Red Ink Rising in the Lone Star State FY 2019

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Key Points

- Local government debt has surged in recent years, pushing property taxes up and creating long-lasting challenges.

- Texas' local debt per capita ($8,013) ranked second among the top 10 most populous states, behind only New York ($11,209).

- When principal and interest are accounted for, the amount of local debt owed per person soars to more than $12,500.

- School district debt ($137.9 billion) accounts for more than one-third of all local debt. City government debt ($113.5 billion) follows closely behind.

Executive Summary

There is reason to be alarmed about Texas' local government debt.

The latest data suggests that the principal debt owed by cities, counties, school districts, and special districts has grown to almost $240 billion, a one-year increase of more than $10 billion. School districts and cities are the most heavily indebted types of government.

Much of this debt is tax-supported in nature, which has important implications for homeowners and businesses who pay property taxes.

The problem isn't just that local debt is big and burdensome. It is also piling up fast too. Over the past five years, the amount of principal debt owed has risen at almost three times the rate of population growth.

Bleaker still, the financial picture worsens when interest is accounted for.

Adding all of the unpaid principal and interest together pushes local government debt into the stratosphere. In fiscal year 2019, local debt totaled $365.3 billion or more than $12,500 owed for every man, woman, and child in the Lone Star State. Through this lens, too, school districts and city governments owe the most of any type of government.

Over a four-year period, Texas' local governments added $36.5 billion to the total amount owed.

This surge in local debt has not gone unnoticed at the Texas Capitol. During the last legislative session, state lawmakers passed a series of good government measures to get local governments onto firmer ground. Many of these much-needed reforms either end a bad practice or establish a better one.

However, even with these reforms in place, there is more work to be done.

Additional changes are needed now to protect taxpayers from the borrowing binge underway locally and to ensure the viability of the Texas Model.

Introduction

Texas' local governments are awash in a sea of red ink.

As of fiscal year 2019, local debt outstanding[1] rose to $239.98 billion, an increase of more than $10 billion over the previous year (Bond Review Board 2019a, iv).

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1   The Bond Review Board defines local debt outstanding as "the amount of unpaid principal on a debt [owed by one or more political subdivisions] that will continue to generate interest until paid off."

Figure 1. Local debt outstanding by gov't type

WHERE THE MONEY'S OWED:
Debt Outstanding by Gov't Type

School Districts
$87.9 B

Cities
$77.8 B

Special Districts
$59.5 B

Counties
$14.8 B
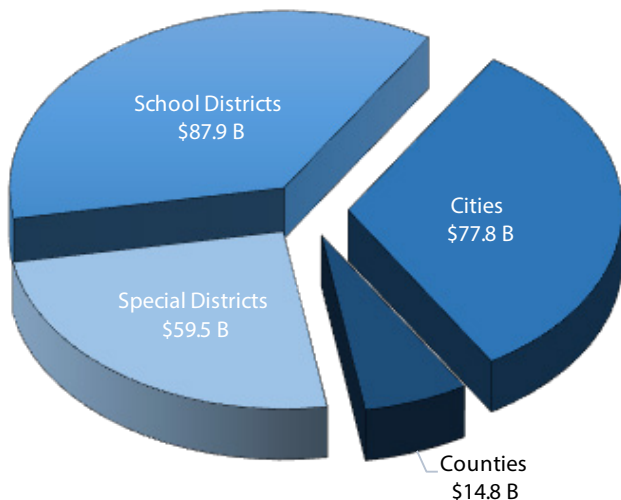
Source: Bond Review Board. Totals may not add due to rounding.

That much public debt puts every individual Texan on the hook for $8,220 while a family of four owes the equivalent of $32,880.[2]

Of the almost $240 billion in outstanding debt, school districts were responsible for $87.9 billion or more than one-third of the total. City governments owed the next highest amount, at $77.8 billion or almost another one-third. Special district borrowing—which includes water districts ($33.5 billion); community and junior colleges ($5.3 billion); health and hospital districts ($3.6 billion); and other types ($17.1 billion)—stood at $59.5 billion, or 25 percent of the overall burden. County government debt amounted to $14.8 billion or 6 percent of the whole (Bond Review Board 2019a, 20).

