decisions, state lawmakers should require all types of local government to include the following on the ballot for each new debt proposition:

- The current local debt service outstanding for the political subdivision asking for new debt;
- The estimated combined principal and interest required to pay the proposed bonds on time and in full; and
- The estimated additional tax burden, if any, that would be imposed on the average homeowner residing in the political subdivision if the bond is passed.

Providing 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 fiscally responsible reforms have success. 

ENDNOTES

¹ One well-known source, the Tax Foundation, ranks Texas' local property tax burden as the [14th highest nationally](#).

² The Texas Education Agency's [Texas Academic Performance Report, or TAPR, for 2014-15](#) estimates the number of total students at 5,215,282.

About the Author



James Quintero is the director of the Center for Local Governance at the Texas Public Policy Foundation, one of America's premier conservative think tanks. 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 and 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.

He received a bachelor's degree from the University of Texas at Austin and a Masters of Public Administration degree with an emphasis in public finance from Texas State University.

About the Texas Public Policy Foundation

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

