

TEXAS PUBLIC POLICY FOUNDATION

2019-20
**LEGISLATOR'S
GUIDE**
to the issues



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.

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Local Debt

The Issue

Texas' local governments are awash in red ink. In fiscal year 2017, the principal amount owed by cities, counties, school districts, and special districts totaled \$216.6 billion. That's enough government debt to send a bill to every man, woman, and child in Texas for \$7,650 or saddle a family of four with \$30,600. Of course, this ocean of red ink is even greater when interest is taken into account. Texas' total local debt burden—or the amount required to fully repay all of the principal and interest owed—stood at more than \$338 billion in fiscal year 2017. On a per capita basis, that's enough of an obligation to charge every Texan \$12,000 or cost a family of four \$48,000.

Two types of governmental entities are most responsible for Texas' debt load—school districts and cities. According to the Bond Review Board, school district debt totaled \$126.6 billion or \$23,624 owed per student, while city governments owed a combined \$106.8 billion or \$9,766 per household. Together, school district and city debt accounts for almost 70% of the overall total.

Local Debt Service Outstanding in Texas as of August 31, 2017

(Preliminary subject to change)*

	Principal	Interest**	Total Debt Service
Public School Districts	\$79,762,562,383	\$46,843,798,969	\$126,606,361,352
Cities, Towns, Villages	\$71,028,163,478	\$35,737,606,928	\$106,765,770,406
Water Districts & Authorities	\$26,865,352,886	\$12,482,396,074	\$39,347,748,960
Other Special Districts & Authorities	\$16,974,656,620	\$15,350,565,438	\$32,325,222,059
Counties	\$13,751,842,460	\$6,285,477,218	\$20,037,319,678
Community & Junior Colleges	\$4,870,465,597	\$2,391,584,328	\$7,262,049,924
Health/Hospital Districts	\$3,355,067,698	\$2,431,545,589	\$5,786,613,287
Total	\$216,608,111,122	\$121,522,974,544	\$338,131,085,666

*Excludes commercial paper. Excludes conduit debt (some of which was included in prior years).

**Excludes Build America Bond subsidy

Source: Bond Review Board

It's not just the size of local debt that is troubling, but also the rate at which it is accumulating. Since 2000, local government debt has grown by 168%. By comparison, traditional economic measures like population and inflation have risen a combined 78%. The delta indicates that there's a measurable difference between the actual rate of growth and the ideal.

The size and growth of local government debt presents policymakers with a major challenge. Left unchecked, the status quo promises to saddle future generations with enormous obligations, unleash higher taxes today, slow economic growth and business investment, and trigger credit rating downgrades.

While there's no silver bullet solution, a number of ways can help Texas localities get back on firmer footing, including:

- **Informing Voters at the Ballot Box.** Require each new bond proposition to

include an estimate of the additional tax burden on the average homeowner resulting from its passage. **This will give voters a better understanding of the cost of each new proposition.**

- **Maximizing Voter Participation.** Change the law so that all elections with a fiscal impact are held on the November uniform election date. This will ensure maximum voter participation on issues affecting the family budget.
- **Separating Big Ticket Items.** Require that major capital improvement projects, above a certain cost or percentage threshold, be submitted to voters as separate propositions. This will eliminate the “all or nothing” approach seen today and allow for greater community customization.
- **Ending “Rolling Polling.”** Eliminate the practice of moving polling locations during the early voting period. Early voting locations should remain constant throughout an election cycle to avoid even the perception of impropriety.
- **Encouraging Fairer Elections.** Establish a minimum voter turnout threshold for the approval of new bond propositions or tax rate increases, preventing the process from being dominated by a relatively small percentage of voters.
- **Restricting the Use of Unspent Bond Proceeds.** Prohibit local governing bodies from using unspent bond proceeds on purposes and projects that were not specified at the time of voter approval. This will safeguard voters’ wishes and eliminate temptations.

These reforms as well as others promise to make important process changes that will bring about greater government transparency and accountability. Those elements are absolutely necessary if Texas policymakers are to ever turn the ship and avoid the danger ahead.

The Facts

- In FY2017, local debt outstanding (principal only) was estimated at \$216.6 billion, or approximately \$7,650 owed per person.
- In FY2017, local debt service outstanding (including principal and interest) was estimated at \$338.1 billion, or approximately \$12,000 owed per person.
- Among the top 10 most populous states, Texas’ local debt per capita ranks as the second highest total, behind only New York.

Recommendation

Reform the current local debt structure to inform voters at the ballot box, maximize voter participation, separate big ticket items, end rolling polling, encourage fairer elections, and restrict the use of unspent bond proceeds.

Resources

[*Red Ink Rising: Local Government Debt*](#) by James Quintero, Texas Public Policy Foundation (March 2017).

[*Red Ink Rising in the Lone Star State: FY 2016*](#) by James Quintero, Texas Public Policy Foundation (March 2017).

Experts

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