Collectively, local governments have borrowed far more than state government. Whereas the principal debt owed by cities, counties, school districts, and special districts stood at nearly $240 billion in fiscal year 2019, the state equivalent was a more manageable $59.9 billion (Bond Review Board 2019a, iv). Consequently, local debt outstanding represents more than 80 percent of all debt in the Lone Star State. Said another way, local officials have borrowed 8 out of every 10 dollars owed by Texas governments.

A Breakdown of the Borrowing

Local governments generally issue two kinds of debt: tax-supported debt and revenue-supported debt. Each varies in its source of revenue, the types of project(s) funded, the role that voters play, and in other modest ways. Per the Bond Review Board, these two types of debt are defined accordingly:

- **Tax-supported debt** "is generally secured by a pledge of the issuer's ad valorem taxing power. Tax-supported debt can have either a limited or an unlimited authority pledge of tax revenues for repayment" (Bond Review Board 2019b, 97). This type of debt is generally approved by voters.[3]

- **Revenue-supported debt** "is legally secured by a specified revenue source(s). Most revenue debt does not require voter approval and usually has a maturity based on the life of the project to be financed" (Bond Review Board 2019b, 139).

As of fiscal year-end 2019, local governments had $157.6 billion in outstanding tax-supported debt, representing almost two-thirds of the obligations. From 2015 to 2019, tax-supported debt increased by 21 percent (Bond Review Board 2019a, 17-18). Meanwhile, revenue-supported debt totaled $82.4 billion, equating to a little more than one-third of the whole. From 2015 to 2019, revenue debt rose by 14.3 percent (Bond Review Board 2019a, 18).

Looking at tax-supported debt further reveals that school districts carry a majority of the burden, owing $87.7 billion or 55.6 percent of the total. Interestingly, tax-supported school district debt increased by 21.8 percent in the last five

Table 1. Tax-supported debt vs. revenue-supported debt in fiscal year 2019 (in billions).

	Tax-supported Debt	% of Total	Revenue-Supported Debt	% of Total	Total
School districts	$87.7	99.7%	$0.3	0.3%	$87.9
Cities	$34.8	44.7%	$43.1	55.3%	$77.8
Counties	$12.3	83.2%	$2.5	16.8 %	$14.8
Special districts	$22.8	38.4%	$36.6	61.6%	$59.4
TOTAL	**$157.6**	**65.7%**	**$82.4**	**34.3%**	**$240.0**

Source: Bond Review Board. Figures have been rounded.

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2   According to the Texas Demographic Center, the state's population was 29,193,268 in 2019.
3   Voters generally approve tax-supported debt, except "for [Certificates of Obligation], tax notes, school district maintenance tax notes, certain county road bonds and contractual obligations for personal property."

years, even while "public school atten-
dance for districts with debt outstanding
increased by [a more modest] 6.9 percent"
over the same period (Bond Review Board
2019a, 18).

Defenders of the status quo will sometimes
downplay the amount of tax-supported
debt by pointing out that it is voter-ap-
proved. While true, this view ignores the
practices employed by political subdivi-
sions that put voters at a distinct disadvan-
tage and make the passage of a bond prop-
osition more likely. These practices include
but are not limited to holding elections at
off-peak periods; using mobile voting loca-
tions to target voters of a particular type;
governmental entities partnering with ven-
dors who advertise bond passage support,
including the creation of political action
committees and campaign coaching; social
media electioneering targeted at the general public and staff;
and expending public funds for political advertising.

Red Ink Rising

The size and composition of local government debt is con-
cerning; however, so, too, is the rate of accumulation.

From 2015 to 2019, local debt outstanding surged from
$202.4 billion to $239.98 billion, representing an increase
of almost $38 billion or 18.6 percent (Bond Review Board
2019a, 20). Likewise, local debt per capita[4] rose from $7,405
in 2015 to $8,220 in 2019, an 11 percent growth.

