

# Spending

## Legislator's Guide to the Issues 2017-18



### State Debt



#### The Issue

Contrary to the massive budget deficits the federal government is able to accumulate, the Texas Constitution forces state legislators to be more frugal by adopting a balanced budget. Though legislators cannot spend more than expected revenue, they can issue debt through voter-approved bond proposals for items like transportation projects, cancer research grants, and other initiatives.

Since all debt must be repaid from either the general revenue (GR) fund or specific revenue sources, more state debt results in burdening Texans with higher taxes. While new debt for these initiatives may be deemed necessary, legislators should limit increasing debt and make the cost more transparent so that Texans understand the burden on current and future generations.

In the past, the Texas Comptroller's office has taken beneficial steps in this direction by providing valuable information on the its website [texasransparency.org](http://texasransparency.org). However, legislators should do more by passing legislation making it mandatory to include not only the principal cost of debt (debt outstanding) but also the total cost with interest payments (debt service outstanding).

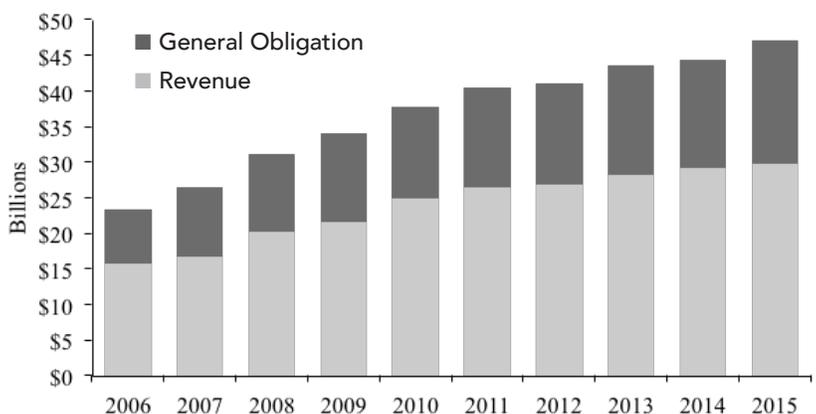
From fiscal years 2006 to 2015, the chart shows that total state debt outstanding increased by an astounding 102% to \$47.1 billion, according to the Texas Bond Review Board. This translates into an increase of 53% to about \$1,700 owed by every man, woman, and child in the Lone Star State. Of the total state debt outstanding, there are two types: general obligation (GO) debt and non-general obligation debt—also known as revenue debt.

As defined by the Comptroller, general obligation debt “is legally secured by a constitutional pledge of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose” and “must be approved by a two-thirds vote of both houses of the legislature and a majority of Texas voters.” This debt may be issued in installments as determined by the legislatively appropriated debt service or by the issuing agency or institution and often has a 20 to 30 year maturity with level principal or level debt-service payments. Over the last decade, general obligation debt has increased by 130% to \$17.3 billion.

Also noted by the Comptroller, revenue debt “includes debt that is secured by a specific revenue source and some lease purchase obligations. Generally, non-general obligation debt does not require voter approval and is not considered ‘debt’ limited by the Texas Constitution.” Revenue debt has increased by 88.7% to \$29.8 billion during the last decade.

If these trends continue, Texans will be burdened with even higher taxes and fees. A good metric of the state debt burden on each Texan is debt-per-capita. Using the latest ranking available for state debt per capita in 2013 by the Tax Foundation, Texas had the sixth lowest state debt per capita burden. Of the top five most populous states, the three most debt-ridden states are New York, Illinois, and California, which all tend to enact liberal policies.

Texas State Debt Outstanding for Fiscal Years 2006 to 2015



Source: Texas Bond Review Board

As a percentage of unrestricted general revenue for the previous three years, the constitutional debt limit (CDL) for debt service payable is 5%. The Texas Bond Review Board shows that debt service on outstanding debt is 1.38% and debt service on outstanding debt and on authorized but unissued debt is 2.65%, which both fall below the CDL at the end of 2015.

This relatively good management of state debt provided Texas' AAA rating from all three major rating agencies since 2013. Although things look good on the surface, debt service will cut into spending on other programs and may lead to even higher taxes on Texans, slowing economic growth and individual prosperity.

Unfortunately, debt outstanding does not tell the whole story. While Texas has done relatively well managing its debt principal, debt service outstanding over the life of debt outstanding is substantially higher than the \$47.1 billion. The Texas Bond Review Board notes that total debt service outstanding is \$77 billion—63% more than the reported principal amount.

A grey area regarding debt is tuition revenue bonds (TRB). TRBs are obligations of the university systems that issue them and do not count against the state's debt limit because tuition revenue is pledged to service them. However, the Legislature has a practice of servicing them with general revenue. Over the next five years, Texas' state government is expected to spend nearly \$1.4 billion in general revenue funds on debt service for the most recent round of TRBs, according to the Legislative Budget Board. With such a large sum of taxpayer dollars going to support these bonds through general revenue, the following question needs to be addressed: Should they be classified as general obligation bonds and require Texas voters to approve them?

By controlling spending, prioritizing debt payments, and increasing debt transparency, Texans can have a better sense of whether state lawmakers are being good stewards of their tax dollars.

## The Facts

- From FY 2006 to 2015, total state debt outstanding increased by 102% to \$47.1 billion.
- Total debt outstanding per capita in Texas increased over the last decade by 53% to about \$1,700 per person.
- The Bond Review Board notes that total debt service outstanding, which includes principal and interest owed, is \$77 billion, or roughly \$2,800 per Texan.

## Recommendations

- Scrutinize all budget areas by implementing zero-based budgeting because excessive spending may result in more debt.
- Prioritize debt to consider in which order it should be paid if given the opportunity for early retirement.
- Pass legislation that provides ballot box transparency by making it mandatory to include not only the total principal cost of debt but also the total cost with interest payments and how taxes will be affected.

## Resources

[\*\\$15,000 Owed by Every Texan for State and Local Debt\*](#) by Vance Ginn and Kiara Pillay, Texas Public Policy Foundation (April 2016).

[\*Overview of State Debt and Other Liabilities\*](#), Legislative Budget Board (March 2016).

[\*Debt Affordability Study\*](#), Texas Bond Review Board (Feb. 2016).

[\*Debt at a Glance\*](#), Texas Comptroller of Public Accounts (Sept. 2013).