By comparison, Texas' population grew at a more modest
rate over the same time period, climbing from 27,326,193
in 2015 to 29,193,268 in 2019 (Texas Demographic Center).
That is a gain of 6.8 percent—noticeably smaller than the
aggregate and per capita percentage increases.

The rapid accumulation of public debt is not without con-
sequence. In many cases, overconsumption comes at the
expense of a heftier tax burden. Since local governments
do not create wealth, these entities oftentimes pay for their
spending excesses by hiking existing taxes and creating new
strains, as corroborated by the data on tax-supported debt.
These constant and growing demands on the taxpaying
public pose an economic threat, potentially depressing job
creation, disincentivizing business investment and reloca-
tion, and even driving out longtime residents, as perhaps

Figure 2. Local debt outstanding by fiscal year, aggregate vs. per capita
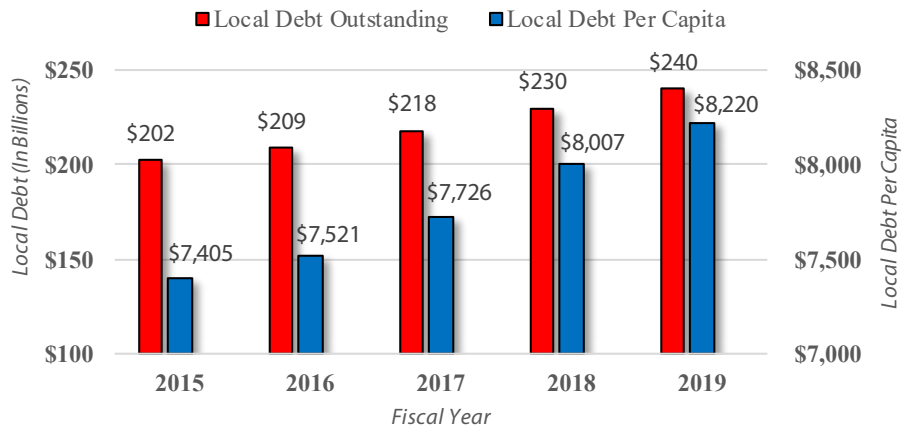
Source: Bond Review Board. Totals may not add up due to rounding. Per capita estimates based on author's calculations.

best illustrated by the *Austin American-Statesman*'s well-
known interview of Gretchen Gardner. In 2014, Gardner
told *Statesman* reporter Lori Hawkins:

> "I'm at the breaking point," said Gretchen Gardner,
> an Austin artist who bought a 1930s bungalow in the
> Bouldin neighborhood just south of downtown in 1991
> and has watched her property tax bill soar to $8,500
> this year.
>
> "It's not because I don't like paying taxes," said Gardner.
> … "I have voted for every park, every library, all the
> school improvements, for light rail, for anything that
> will make this city better. But now I can't afford to live
> here anymore" (Hawkins).

Gardner's example is a poignant reminder that, whether
voters recognize it or not, there is no such thing as a free
lunch. All public debt must be paid for, and excessive debt
invites crushing levels of taxation.

> ❝ We don't have a trillion-dollar debt because we haven't taxed enough; we have a trillion-dollar debt because we spend too much."
>
> —*Ronald Reagan*

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4   The Bond Review Board defines local debt per capita as the following: "A
measurement of the value of a [local] government's debt expressed in terms
of the amount attributable to each citizen under the government's juris-
diction. The formula is the debt outstanding as of August 31 divided by the
estimated residential population of the issuer."

Further still, weighing down the public with debt can harm the quality and availability of core services. This may result when a governing body, not wishing to raise taxes, shifts money around in the budget to satisfy ever-increasing debt service requirements. By "crowding out" other parts of the budget, less money is then available to other programs and services.

Elevated debt levels also create credit rating risks. The greater a governmental entity's fixed costs become, the more likely it is for a credit rating agency to take negative action. In the event of a credit rating downgrade, the costs of borrowing go up, making it more expensive for a community to finance its capital improvement projects.

But Wait, There's More…

Up until now, 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 accounted for, meaning that the ocean of red ink is actually much, much deeper.

As of fiscal year 2019, local debt service outstanding[5] (or total local debt) grew to a colossal $365.3 billion or more than one-third of one trillion dollars (Bond Review Board 2019c). Expressed differently, Texas' total local debt is large enough to take $12,513 from every man, woman, and child in the Lone Star State or about $50,000 from a family of four.

HOW TEXAS COMPARES

Another way to gauge Texas' local debt dependence is to compare it to borrowing in other large, heavily populated states.

Based on U.S. Census Bureau data for census year 2016, local debt outstanding in Texas neared $230 billion in the aggregate. That ranked as the second largest amount owed among the top 10 most populous states, behind only California ($282.6 billion). The average amount owed among all mega-states was $116.4 billion.

In the same way, Texas' local debt per capita ($8,013) ranked as the second highest total among its similarly sized peers. Only New York's local governments owed a greater amount per capita ($11,209). Among all large states, the average amount of local debt outstanding per capita was $5,941.

As a percentage of total state to local debt, Texas' local debt surpassed 82 percent of the whole. The average among the mega-states was less by comparison, at 65.9 percent.

### Local debt outstanding in the 10 most populous states (by per capita rank)

	Principal Owed (Millions)	% of Total Debt	Per Capita Amount	Per Capita Rank
New York	$219,039	61.4%	$11,209	1
Texas	**$229,992**	**82.3%**	**$8,013**	**2**
California	$282,609	65.1%	$7,144	3
Illinois	$85,874	56.6%	$6,740	4
Pennsylvania	$74,765	61.4%	$5,838	5
Florida	$105,615	75.9%	$4,959	6
Ohio	$52,045	61.1%	$4,452	7
Georgia	$44,808	77.3%	$4,260	8
Michigan	$38,762	53.5%	$3,878	9
North Carolina	$30,333	64.2%	$2,921	10
Average	**$116,384**	**65.9%**	**$5,941**	**-**

Source: Bond Review Board citing data from the U.S. Census Bureau, State and Local Government Finances by Level of Government and by State: 2016. Differs from FY 2019 Bond Review Board data.

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5   The Bond Review Board defines local debt service outstanding as "the amount that [a political subdivision] is required to cover the repayment of principal and interest on a debt for a particular period."

Figure 4. Total local debt by gov't type

WHERE THE MONEY'S OWED:
Total Debt FY 2019
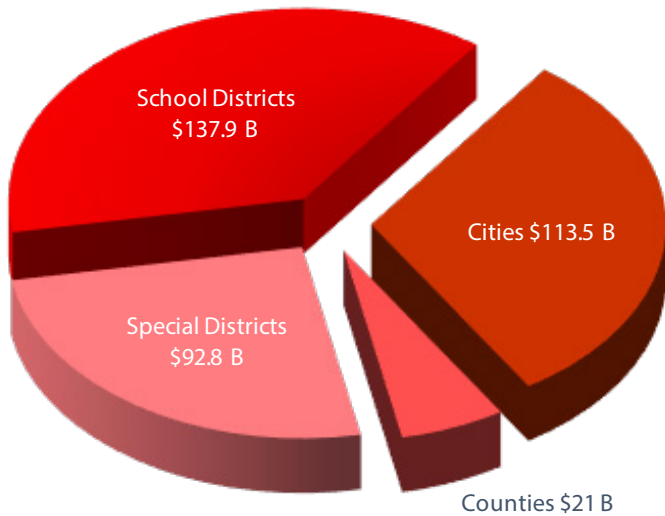
School Districts
$137.9 B

Cities $113.5 B

Special Districts
$92.8 B

Counties $21 B

Source: Bond Review Board responses to Public Information Act requests. Totals may not add up due to rounding.

Of the $365.3 billion total, school district debt accounted for the largest portion at $137.9 billion or approximately 38 percent of the total (Bond Review Board 2019c). Assuming that 5.4 million students are enrolled in K-12 public schools,[6] then ISDs right now owe $25,390 per child.

Municipal government debt followed closely behind, at $113.5 billion or 31 percent of the total. With "about

20.8 million people [who] lived in incorporated areas," city debt per capita exceeds $5,100 for each inhabitant (Mekelburg). Special districts—led by water districts ($48.2 billion)—owed a combined $92.8 billion. County government debt rose to just over $20 billion or almost 6 percent of the total (Bond Review Board 2019c).

Drowning in Debt

In fiscal year 2016, local government debt totaled $329 billion among all jurisdictions (Bond Review Board 2016). By fiscal year 2019, that figure had swelled to $365 billion, equating to a four-year growth[7] of $36.5 billion in the aggregate or an 11.1 percent increase.

On a per capita basis, local governments owed a total of $11,835 per Texan in fiscal year 2016. By fiscal year 2019, total local debt per capita rose to $12,513 owed per person or $50,052 owed for a family of four.[8]

Such a precipitous amount of public debt threatens dire fiscal and economic consequences for Texans today and into the future if left unaddressed.
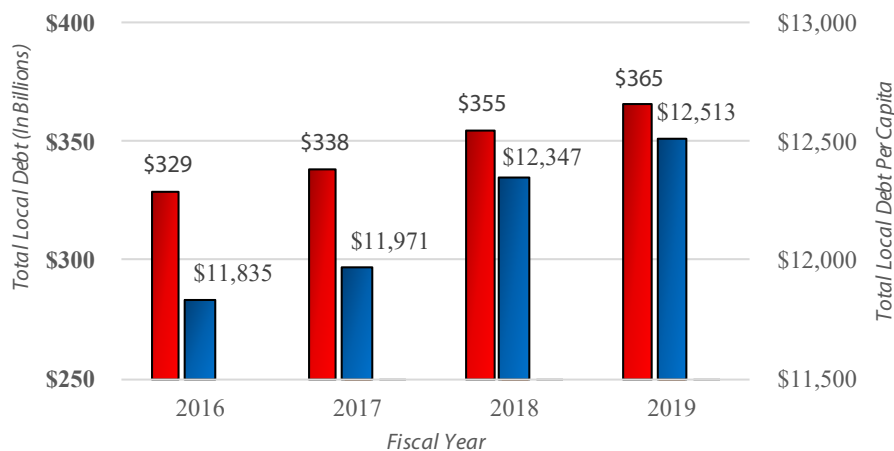
Recent Improvements

Soaring local debt has not gone unnoticed at the Texas Capitol. In fact, the problem was widely discussed during the 86th Texas Legislature's regular session and a series of good government reforms were adopted as a result—many of which were ideas that conservatives had unsuccessfully championed for years prior.

Figure 5. Local debt service outstanding by fiscal year, aggregate vs. per capita

Tracking Texas' Total Debt:
Aggregate & Per Capita

Source: Bond Review Board responses to Public Information Act requests. Totals may not add up due to rounding.

Some new measures now in effect include:

- **HB 440** - ***Enacted Restriction on the Use of Unspent Bond Proceeds:*** Requires local governments other than a school district to hold an election to approve spending unspent bond proceeds. Requires a school district seeking to spend unspent bond proceeds to approve in a public meeting that allows public input.

- **HB 440** - ***Required Better Alignment Between Life of the Asset & Bond Maturity:*** Prohibits local governments from issuing general obligation bonds to finance an improvement to real property or to purchase personal property if the weighted average maturity of the issue of bonds used to finance these expenditures exceeded 120 percent of the

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6   The Texas Education Agency reports student enrollment at 5,431,910 for 2018-19.
7   Due to methodological changes, only four years of local debt service outstanding data were readily available.
8   Author's own calculation.

reasonably expected weighted average economic life of the improvement or personal property.

- **HB 477** - *Established Ballot Box Transparency:* Requires a tax impact element to be included on the ballot.[9]

- **HB 477** - *Increased Disclosure for Certificates of Obligation:* Requires more information to be published before the local governmental entity can issue the certificates of obligation bonds.

- **HB 477** - *Created a Voter Information Document:* Creates a new document offering voters distinct information about local debt items.

- **HB 1888** - *Ended Rolling Polling:* Requires temporary branch polling places to remain open at set locations throughout the early voting period, which would prevent election officials from using temporary branch polling places to target certain populations on certain days or at specific times.

- **SB 30** - *Required Separate Ballot Propositions:* Requires school districts to offer separate propositions for certain expenditures.

Recommendations

In spite of the welcome changes adopted last year, additional reforms and restraints are still needed, as evidenced by the data and trends. To further grapple with the rise of local government debt, the 87th Texas Legislature should consider the following reforms:

- ***Prevent School District From Spending on Water Parks, Golf Courses, and Hotels.*** School districts—the most heavily indebted type of local government—should be prevented from spending public money on facilities that do not meaningfully advance student learning. That includes facilities like water parks, golf courses, and hotels.[10]

- *Expect Efficiency.* During the last legislative session, state lawmakers passed a law requiring school districts seeking more tax money to first conduct an efficiency audit and publicly disclose the findings. In similar fashion, cities and counties should be required to periodically undergo a third-party efficiency audit of their budgets and operations. Any savings realized could

be directed at paying down debt or at other taxpayer priorities.

- ***Insist on Zero-Based Budgeting.*** All local governments of substance should be required to undergo zero-based budgeting[11] on a periodic basis to root out waste, fraud, and abuse.

- ***Require Bond Elections to Be Held in November.*** Bond elections should be held on the November uniform election date to best ensure the maximum number of voters so that special interests do not unduly influence bond elections' outcome.

- ***Establish Minimum Voter Turnout Requirements.*** Establish a minimum voter turnout threshold for the approval of new bond propositions and tax ratification elections. This too will help prevent the process from being dominated by a relatively small percentage of voters.

- ***Reform the Use of Certificates of Obligation[12].***

  - ▶ *Achieving Greater Government Transparency.* Require a lengthier notification period and make sure that the issuer has a website and that details related to the issuance are posted online in a timely manner.

  - ▶ *Making it Easier for Voters to Appeal.* Reform the petition process so that 5 percent of the total number of voters that voted in the most recent gubernatorial election can compel a public vote.

  - ▶ *Using Tighter Restrictions.* Because debt issuances are not approved by voters, the kind of capital improvement projects eligible to be funded with COs should be more tightly defined.

- **Audit Regularly.** A political subdivision's use of bond proceeds should be audited on a regular basis by a major accounting firm until the funds are exhausted or all projects completed. Audits should be performed at least once a year.

Passing reforms like these—centered around transparency and accountability—is a commonsense way to move Texas' local governments to firmer ground and protect taxpayers. Texans need state lawmakers to continue making progress on this front. ✰

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9   The new requirement provides that a ballot seeking voter approval provide voters with: "that taxes sufficient to pay the principal of and interest on the debt obligations will be imposed."

10 During the 86th Legislature, three bills (SB 1133 and HBs 4131 and 4275) were filed and advanced; however, none of the bills were ultimately passed into law.

11 To learn more about the zero-based budgeting concept, see the Texas Public Policy Foundation's report *Using Zero-Based Budgeting in Texas*.

12 Per the Texas Public Policy Foundation, Certificates of Obligation (COs) are "an instrument of public debt made available to the governing bodies of cities, counties, and certain special districts. COs can be issued 'without voter approval (unless a referendum is petitioned) and are backed by tax revenue, fee revenues or a combination of the two,' according to the Texas Comptroller."

References

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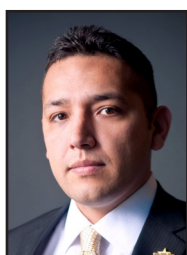
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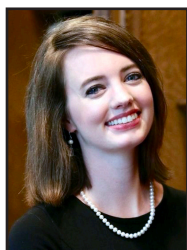
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